Investing in the growth and quality of healthcare in Georgia

GEORGIA HEALTHCARE GROUP

Annual Report 2017

Who we are

Georgia Healthcare Group ("GHG" or the "Group") is the largest integrated player in the fast-growing, predominantly privately-owned Georgia Healthcare ecosystem with an aggregate annual value of GEL 3.5 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.

Our business

Healthcare services

GHG is the single largest market participant in healthcare services, accounting for 24.5% of the total hospital bed capacity in the country as of 31 December 2017. The healthcare services business operates through its vertically integrated network of hospitals and polyclinics.

Hospitals

We operate 37 hospitals with a total of 3,014 beds. This includes 16 referral hospitals with a total of 2,519 beds, providing secondary or tertiary level healthcare services, and 21 community hospitals with a total of 495 beds, providing basic outpatient and inpatient healthcare services.

Polyclinics

We operate 12 polyclinic clusters consisting of 16 district polyclinics and 24 express outpatient clinics that provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities.

Read about the renovation and launch of our two flagship hospitals → 22

Pharma

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with 30% market share by revenue as of 31 December 2017.

We entered into the pharma business in 2016 and expanded in 2017 by purchasing the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia – GPC in May 2016 and Pharmadepot in January 2017, respectively. GHG's two pharmacy chains have now been merged but continue to operate under their separate brand names, GPC and Pharmadepot. Our combined pharma business has 255 pharmacies.

Read about the successful integration of two pharmacy chains in 2017 → 28

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

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.

Medical insurance

GHG is also the second largest provider of medical insurance in Georgia with a 29% market share based on net insurance premiums as at 30 September 2017.

We offer a variety of medical insurance products primarily to Georgian corporates. We had approximately 155,000 persons insured as at January 2018.

Read about GHG strategy → 32

Contents

Financial highlights

The effectiveness of our strategy is reflected in the record 2017 financial results highlighted below.

Revenue (GEL million)[1]

747.8

+75.3% y-o-y

2017	747.8
2016	426.4
2015	246.0

Total assets (GEL million)

1,167.8

+27.6% y-o-y

2017	1,167.8
2016	915.4
2015	758.3

Gross profit (GEL million)

228.0

+56.1% y-o-y

2017	228.0
2016	146.0
2015	93.1

Pharma gross profit margin (%)

24.5

+3.8 ppts y-o-y

2017	24.5
2016	20.7
2015[2]	N/A

EBITDA (GEL million)

108.1

+38.6% y-o-y

2017	108.1
2016	78.0
2015	56.1

Healthcare services EBITDA margin (%)

26.4

–3.8 ppts y-o-y

2017	26.4
2016	30.2
2015	27.4

Pharma EBITDA margin (%)

8.6

+4.3 ppts y-o-y

2017	8.6
2016	4.3
2015[2]	N/A

Profit before tax (GEL million)

46.3

+15.3% y-o-y

2017	46.3
2016	40.2
2015	23.6

Earnings per share (GEL)

0.23

–0.01 GEL y-o-y

2017	0.23
2016[3]	0.24
2015	0.15

Return on invested capital (%) (adjusted)[4]

10.9

+1.9 ppts y-o-y

2017	10.9
2016[5]	9.0
2015	7.7

1 The amount represents gross revenue before corrections and rebates (see financial statements, note 3). Revenue net of corrections and rebates was GEL 745.7 million in 2017 (2016: GEL 423.8 million, 2015: GEL 242.4 million)
2 We entered the pharma business in May 2016
3 2016 earnings per share ("EPS") is calculated on a normalised net profit. Normalised net profit for the full year 2016 is the profit net of non-recurring gain due to deferred tax adjustments (in the aggregate amount of GEL 24.0 million for GHG) and one-off currency translation loss in June (in the amount of GEL 2.1 million)
4 Return on invested capital ("ROIC") is adjusted to exclude newly launched Deka Hospital and Tbilisi Referral Hospital

Operational highlights

2017 operating highlights reflect an expanding footprint and growth strategy.

Number of hospitals

37

+2 (over 2016)

Number of polyclinic clusters

12

+2 (over 2016)

Number of pharmacies

255

+12 (over 2016[1])

Number of insured[2]

c.155,000

c.–56,000 (over 2016)

Number of hospital beds

3,014

+457 (over 2016)

Referral hospital bed occupancy rate[3]

64.5%

+1.5 ppts (over 2016)

Organic growth rate of healthcare services revenue

6.9%

–9.4 ppts (over 2016)

Same store growth rate at our pharmacies[4]

7.9%

Number of retail customer interactions per month at our pharmacies

c.2.1m

c.+1.1 million (over 2016)

Number of physicians

3,496

+278 (over 2016)

1 2016 includes Pharmadepot's pharmacies
2 As at January 2018
3 Excluding the newly opened Tbilisi Referral Hospital beds
4 The same store revenue growth rate is on a pro-forma consolidated basis, including 2016 GPC and Pharmadepot combined results

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 and by targeting the mass market segment through our vertically integrated network of hospitals and polyclinic clusters. We are also the largest pharma player as well as the second largest medical insurance provider in the country.

GHG's market-leading position, its unique business model with a significant growth potential, and its experienced management team make it a compelling investment story. Furthermore, the first class leaders of our medical team are driving the improvement of service quality and access 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.

Market leader

- **The largest healthcare service provider in Georgia:** 24.5% market share by number of beds (3,014)[1]. The number of beds grew to 3,320 as a result of the full renovation and launch of Deka hospital in 2018.
- **The largest pharmaceuticals retailer and wholesaler in Georgia:** 30% market share by sales[2], over 2 million client interactions per month, with 0.5 million loyalty card members.
- **The second largest medical insurer in Georgia:** 29.0% market share[3], c.155,000 individuals insured as at January 2018.
- **The widest population coverage:** coverage of over 75% of Georgia's 3.7 million population[4] with 37 high-quality hospitals, 16 district polyclinics, 24 express outpatient clinics, and 255 pharmacies.
- **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.

Long-term high-growth opportunities

- **Low base:** only US$325 healthcare spending per capita[5], only 3.9 outpatient encounters per capita annually[6], only US$39,800 revenue per referral hospital bed for GHG[7].
- **Supported by attractive macro environment [8]:** Georgia – one of the fastest growing countries in Eastern Europe, an open and easy emerging market to do business[9], with real Gross Domestic Product ("GDP") growth averaging 4.5% annually in 2007-2017E. 8.7% of GDP is spent on healthcare and spending is growing at 11.5% compound annual growth rate ("CAGR") between 2000 and 2014[5]; Government spending more than doubled between 2011 and 2017[10].
- **Long-term, high-growth expansion** driven by:
  - Universal Healthcare Programme.
  - Pick-up in polyclinics (outpatient market).
  - Closing service gaps.
  - Potential to develop medical tourism.

Business model with cost and synergy advantages

- **The single largest integrated player in the Georgia healthcare ecosystem of GEL 3.5 billion aggregate value with a cost advantage due to its scale of operation:** purchasing, centralisation of administrative functions
  - The next largest healthcare services competitor has only 5% market share by beds.
  - The largest purchaser of pharmaceutical products in Georgia.
- **Better access to professional management and high-calibre talent:**
  - One of the largest employers in the country: 15,078 full-time employees, including 3,496 physicians, 3,205 nurses and 834 pharmacists.
- **Referral system and synergies with insurance and pharma business:**
  - Presence of patient pathway and referral synergies.
  - Insurance activities provide steady revenue stream for our polyclinics and bolster hospital patient referrals.
  - Half a million loyal customers in our pharma business with an upside to cross-sell.

Strong management with proven track record

- **Strong business management team – an increased market share by beds from under 1% in 2009 to 24.5% currently.**
- **Robust corporate governance:** exceptional in Georgia's healthcare sector, as it is the only Premium Listed company in the Georgian corporate industry (LSE:GHG LN)[11]; 57% of our shares are owned by BGEO Group PLC – listed on the Premium segment of the Main Market of the London Stock Exchange (LSE:BGEO), part of the FTSE 250 index. 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.

Sources:
1 National Centre for Disease Control and Public Health ("NCDC") data as of December 2016, updated by GHG to include the changes before 31 December 2017
2 Market size: Frost & Sullivan analysis
3 Market share by revenue; Insurance State Supervision Service Agency of Georgia ("ISSSA") as of 30 September 2017
4 Geostat.ge, data as of 2015; the coverage refers to the geographic areas served by GHG facilities
5 Frost & Sullivan analysis
6 NCDC statistical yearbook 2016
7 GHG internal reporting 2017; excludes data for newly launched Tbilisi Referral Hospital
8 Euromonitor, World Bank's 2012 "Ease of Doing Business Report", other public information
9 Ranked #9 in World Bank's 2018 "Ease of Doing Business Report", ahead of all its neighbouring countries and several EU countries
10 Ministry of Finance, Ministry of Economy
11 GHG Group PLC successfully completed its IPO of ordinary shares on the Premium Segment of the LSE on 12 November 2015

75%
of population covered

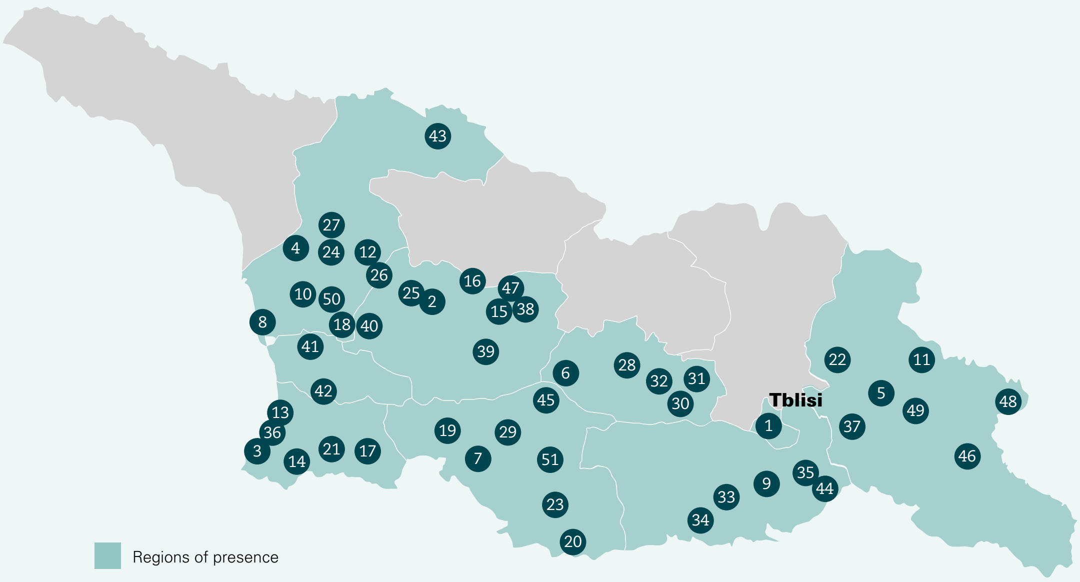
16
referral hospitals

21
community hospitals

16
district polyclinics

255
pharmacies

Extensive geographic coverage
Network of healthcare facilities and pharmacies



1. **Tbilisi** 7 referral hospitals, 158 pharmacies, 9 district polyclinics
2. **Kutaisi** 3 referral hospitals, 14 pharmacies, 1 district polyclinic
3. **Batumi** 2 referral hospitals, 11 pharmacies, 1 district polyclinic
4. **Zugdidi** 1 referral hospital, 6 pharmacies, 1 district polyclinic
5. **Telavi** 1 referral hospital, 3 pharmacies, 1 district polyclinic
6. **Khashuri** 1 referral hospital, 2 pharmacies
7. **Akhaltsikhe** 1 referral hospital, 2 pharmacies
8. **Poti** 1 community hospital, 4 pharmacies, 1 district polyclinic
9. **Marneuli** 2 pharmacies, 1 district polyclinic
10. **Khobi** 1 community hospital, 1 pharmacy
11. **Kvareli** 1 community hospital, 1 pharmacy
12. **Martvili** 1 community hospital, 1 pharmacy
13. **Kobuleti** 1 community hospital, 2 pharmacies
14. **Qeda** 1 community hospital, 1 pharmacy
15. **Terjola** 1 community hospital, 1 pharmacy
16. **Tkibuli** 1 community hospital, 1 pharmacy
17. **Khulo** 1 community hospital, 1 pharmacy
18. **Abasha** 1 community hospital
19. **Adigeni** 1 community hospital
20. **Ninocminda** 1 community hospital
21. **Shuakhevi** 1 community hospital
22. **Akhmeta** 1 community hospital
23. **Akhalkalaki** 1 community hospital
24. **Chkhorotsku** 1 community hospital, 1 pharmacy
25. **Tskaltubo** 1 community hospital
26. **Khoni** 1 community hospital
27. **Tsalenjikha** 1 community hospital, 1 pharmacy
28. **Qareli** 1 community hospital
29. **Aspindza** 1 community hospital
30. **Mtskheta** 1 pharmacy
31. **Kaspi** 1 pharmacy
32. **Gori** 8 pharmacies
33. **Bolnisi** 2 pharmacies
34. **Dmanisi** 1 pharmacy
35. **Rustavi** 6 pharmacies
36. **Chaqvi** 1 district polyclinic
37. **Sagarejo** 1 pharmacy
38. **Tchiatura** 1 pharmacy
39. **Zestafoni** 4 pharmacies
40. **Samtredia** 3 pharmacies
41. **Lanchkhuti** 1 pharmacy
42. **Ozurgeti** 2 pharmacies
43. **Mestia** 1 pharmacy
44. **Gardabani** 1 pharmacy
45. **Borjomi** 1 pharmacy
46. **Tsnori** 1 pharmacy
47. **Sachkhere** 1 pharmacy
48. **Lagodekhi** 1 pharmacy
49. **Gurjaani** 2 pharmacies
50. **Senaki** 2 pharmacies
51. **Bakuriani** 1 pharmacy

At a glance continued

Segment overview

Key segments

Healthcare services

Key services

Referral hospitals

General and specialty hospitals offering outpatient and inpatient services in Tbilisi and major regional cities

Community hospitals

Basic outpatient and inpatient services in regional towns and municipalities

Market size 2017

GEL 1.2 billion (addressable)[1]

Market share

21%
by revenue

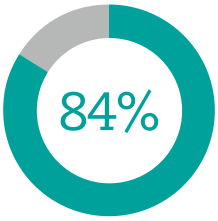
24.5%
by beds (total 3,014 beds)

Selected operating data 2017

Referral hospitals:

16
hospitals

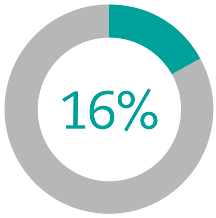
2,519
beds



Community hospitals:

21
hospitals

495
beds



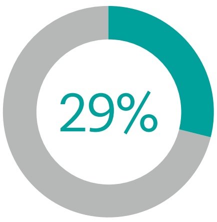
Financials 2017

Gross revenue GEL 747.8 million[2]

Referral hospitals:

225.5
GEL million

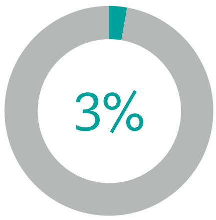
43%
2012-2017 CAGR



Community hospitals:

22.1
GEL million

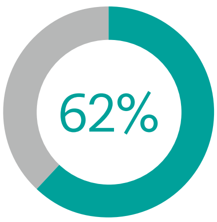
12%
2012-2017 CAGR



EBITDA GEL 108.1 million[2]

67.6
GEL million

51%
2012-2017 CAGR



EBITDA margin: 27.4%

Sources:
1 Frost & Sullivan analysis 2017. Market adjusted by the company to exclude the revenue from specialty beds – addressable market
2 Net of intercompany eliminations

Polyclinics

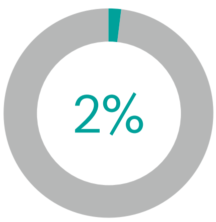
Outpatient diagnostic and treatment services in Tbilisi and major regional cities

GEL 0.7 billion[1]

2%
by revenue

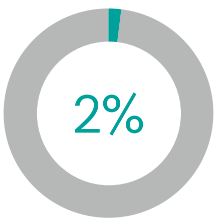
12
clusters with
16
district polyclinics
24
express outpatient clinics

15.7
GEL million



31%
2012-2017
CAGR

2.0
GEL million



30%
2012-2017
CAGR

EBITDA margin: 13.2%

Pharma

Pharmacies

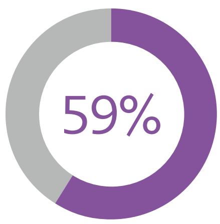
Wholesaler and urban-retailer, with a countrywide distribution network

GEL 1.5 billion[1]

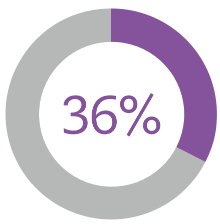
30%
by revenue

255
pharmacies in major cities

450.3
GEL million



38.9
GEL million



EBITDA margin: 8.6%

Medical insurance

Medical insurance

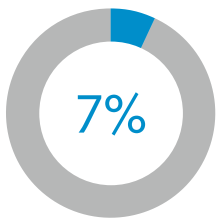
Range of private insurance products purchased by individuals and employers

GEL 0.2 billion[2]

29%
by revenue

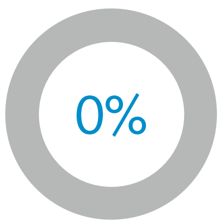
c.155,000
individuals insured
as at January 2018

53.7
GEL million



– 5%
2012-2017
CAGR

– 0.4
GEL million



EBITDA margin: –0.8%

Sources:
1 Frost & Sullivan analysis 2017. Polyclinics market excludes revenue from dental and aesthetic services
2 ISSSG, 9M17 annualised

Chairman's statement

Attracting and developing talents has been the cornerstone of our success. Constant development of management across the Group remains our top priority.

Dear Shareholders,

In this year's letter to shareholders, I would like to talk about the Georgian macro environment, GHG's strategy going forward and our management development programme. Let me address each of these topics separately.

The macro environment

The Georgian Government's pro-business policies are paying back in terms of macro progress on all fronts. The country has been upgraded to 9th place in the latest World Bank Ease of Doing Business report, and also remains one of the least corrupt countries globally in different indices. The Government's brave decision to slash corporate profit tax delivered positive results, as we witnessed record high inflows of foreign direct investment through 9M17. At the same time, the Government managed to decrease Georgia's budget deficit to below 3% of GDP, while boosting infrastructure spending by 45% y-o-y to a record GEL 3.2 billion. Tourism posted a robust performance as tourist arrivals increased by an impressive 28% y-o-y reaching 3.5 million tourists in 2017, while the number of international arrivals was up 19% y-o-y totalling 7.6 million visitors. Goods exports also rose by 29% y-o-y. As a result, GDP grew by nearly 5% in real terms in 2017. Georgia's free trade agreement with the EU has been instrumental for Georgia. Moreover, the Georgian Government signed a free trade agreement with China, effective from the 1st of January 2018. This means that Georgia can be said to have two new assets, which are not yet reflected in its macro numbers, and which are expected to be utilised more and more over the coming years to drive further growth: free trade agreement with the EU – the largest market globally in terms of GDP size; and free trade agreement with China – the largest market in the world by size of population.

Our strategy going forward

Nikoloz Gamkrelidze, the CEO of GHG, discusses strategic priorities in greater detail in his statement. I plan to emphasise two points: going forward, we would like to increase the utilisation of our services and to run a capex light business model.

A heavy capex programme has been implemented and many sophisticated services have been launched; at the same time the company has increased its market share to nearly 30%. Our current priority is to increase utilisation of these services by continuing to recruit Georgian doctors who work in Georgia or in developed economies. By matching state-of-the-art equipment with high-quality doctors, we will be well positioned not only to attract patients locally, but also to export healthcare services to the region. GHG is well positioned to offer high-quality services that are many times cheaper than those of our regional competitors.

Going forward, we are aiming for a capex-light strategy, which has three legs: digitalisation of services, entering into management agreements with third-party hospitals and rolling out of outpatient clinics or what we call polyclinics.

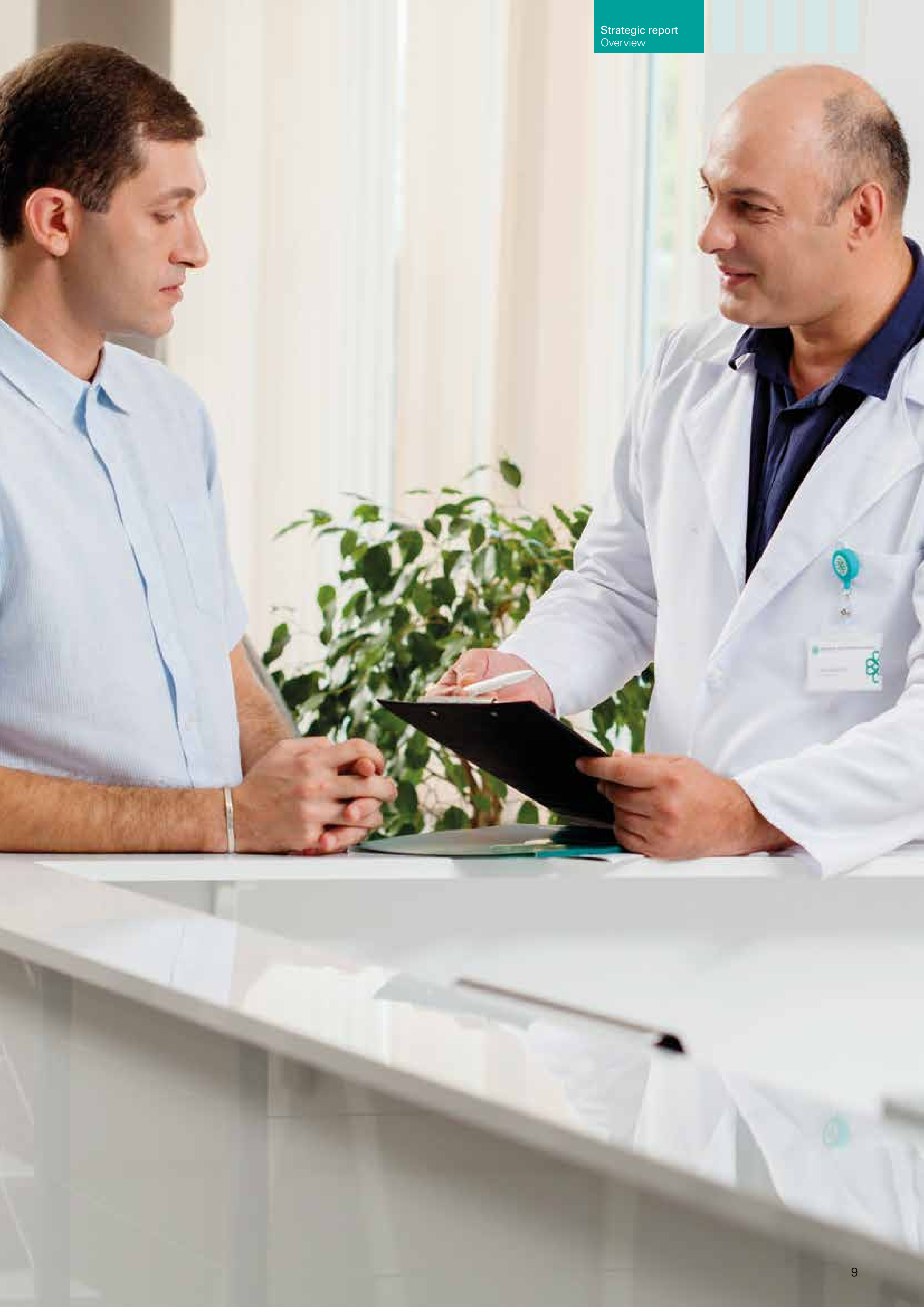
- Digitalisation of services will enable us at the first stage to electronically store patient records, prescribe drugs electronically, and manage our patients' needs digitally. This will enable us to provide the highest quality of service in a cost-efficient way.
- GHG as an institution is well-positioned to manage more hospitals, which will give the company even more scale advantage. By managing third-party hospitals, GHG will be earning the fee without putting its balance sheet on the line.
- Rolling out more polyclinics is another priority for turning capex light. Our polyclinic business is not only high margin, but it is also greatly synergistic with the rest of GHG's businesses. The polyclinics segment itself is also very attractive because it is highly fragmented, and by scaling it up, we will be expanding our presence in the whole healthcare ecosystem.

Management development

GHG is operating in multiple business lines and these businesses interact with each other in multiple ways, more than we can see from the top. It is important for management of all business lines to work together smoothly and to be proactive in taking initiatives as an integrated player. This way, management teams will be able to achieve more synergies and further enhance value creation. In order to promote a collaborative culture, together with other development projects, our CEO has initiated a programme encouraging management to give and receive feedback in a constructive manner. This initiative will enable the organisation to move towards a more decentralised decision-making system and will support a more proactive and creative culture across the organisation, building further value for the shareholders.

Finally, I would like to thank my colleagues on the Board, our management, and most importantly you, our shareholders, for your support and your dedication to GHG and to Georgia.

Irakli Gilauri
Chairman
6 March 2018



Chief Executive Officer's statement

2017 was a significant year of transition and progress for Georgia Healthcare Group, as the Group continued its recent substantial investment and business roll-out in all key areas of the healthcare system of Georgia.

Developments in 2017 have involved the successful integration of our two recent pharma acquisitions and delivering key investment and growth priorities such as the Tbilisi Referral Hospital (previously called "Sunstone") and Deka hospital redevelopment projects. Both hospitals have now been launched, resulting in the provision of over 600 high-quality new hospital beds to the Tbilisi hospital infrastructure. We have remained focused on improving quality for patients and, in response to Government changes to Georgia's Universal Healthcare Programme ("UHC") in May 2017, diversifying our stream of revenues, the latter particularly by growing the pharma and polyclinic businesses.

The Group's 2017 results clearly reflect delivery on these recent initiatives. EBITDA of GEL 108.1 million represented a 39% increase year-on-year, and profit before tax increased by 15% over the same period. Excluding the impact of the one-off items that increased 2016 net profit (see page 2, footnote 3), the Group's net profit in 2017 increased by 16%.

In the healthcare services business, our referral hospitals continued to deliver high single-digit organic revenue growth, while we continued to invest significantly in our two Tbilisi hospital redevelopment projects and other modernisation programmes. Following the partial opening of Tbilisi Referral Hospital in April 2017, we were pleased to see strong occupancy levels, growing to nearly 40% in December 2017. In December 2017 we completed the renovation, and the hospital is now fully operational as a 332-bed high-quality multi-profile hospital in East Tbilisi. We have also now completed building and renovation and have launched the 306-bed flagship Deka Hospital in Tbilisi, to create what we believe will be the hospital of choice in the country for high-quality elective medical care. As expected, our investment in these major redevelopment projects affected the healthcare services EBITDA margin, which fell to 26.4% in 2017. Excluding the dilutive impact of the newly launched hospitals, however, the EBITDA margin remained healthy at 29.2%.

The structure of the UHC has continued to evolve. In May 2017, the Government introduced new eligibility criteria based on the income level of citizens and introduced deductible amounts for planned and certain urgent services, details of which are discussed later in this report. In addition, the Government revised the reimbursement mechanism for the provision of intensive care, which reduced reimbursement levels. We estimate that these changes to UHC reduced 2017 Group revenues by GEL 6-7 million. We do not expect any further material changes to UHC during 2018.

As we continue to adapt to the impact of these changes, our healthcare services business has prioritised efforts to broaden its revenue sources and reduce its reliance on UHC. Government-funded healthcare programmes represented 67% of healthcare services revenues in 2017, compared to 73% in 2016, mainly as a result of increased revenue from planned services and from our growing polyclinic network. Both are largely paid for out-of-pocket by patients. The recent opening of Deka Hospital will drive this rebalancing further.

To support the further diversification of revenue and close medical service gaps in the country, we continue to grow our presence in the planned, elective, services market – which tends to be higher-margin. In 2017, we continued launching new medical services in our referral hospitals, with over 50 new services introduced, and in 2018 we plan to launch up to 50 more new services throughout the country. We have also recently initiated a programme to attract high-quality physicians, who bring with them a portfolio of patients and the associated revenues. In July 2017, we acquired two community hospitals in the Khashuri and Kareli regions, which added an additional 90 beds to our portfolio. These acquisitions support our plans to expand our presence throughout Georgia, particularly in the country's under-represented regions.

As we come out of our recent intensive capital investment and integration programme, the Group's focus in the hospital business will shift towards gaining efficiencies and improving free cash flow generation. Our management team is well positioned for the development of fee business by taking some hospital assets under management to create an additional stream of income and further potential synergies for the Group.

Our IT team will help us to move to the next level of development by getting to a fully integrated health information system that will help us to manage more efficiently and deliver better care to our customers. In general, development of integrated digital platforms will be one of the Group's top priorities in coming years. A clear demonstration of this was the recent introduction of e-prescriptions which have already become a mandatory tool for our doctors in Tbilisi, and which will drive more synergies across the Group.

In 2017 we launched our programme to enlarge the footprint of our polyclinics and develop a nationwide chain to provide quality outpatient services to a much larger part of Georgia's population. The Group now operates a total of 12 polyclinic clusters, which include 16 district polyclinics and 24 express outpatient clinics. In June 2017 we launched a campaign to increase the awareness of our polyclinic network and we have already increased both customer footfall and the number of registered patients. We now have 93,000 registered patients in Tbilisi and we expect this number to grow to around 200,000 by early 2019, driven by organic growth and further polyclinic acquisitions. Revenues from polyclinics increased by 35% during 2017, and the polyclinic EBITDA margin was 13.2% during the year, reflecting the impact of the ongoing rapid roll-out. We expect this margin to gradually improve as our portfolio matures.

In the pharma business we completed the integration of the Pharmadepot and GPC chains of pharmacies, including the successful integration of the two businesses' IT platforms. We now operate over 250 pharmacies in a countrywide distribution network (including 21 pharmacies located in our hospitals and clinics), and we expect this network of pharmacies to grow to more than 300 over the next two years. The pharma business now has a 30% revenue market share and is the clear market leader in Georgia. We are pursuing several strategies to further develop our pharma network's performance, including the introduction of private label personal care products which we launched in October by acquiring the international private label brand "Attirance".

Our focus during 2017 was to ensure the full integration of the two pharmacy chains with minimal business disruption. This was successfully achieved. The processes of eliminating unnecessary costs and realising procurement synergies continue and we remain firmly on track to deliver all expected cost savings and revenue enhancements. As a result, the pharma business achieved a full-year EBITDA margin of 8.6%, better than our medium-term target of more than 8%. The seasonally strong fourth quarter delivered an EBITDA margin of 10.2%. Going forward, the strong performance of the combined pharma business will continue to be an important growth opportunity for the Group and allow us to further diversify our earnings profile.

Our medical insurance business made significant progress on its turnaround programme and delivered positive EBITDA in the second half of 2017. We renegotiated the pricing of existing contracts and closed selected loss-making contracts to adapt to the impact of the recent changes to the UHC programme. The loss ratio remained broadly stable at 84.2% in 2017, and the expense ratio improved to 18.3%, from 20.6% last year. The combined ratio improved during 2017 to 102.5%, from 104.7%. Over the next few years, we will seek to further improve the combined ratio to approximately 97%. These positive trends are further supported by the recent addition of a major new insurance client – the Georgian Ministry of Internal Affairs. This contract increases our number of people insured by c.65,000 to c.155,000 and will allow us to benefit from scale and achieve further synergies within the Group.

Our medical insurance business continues to play an important role in our strategy to diversify our revenue streams. It increasingly directs patients with private medical insurance to our healthcare facilities, where they receive high-quality medical care and advice. During 2017, 37% of our medical insurance claims on outpatient services were retained within the Group.

Another key priority for the Board, people and talent development, continues to be high on our agenda. The quality of our senior management team continues to improve, and we have also increased the pool of high-calibre executives throughout the Group over the last twelve months. Our top management team has gone through various leadership and personal development programmes. GHG's leadership programme for middle level managers, a collaboration with one of the leading Georgian universities, is also becoming extremely popular among our employees. In 2017, two teams have completed the programme and, due to the high demand, the programme will continue in 2018. Development programmes will remain our priority in the coming years as we help our employees contribute to better business performance through personal and professional development, achieving more integrity and productivity within people.

On the clinical side, we continue to focus on improving the knowledge and expertise of our doctors and nurses through education and practical development. We are also enhancing our clinical quality monitoring programme and have implemented high-quality clinical key performance indicator monitoring in all of our referral and medium-size hospitals. Our residency programme, a very important part of our strategy to develop a new generation of doctors, remains the most popular residency programme in the country with 112 residents currently in our training system. We expect up to an additional 100 residents to be enrolled in our residency programme during 2018.

The Georgian macroeconomic environment has remained supportive, and we expect good levels of growth in the overall Georgian healthcare services market. In what remains a fast-changing healthcare environment, Georgia Healthcare Group remains the clear market leader, and we continue to build our business in all areas. 2017 was a year of significant investment, transition to the new UHC model, and strong progress in all of our key strategic priorities. The successful integration of the Group's recent pharma acquisitions has created a combined business with a 30% revenue market share and significant opportunities to further improve cross-selling, particularly to polyclinics, to develop customer loyalty and maintain our healthy margins. Underlying margins in our healthcare services business are much stronger than those reported, and with the impact of the newly launched hospitals and further roll-out of the polyclinic network, we remain firmly on track to deliver strong and profitable growth, with more diverse revenue streams, over the next few years.

Nikoloz Gamkrelidze,
Chief Executive Officer
6 March 2018

This Strategic Report, set out on pages 2 to 67 was approved by the Board of Directors on 6 March 2018 and signed on its behalf by Nikoloz Gamkrelidze, Chief Executive Officer.

Nikoloz Gamkrelidze,
Chief Executive Officer
6 March 2018

Industry and market overview

Georgia

No. 1

Reformer since the launch of Doing Business in 2003
(World Bank Doing Business Report 2018)

Georgia

No. 9

Ease of Doing Business
(World Bank Doing Business Report 2018)

Georgia

No. 16

Economic Freedom Index
(Heritage Foundation 2018)

Georgia

No. 25

Business Bribery Risk
(Trace International 2017)

Georgia

7%

% of surveyed admitting having paid a bribe
(Transparency International 2017)

Georgia's macro overview

Following the peaceful Rose Revolution in 2004 Georgia carried out genuine economic and structural improvements which were institutionalised. As a result, corruption decreased, doing business became easier, productivity was enhanced and the economy diversified – enabling the country to withstand global financial crisis and recent shocks related to the commodity price slump with relative strength. The real GDP growth averaged 4.5% annually during 2007-2017E. Georgia is consistently ranked as a top performer in governance and doing business indicators, in economic policy and institutional assessments as tracked by eminent international institutions. Georgia, with a ranking of 9, has implemented the highest number of business regulation reforms since the launch of the Ease of Doing Business report by the World Bank in 2003 – a total of 47 reforms and Georgia is the only lower-middle-income country that made it into the top 20 countries ranked by ease of doing business. Furthermore, Georgia is ranked 16th out of 180 countries in the Index of Economic Freedom measured by the Heritage Foundation in 2018 and 25th out of 200 countries in the Trace International 2017 Matrix of Business Bribery Risk. Georgia is a positive exception to the trend of high bribery rates in the regional economies and is on par with European Union member states with only 7% of people admitting having paid a bribe, according to the 2017 Global Corruption Barometer study by Transparency International.

Ongoing reforms in various directions – pension reform, capital market development and business-enhancing measures – are expected to further support investments, thus reinforcing the country's economic potential. The IMF expects growth to average 4.9% annually in 2018-2022, making Georgia the fastest-growing economy in the region.

Georgia once again demonstrated its commitment to European standards and norms by ensuring free and fair parliamentary elections in 2016. After the elections, Georgia's ruling Georgian Dream party introduced a package of legislative changes to support the implementation of the Government's four-pillar reform programme aimed to boost growth and enhance the economy's resilience to external shocks. The programme includes new tax benefits, infrastructure schemes, governance reforms and modernisation of the education system.

As of January 2017, corporate income tax is now applicable only to 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.

Visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of Georgian foreign policy.

In September 2017, Moody's upgraded the sovereign credit rating of Georgia to Ba2 from Ba3 and maintained the stable outlook. According to Moody's, the Georgian economy's resilience in the wake of the 2014 regional economic shock proves the country's economic and institutional strength and is the main driver behind the one-notch rating upgrade.

Established tourism destination

Georgia is already an established tourism destination. Travel inflows are a significant source of foreign currency for Georgia. The number of visitors to Georgia increased at a 21.7% compound annual growth rate over 2008-2017 and tourism inflows stood at US$2.8 billion (18.2% of GDP) in 2017. The Government plans to enhance Georgia's positioning as a four-season tourism location through improved connectivity of different regions with an aim to tap their potential.

Healthcare market overview

The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades. Health expenditure in Georgia in 2000-2014, according to the World Health Organisation ("WHO"), 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 (8.7% in 2016[2]), 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 benchmarked countries. Healthcare spending per capita is currently at a very low base of only US$325[2], with annual outpatient encounters of only 3.9[3] per capita and a hospital bed utilisation rate of only 53%[3], all significantly lower than many comparable countries. The management believes that there are strong prospects for growth in healthcare expenditure driven by both supply and demand.

Healthcare services overview

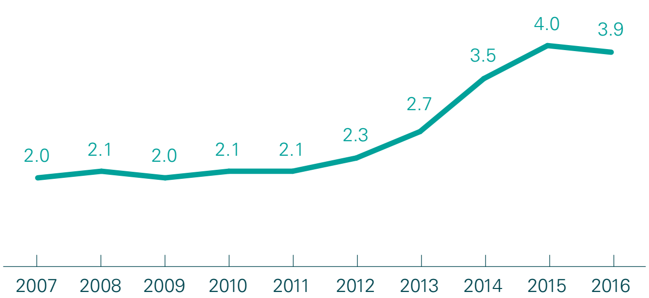
Hospitals

For the past several years, supportive Government reforms and the engagement of private players in the healthcare sector have resulted in significant improvements in the overall standard of infrastructure and greatly boosted demand for quality healthcare services. In healthcare services, the favourable Government policy has resulted in the following:

- Privatisation and renovation of the nationwide healthcare infrastructure including both "bricks and mortar" buildings and medical equipment, replacing run-down Soviet-era facilities (of the total nationwide hospital bed capacity, over 75% is new and only c.10% is in the public sector).
- Increased access to healthcare through the Universal Healthcare Programme, which has provided basic healthcare coverage to the entire population since 2013. According to the International Monetary Fund ("IMF"), this reform should improve healthcare outcomes and make healthcare the largest area of reform in the country.

There has been significant progress in Georgia in respect of the provision of inpatient services over the last decade and all of the key indicators[3] – the increasing bed occupancy rate (from 35% in 2006 to 53% in 2016) and bed turnover rate (from 17.1 in 2006 to 37.8 in 2016), decreasing average length of stay (from 7.4 in 2006 to 5.2 in 2016) – are developing positively. The number of hospital discharges has increased by 57% since 2008 and the number of surgical operations by 121%. Such a significant growth is attributed to modernisation of hospital infrastructure by private investors and increasing availability of services due to better state coverage and the UHC implementation. Despite significant advances, the existing hospital network in Georgia has room for further improvement.

Outpatient encounters per capita, annual



Source: NCDC 2016

For example, the recommended bed occupancy rate in the United Kingdom is 85%. In Georgia, this currently stands at only 53%, notwithstanding a significant improvement from 30% in 2003. There is potential to increase efficiency by 20-30% in order to align Georgia with best practices, which will mainly come from the consolidation of the market where currently too many small players are present. The new legislative initiatives are presently being developed to define hospital types and introduce Key Performance Indicators ("KPIs") for service providers. For example, starting from 2Q17, maternity hospitals with less than 500 deliveries per year are not eligible to provide high level maternity services. The new initiatives will drive market consolidation through eliminating those small players who invested in bed capacity for the sole purpose of getting access to the UHC funding. This is also expected to increase the quality of services for patients since only those providers who have enough experience would cater to the population within the UHC. The low bed turnover rate also indicates that there is scope for further efficiencies within the healthcare system and potential for improvement.

Polyclinic (outpatient)

The number of outpatient encounters per capita has increased over the past decade from 2.0 in 2007 to 3.9 in 2016, 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 the GHG's competitors having more than 1% of the market, with Group's own market share at 2%) and underdeveloped in Georgia for several reasons. Historically, patients in Georgia prefer hospitals, which are associated with a better reputation and a higher quality of services. Widespread practices of self-treatment and low health awareness also contribute to a lower number of outpatient visits as compared to 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.

Universal Healthcare Programme

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

- The UHC covers basic outpatient elective services, most emergency care services, and elective inpatient services, subject to certain limits.
- The UHC is fully financed by the Government from tax revenues and administered by the Social Service Agency ("SSA") – a body under the Georgian Ministry of Labour, Health and Social Affairs ("MOH"). In most cases, beneficiaries have an annual limit of GEL 15,000 for planned procedures. For emergency admissions,

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 Frost & Sullivan analysis
3 NCDC 2016
4 WHO 2014-2015

Industry and market overview continued

the limit is GEL 15,000 per incident for all individuals, except those from certain socially vulnerable groups, pensioners and children under six. For planned procedures, patients are required to obtain approval from the SSA prior to treatment. These thresholds limit the services that a patient can access and result in the need for co-payments by patients for elective services and certain emergency services. There is a maximum two-month waiting time to obtain approval for elective inpatient services.
- The UHC beneficiaries are entitled to select any healthcare provider of their choice, provided it is enrolled in the programme as a provider of the requested service.
- Any provider, whether private or state, is eligible to participate in the programme.

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

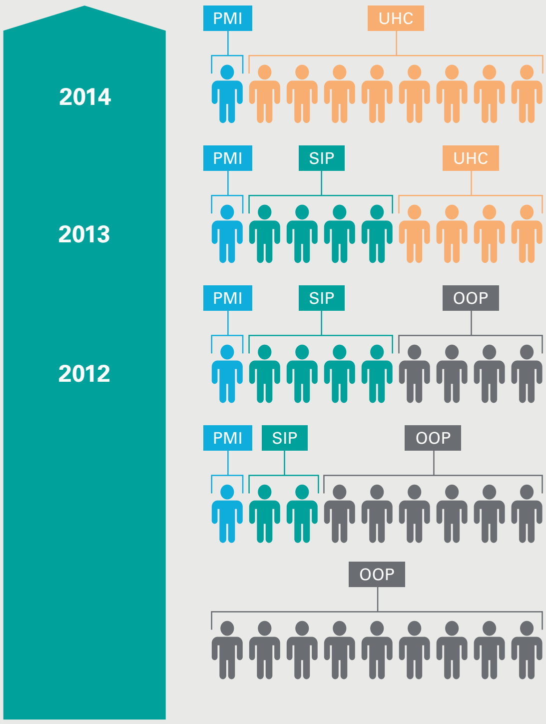
New Government initiatives on the UHC, implemented in 2017: Since 2017, the Government has introduced two new initiatives in the UHC: a revised reimbursement mechanism relating to the provision of intensive care and differentiating the UHC coverage for citizens based on income level. For more details regarding the new initiatives please refer to the business review section "Main operating performance highlights and notable developments, healthcare services business" on page 63.

Healthcare service gaps
Despite significant reforms to the Georgian healthcare system, a number of healthcare service gaps remain, particularly in relation to the medical equipment available and the laboratory/diagnostics services provided in Georgia. There are limited numbers of items of medical equipment such as gamma knife units (none in Georgia) and positron emission tomography computers (only one unit in Georgia). There are also shortages in Georgia of the following equipment: laparoscopic instruments, equipment for interventional endoscopy including endoscopic retrograde cholangiopancreatography, microwave tissue ablation systems, arthroscopes, choledocoscopes, muscle reinnervation systems, intraoperative ultrasound probes, vacuum machines, Flowtron mechanical compression units and pH meter units. In addition, the Georgian healthcare system suffers from limited provision of some laboratory services: there are no dedicated pathology laboratories for certain tests (samples are often sent abroad for testing); there are limited paediatric oncology services, limited rehabilitation services, limited suitable In Vitro Fertilisation ("IVF") facilities, no bone marrow transplant facilities other than GHG's and no suitable genetic or molecular laboratories.

Pharma overview
The Georgian pharmaceutical market started to develop after the collapse of the Soviet Union, when the country faced a severe deficit of drugs. As a result a wave of entrepreneurs entered this promising and unregulated market. By the end of 2000, three main pharmacy chains (PSP, Aversi and GPC) controlled 70% of the total pharma market in Georgia. A set of state reforms was initiated in 2009 in order to drive competition on the market, mainly introducing parallel import and automatically registering medicines

Universal Healthcare reform

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

Key Principles of the UHC

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

Financing
- 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

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

The Georgian pharmaceutical market is highly dependent on imports. The share of locally produced drugs on the market is c.12-13% 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.31%), PSP (c.28%), and Aversi (c.17%). 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.

Local producers are mostly engaged in late stage processes, such as formulating and packaging, with active pharmaceutical ingredients being imported.

The current per capita pharmaceutical expenditure in Georgia stands at US$107 (excluding parapharmacy products), which puts Georgia in the middle among the countries in the peer group. According to market research by Frost & Sullivan, generics account for 61% of the total market revenues, which corresponds to the EU average (c.50%). The market opportunity for generics is still considerable – in the leading economies like Germany and the UK, generics hold a dominant share of more than 80% (in the reimbursed segment). The Over the Counter ("OTC") segment in Georgia prevailed over the last decade until 2014, when a prescription requirement was introduced for over 6,000 medicines. Now the distribution between OTC and prescription drugs is almost equal. A new regulation of the Ministry of Labour, Health, and Social Affairs is to increase administrative oversight on prescriptions practice, prioritising receipt of the data electronically on MOH's online platform. GHG is the first to have already started implementing and integrating the electronic platform into our existing software.

Medical insurance 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.550,000 PHI policies in force by the end of 2017. The corporate segment accounts for the major portion of the PHI market – 94% of all policies are acquired by employers and the rest (c.32,000) is attributed to 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.

Healthcare market size

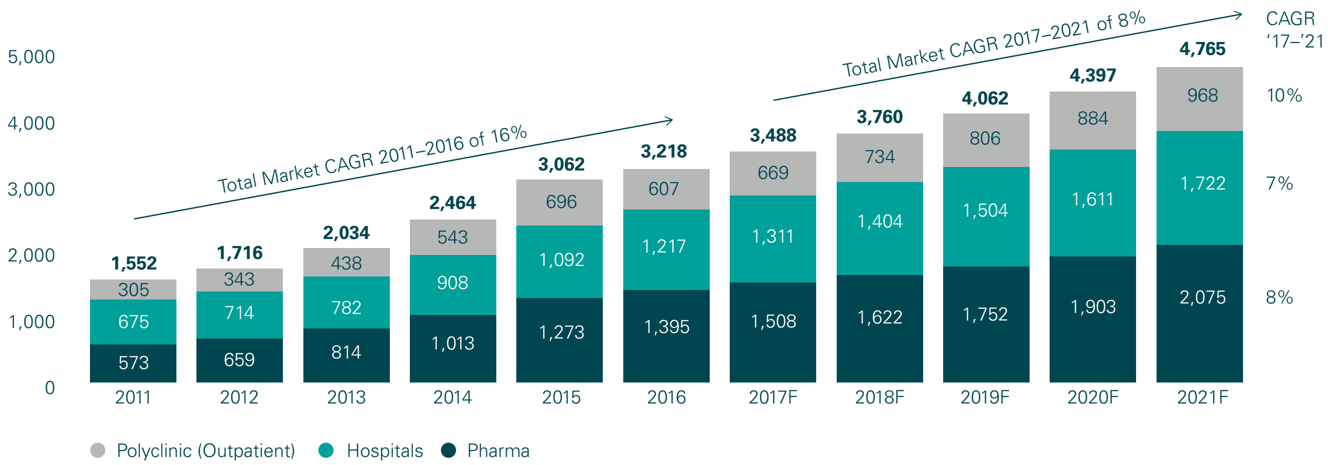
Georgia's healthcare services market (including hospitals, polyclinics/outpatient clinics and pharma) was estimated to be worth GEL 3.5 billion in 2017. The market has maintained a strong compound growth momentum of 16% between 2011 and 2016, and is expected to continue growing at 8% between 2017 and 2021. Since the introduction of the UHC, its budget nearly doubled from GEL 338 million in 2014 to GEL 660 million in 2017 and now accounts for 68% of all state healthcare expenditure. Elective inpatient services and emergency services constitute the major part of the UHC budget, while outpatient services have limited coverage.

- The total hospital market was GEL 1.3 billion in 2017, while the addressable market[1] was estimated at GEL 1.2 million. The total hospital market is forecasted to grow at a compound annual growth rate of 7% between 2017 and 2021.
- The polyclinic market (outpatient market, excluding the revenue from dental and aesthetic services) was GEL 0.7 billion in 2017 and is forecasted to grow at a compound annual growth rate of 10% between 2017 and 2021.
- The total pharma market was GEL 1.5 billion in 2017 and is expected to grow at a compound annual growth rate of 8% between 2017 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 prevails over public financing and private insurance. According to the Frost & Sullivan analysis, the share of out-of-pocket expenditure in total healthcare expenditure in Georgia was 57% in 2016, the share of Government expenditure 36%, the share of private medical insurance 5%, and the remaining 2% came from other sources. While the Georgian Government is the main source of hospital service financing in the

1 GHG estimate – total market adjusted to exclude the revenue from specialty beds

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



Source: Frost & Sullivan analysis 2017; hospitals market includes revenue of c.10% from specialty beds, a non-addressable market for GHG

Industry and market overview continued

country, the total Government expenditure on health is low at c.3% of GDP, compared to the 5% benchmark set by peer countries, which leaves significant room for growth.

Outlook and main growth drivers

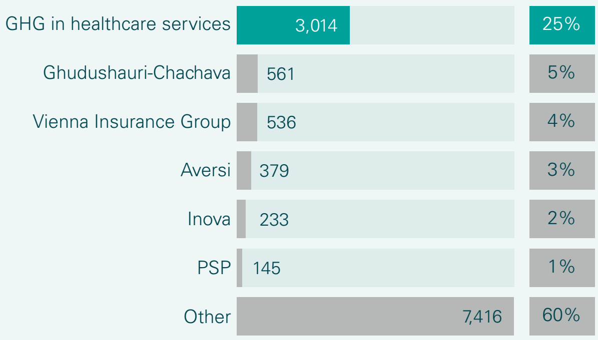
As described above, the Georgian healthcare market has shown double-digit growth in recent years, standing at GEL 3.5 billion in 2017 and forecast to reach GEL 4.8 billion by 2021. The hospital segment accounted for 38% of all revenues generated in the 2017 healthcare market, outpatient clinics 19% and 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 2017 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 4.9% in 2018-2022 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.
- **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 is only one PET/CT scanner in Georgia, while at least four are required to comply with the WHO recommendations. Private investment into 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 into this segment, expected market consolidation and Government support, the market will see growth in outpatient visits, which will positively impact the polyclinics' revenues.
- **Growth of hospitalisation rates.** There is at least 15% growth potential in hospitalisation rate, which is likely to depend on 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 provided the entire population with access to basic healthcare and is expected to maintain increase in demand for medical care, particularly hospital services. From 2017, the Government budget on healthcare is expected to become stable, and is estimated to grow in line with the country's nominal GDP growth rate. Though 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 presenting a limited UHC coverage for 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.
- **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.
- **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, will also lead to higher spending on pharma and healthcare services, particularly in consideration of the potential increase of corporate medical insurance plans for employees.
- **Favourable 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 (in particular, 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 longer term.** Improving facilities and standards have the potential to develop health tourism by attracting citizens of 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 international arrivals in Georgia reached a record high of 7.6 million in 2017, up 18.8% y-o-y. Some potentially attractive segments for medical tourism may be IVF, plastic surgery, ophthalmology, transplantology, orthopaedics and oncology.

Healthcare services (hospitals)

Both state and private healthcare providers (polyclinics/outpatient 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 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 2% as of 31 December 2017. Therefore, it is likely that there will be further consolidation and the emergence of a large participant in the market via mergers and acquisitions.

Number of beds and market shares as of December 2017

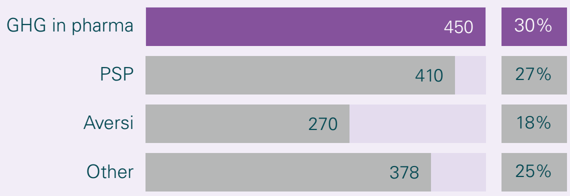


Sources: NCDC, data as of December 2016, updated by GHG to include changes before 31 December 2017; excluding specialty beds

Pharma market

The pharmaceutical market in Georgia was highly concentrated, with four major players holding approximately 75% of the market share. After the acquisition of the third and fourth largest pharma companies, GHG became the largest player on the pharma market and is now present in the whole Georgian healthcare ecosystem, maintaining the leading position. 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 of these markets as the competitors have not managed so far to establish scalable businesses in the respective sectors.

Revenue (GEL millions) and market shares in 2017

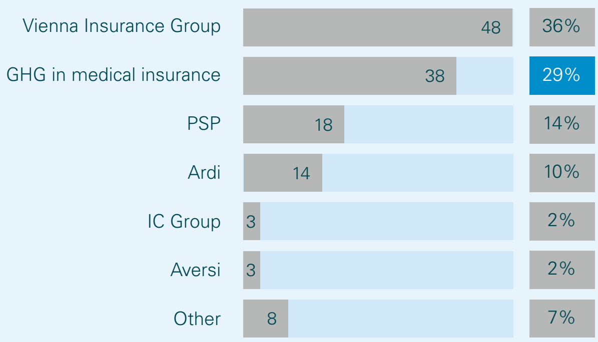


Source: Total market Frost & Sullivan analysis 2017. Revenue distribution between competitors represents management estimates

Medical insurance market

As of 30 September 2017, c.550,000 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia. The Georgian insurance market is represented by 14 companies, 11 of which operate in the health insurance segment. The market is highly concentrated, with top three companies holding a c.80% market share by Gross Premium Revenues ("GPR"). In 2017, Vienna Insurance Group became the market leader with 36% market share by GPR. In the first quarter of 2017, the company increased its customer base by c.70,000 people. At the same time, GHG lost an almost equivalent number of customers, which can be largely explained by the expiry of a large public sector contract.

9M17 GPR (GEL millions) and market shares



Source: ISSSG, market as of 30 September 2017

Our business model

A fully integrated care pathway

Our well-established hospital network 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 polyclinics are often the first point of interaction for attracting patients. Patients who come to our polyclinics can be referred to receive treatment in our high-quality hospitals or fill their prescriptions in our pharmacies.

In the healthcare services business, our polyclinics and hospitals are organised in specific geographical clusters to provide services to the broadest range of patients through:

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

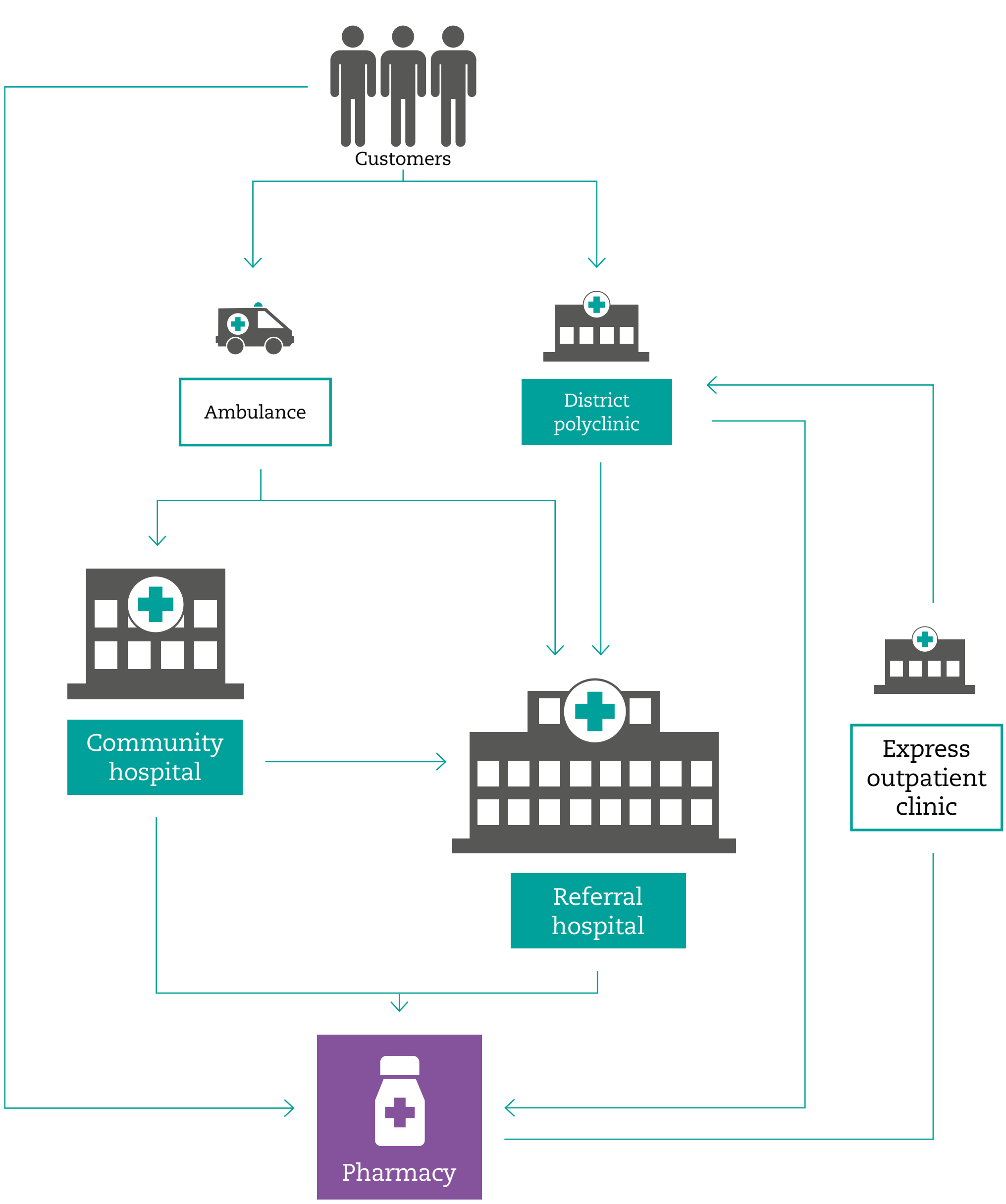
The referral hierarchy within each geographical cluster provides patients with a complete and convenient treatment pathway, from local physicians in polyclinics and community hospitals to referral hospitals. Our 64 specialist ambulances help achieve this by facilitating the movement of patients to and between our hospitals. While we provide most basic ("primary") medical and surgical procedures at all of our facilities, the majority of more specialised or advanced ("secondary" and "tertiary") interventional and surgical procedures are concentrated at our regional referral hospitals.

Our pharma business solidifies our strategic goal of having a strong presence across the healthcare ecosystem. Following the completion of the two major pharma acquisitions, we became the largest pharmacy chain in the country with a 30% market share.

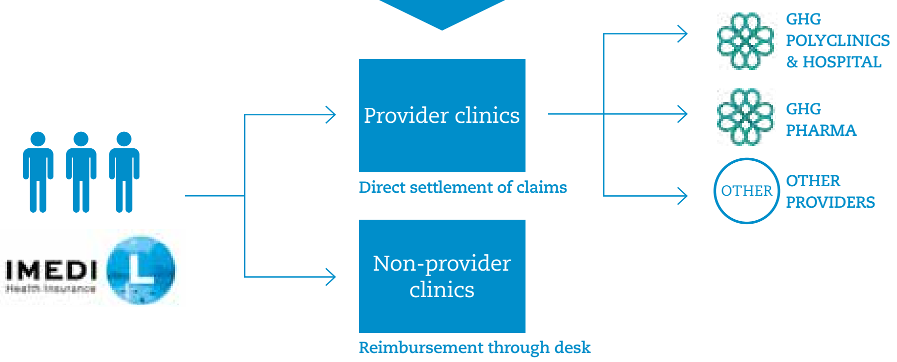
The pharma business helps us grow our polyclinic business, where we hold only a 2% market share. Through its express outpatient clinics (which are integrated in our pharmacies) and strong customer loyalty franchise with over two million monthly customer interactions and 0.5 million members of its loyalty programme, it is expected to drive additional referrals to GHG's polyclinics. Furthermore, the pharma business is a pure out-of-pocket business and it helps us further diversify our revenues. The pharma business strengthens GHG's position as the major purchaser of pharmaceutical products in Georgia. 21 of our pharmacies 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. Customers insured by us may also use the services of competitor healthcare facilities. However, we are pleased to see so many patients choose the high-quality services in our outpatient network polyclinics – in the system where they have 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 pharma and medical insurance businesses are becoming increasingly synergistic through cross-sales, consolidated discounts and an increasing claims retention ratio within the Group.

Customer pathway



Medical insurance patient flow



Our business model continued

Healthcare services

Referral hospitals

16

referral hospitals provide secondary and tertiary level healthcare services, operating with 2,519 beds.

These hospitals are located in Tbilisi and major regional cities and provide secondary or tertiary level outpatient and inpatient diagnostic, surgical and treatment services. Our referral hospitals, which serve as hubs for patients within a given region, had a 64.5% bed utilisation rate (excluding Tbilisi Referral Hospital, which was launched in 2017 and is in a roll-out phase) and generated 86% of our total healthcare services revenue in 2017.

Community hospitals

21

community hospitals provide primary outpatient and inpatient healthcare services, operating with 495 beds.

Community hospitals are located in regional towns and municipalities and provide basic outpatient and inpatient diagnostic, surgical and treatment services to the local population. They also refer patients to referral hospitals for secondary or tertiary level treatment. Our community hospitals had a 26.8% bed utilisation rate, reflecting their role as primary healthcare providers, and generated 8% of our total healthcare services revenue in 2017.

The EBITDA margin for our hospitals (both referral and community) in 2017 was 27.4%.

Polyclinics

12

polyclinic clusters, consisting of 16 district polyclinics and 24 express outpatient clinics, provide primary and secondary outpatient healthcare services.

Polyclinics provide basic and full-scale outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities. Polyclinics generate the highest margin and the management currently believes that this segment of our business will become one of the largest sources of future growth. Polyclinics generated 6% of our total healthcare services revenue in 2017, up from 5% in 2016. Because of the new polyclinic roll-outs, the EBITDA margin stood at 13.2% in 2017.

Organised in clusters: Each cluster includes a district polyclinic, located centrally in a particular district of the city, and several smaller express outpatient clinics (mostly integrated with pharmacies), located in other areas of the same district.

Pharma

Pharmacies

255

21 of which are located in our healthcare facilities.

We own the country's largest pharma retail and wholesale business and also are the largest retailer in the country. We operate two pharmacy brands, each with a distinct positioning: GPC (acquired in May 2016) for the higher-end customer segment and Pharmadepot (acquired in January 2017) for the mass retail segment. The pharmacies are located in Tbilisi and other major regional cities. Our pharma business has over two million monthly customer interactions and 0.5 million members of its loyalty programme. The total number of bills issued at our pharmacies exceeded 25 million in 2017, making us the country's largest retailer in terms of both revenue and number of bills issued. The EBITDA margin for our pharma business was 8.6% in 2017.

Medical insurance

Medical insurance

GEL 53.7 million

revenue generated by medical insurance business in 2017.

We are the second largest medical insurance provider in Georgia, with a wide distribution network. We offer a variety of medical insurance products. We had approximately 155,000 persons insured as at January 2018. We offer a wide range of comprehensive private medical insurance policies that customers can opt for instead of relying on the coverage provided under the UHC and other state-funded healthcare programmes. Our products are mainly offered as corporate packages to large employers, while we also have stand-alone policies for self-paying individuals. We have been adjusting the business model of our medical insurance business since 2013, when UHC was introduced and transformed the landscape. Despite suffering a loss in 2017, the business plays an important feeder role for healthcare services and pharma businesses. Since 2Q17, we have also started implementing new initiatives to adapt to recent changes in the UHC; these were positively reflected in the last two quarters' results, posting positive EBITDA, and we believe that going forward the business will further stabilise its earnings. We operate 13 branches and service centres of our medical insurance business located in a number of cities and towns across Georgia.

Launch of two flagship hospitals

Tbilisi Referral Hospital (Sunstone) renovation

The first phase of renovation of Tbilisi Referral Hospital was completed, and the hospital was partially opened with 220 beds in April 2017, two months ahead of the initial schedule. Bed occupancy had already reached 37% in 4Q17. The hospital was fully renovated and opened in December 2017, with a total of 332 beds.

The referral hospital serves the eastern Tbilisi population and should become East Georgia's referral centre. Together with acute and elective paediatric and adult healthcare services, starting from 2019 the hospital will operate as a centre of excellence (CoE) for hepatic and kidney transplantation countrywide.

Tbilisi Referral hospital was acquired in 2014 with the aim of upgrading this run-down Soviet-era hospital to modern standards, and to provide patients in Eastern Tbilisi with high-quality medical care. We started the renovation in January 2016.

GEL **27.5** million
refurbishment cost

332
beds

2.7
hectares total area occupied

Before renovation

Services offered

A full spectrum of inpatient and outpatient services, including:

1. Cardio surgery
2. Vascular surgery
3. Neurosurgery
4. General surgery
5. Nephrology (including dialysis)
6. Gynaecology
7. Obstetrics
8. Orthopaedics
9. Paediatrics
10. Multi-segmented Intensive Care Unit ("ICU")
11. Emergency ("ER")
12. Rehabilitation
13. Diagnostics

Services to be launched soon:

1. Psychiatry
2. Palliative medicine
3. Pain centre
4. Transplantology

Launch of two flagship hospitals continued

Deka Referral Hospital renovation

In September 2016, we opened the first department at Deka Referral Hospital ("Deka"), one of the largest outpatient and diagnostic centres in the country. The hospital was fully renovated and opened in February 2018 with a total of 306 beds.

Deka has a strong historic reputation and occupies a prime location in the north-east of Tbilisi. Following the completion of the renovation, the 306-bed Deka hospital serves as a flagship hospital, being the hospital of choice for high-quality elective medical care countrywide.

To ensure patients receive the best quality of care, we recruited teams of doctors specialising in the following fields prior to the opening: gynaecology, ophthalmology, bariatric surgery, general surgery, intensive care and cardio surgery. About 70% of the work these teams perform is paid for out-of-pocket by the patients, in line with our strategy to decrease our dependency on state revenue while gaining a market share on the planned treatments.

The hospital also provides full-scale services for general and oncological surgery, oncology (including chemotherapy), vascular and cardiac surgery and orthopaedic surgery.

We acquired Deka in 2015 to continue our expansion in Tbilisi and to create a flagship hospital for the capital. We started a substantial renovation of the unrefurbished Soviet-era hospital in January 2016.

GEL **37.9** million
refurbishment cost

306
beds

2.4
hectares total area occupied

Before renovation

Services offered

A full spectrum of inpatient and outpatient services, including:

1. Cardio surgery
2. Vascular surgery
3. Neurosurgery
4. General surgery
5. Oncology
6. Haematology
7. Minimally invasive surgical centre
8. Gynaecology
9. Orthopaedics
10. Ophthalmology
11. Urology
12. ICU
13. ER
14. Telemedicine
15. Diagnostics

Rebranding ambulatory clinics into polyclinics

Rebranding as polyclinics

In June 2017, we launched a campaign of rebranding our district outpatient centres into "polyclinics".

The word "polyclinic" is very well known among the population. In the Soviet era, outpatient centres were called "polyclinics", and that's why the awareness is high and remains the preferable name for outpatient clinic patients. By changing the name of our ambulatory clinics, we aim to achieve a better patient recognition and awareness, and position ourselves as running brand new, well-equipped polyclinics with a much better quality service. As part of our campaign, we began actively recruiting doctors who previously worked at Soviet-era polyclinics, and have so far recruited 69. We have also started vigorous marketing campaigns to promote our brand new polyclinics and engaged in state programmes such as Antenatal, Diabetes and Vaccination.

In 2017 we also launched a district polyclinic in Marneuli and acquired two district polyclinics in Tbilisi, with a total of c.50,000 registered patients. Polyclinic acquisitions and launches are consistent with the Group's strategy to grow its healthcare services business through rolling out a network of polyclinics across Tbilisi and in other major cities in Georgia. GHG now operates a total of 12 polyclinic clusters, of which eight are located in Tbilisi, the capital city, and four in the regions. The 12 polyclinic clusters consist of 16 district polyclinics and 24 express outpatient clinics (the latter are mostly integrated into our pharmacies and play a facilitating role for our pharma and district polyclinic patients).

Through the acquisition of polyclinics and various campaigns, we have increased the number of registered patients in Tbilisi to c.93,000. In total we plan to get to c.200,000 registered patients by early 2019, through organic growth and further polyclinic acquisitions.

Our polyclinics stand out from the competition, being new and modern and providing a diverse range of services in one location. Our polyclinics are also increasingly favoured by our insured customers over competitors due to the ease of claim reimbursement procedures.

To boost recognition and drive traffic

Initiatives implemented since June 2017

1. Rebranded our district outpatient clinics, previously called "ambulatory clinics", into "polyclinics"
2. Headhunted 69 family doctors from Soviet-era polyclinics
3. Began active marketing campaigns starting from June: TV, radio, outdoor and social media
4. Became engaged in State programmes
5. Polyclinic launches/acquisitions

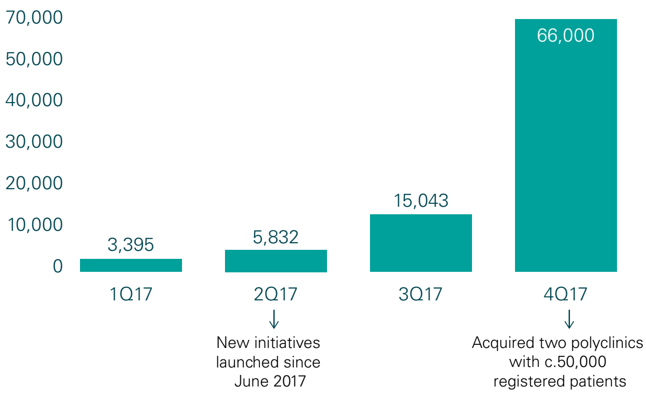
Total registered patients

c.93,000

Total registered patients target

c.200,000

GHG registered patients dynamic in Tbilisi



Market overview

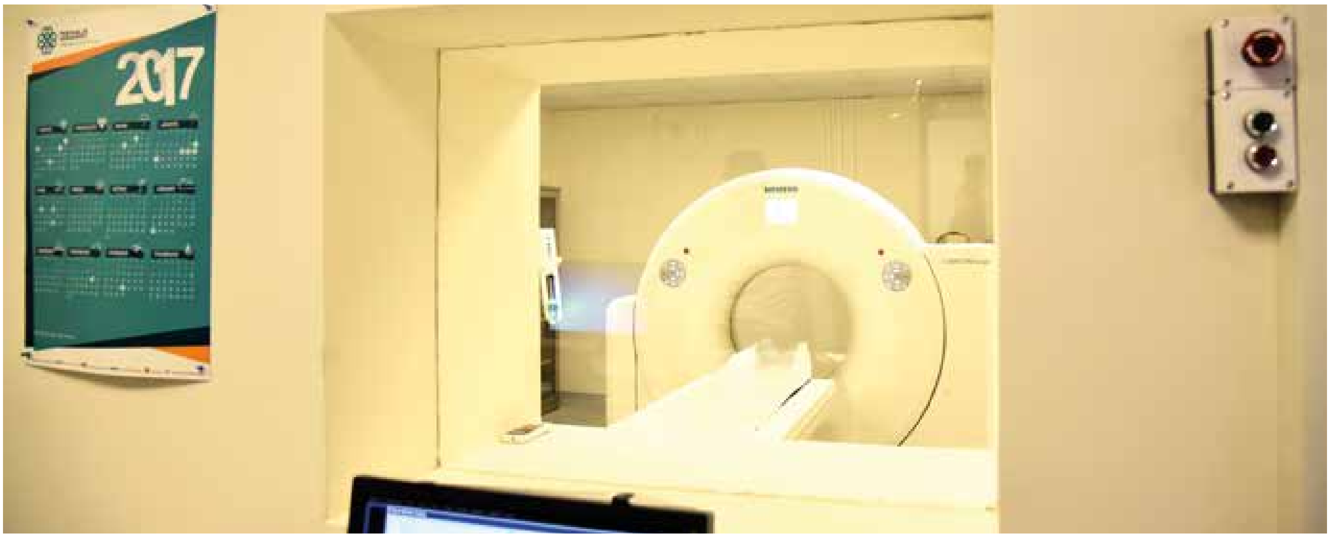
The outpatient market is still highly fragmented with very few players having high standards of service and up-to-date technology.

GHG

Mass outpatient service provider

Brand new polyclinics, equipped with the most up-to-date medical equipment, catering to all age groups and providing a wide range of outpatient services, including general practitioner and specialist physician consultations. As a mass outpatient services provider, our strategy is to continue to launch polyclinics, and have more than 20 polyclinics clusters by 2019.

- 16 district polyclinics, nine in Tbilisi, and seven in regions;
- Format: small (120-200 m^2 express clinics), medium (c.1,000 m^2) and large (1,800-2,500 m^2);
- Multi-profile.



Competition

Niche/higher-end outpatient centres

There are 12 competing outpatient centres attracting high-end patients with modern infrastructure and up-to-date medical equipment. Similar to GHG, these typically cater for all age groups and provide a wide range of outpatient services. The six entities owning these clinics have not been pursuing an expansion strategy.

- Six healthcare providers with a total of 12 outpatient clinics – 11 in Tbilisi, and one in a region;
- Format: medium;
- Multi-profile.

Mass outpatient service providers (run-down Soviet-era polyclinics)

Soviet-style, privatised polyclinics, less developed, neglected infrastructure and very little medical equipment. Limited outpatient services offered. Distributed among different private individuals.

- c.450 small polyclinics;
- Small formats;
- Multi-profile.

Pharma integration – the largest integration in retail sector in the country

In 2017 we completed a flawless integration of two pharmacy chains, delivering above our pro forma projections.

After entering the pharma business in 2016 and expanding in 2017 by purchasing GPC and Pharmadepot, the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia, respectively, we launched the integration of the two pharma companies. The process of the largest ever integration of two retailers in the country went smoothly and according to schedule. The integration of the Pharmadepot and GPC chains of pharmacies is now completed, along with the successful consolidation of both chains' customer software in the second quarter. Still in process is the merging of our two pharma warehouses, which we expect to finalise within a year.

The successful integration of the Group's pharma businesses has resulted in a 30% market share and created significant opportunities for improving cross-selling, particularly to polyclinics, to develop customer loyalty and achieve a further margin improvement. Currently, the pharma business operates with 255 pharmacies in a countrywide distribution network, having over 2 million client interactions per month. 21 of these pharmacies are located in our hospitals and clinics.

The combined pharma business continues to deliver on its synergy targets. After the acquisition of Pharmadepot and integration of the two pharma companies, we further strengthened our position this year as the largest purchaser of pharmaceuticals in Georgia, and intensified renegotiations with manufacturers for additional discounts. We have realised GEL 8.9 million procurement synergies out of the expected GEL 7.9 million, on an annualised basis. We also stayed focused on delivering on our initial objective of eliminating unnecessary costs. We have already eliminated GEL 2.3 million unnecessary costs, compared to the initial target of GEL 3.9 million, on an annualised basis, and the process is still ongoing.

Private label products is the area we have identified as having a strong potential to further improve the profitability of our pharmacies. In 2017 we added 18 new private label medicines at our pharmacies, bringing total number to 34. During the year, the pharma business also acquired the international private label brand Attirance. Attirance specialises in natural cosmetics and has developed more than 400 of its own unique products. The acquisition enables us to offer private label personal care products in our pharmacies starting from mid-2018, further improving our margins and profitability. It also helps to establish our position as the market leader in this segment.

May 2016
Entering into the pharma business by purchasing the third largest pharmacy chain **– GPC**

January 2017
Becoming the largest pharma player in Georgia, by purchasing the fourth largest pharmacy chain **– Pharmadepot**

Start of integration process
- Back office integration
- Legal merger
- IT & software development

April 2017
Back office integration completed

May 2017
Legal merger completed

IT & software development completed

December 2017
- GHG the largest pharma player in Georgia
- Revenue up by 10.2% in 2017 compared to pro-forma consolidated revenue in 2016[1]
- Delivered GEL 8.9 million procurement synergies on an annualised basis
- Eliminated GEL 2.3 million unnecessary costs on an annualised basis

1 2016 pro-forma revenue includes Pharmadepot and GPC full-year results

Differentiating two brands in pharma

In the pharma business, we operate under 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.

Concept	GPC More than a pharmacy	Pharmadepot Contemporary pharmacy
		
Number of pharmacies	113	142
Customer segment	Mass, mass affluent	Mass retail
Format	Always a larger area (>80 m^2)	A medium or small area
Geographical distribution	Big cities, high street, supermarkets	Nationwide, high street, hospitals
Parapharmacy products	A large assortment of medical as well as premium personal care products	Medical personal care products
Consultant	A service consultant for premium personal care products	No consultant (only pharmacists)
Marketing communication	Brand communication	Discount deals
Loyalty programme	0.5 million loyalty card members – points accumulation which can be redeemed on most pharmacy products	0.7 million discount card members
Focus	Increasing cheque volume, private label products, increasing variety and revenue from parapharmacy	Expansion, increasing number of customers, private label products

Growing the next generation of doctors

GHG – an employer of choice for the next generation of doctors

Our residency programme is establishing itself as the most popular training programme in the country. It was extremely difficult to secure a place in 2017. More than two-thirds of all the country's prospective residents applied for a place in our programmes. After rigorous professional tests and interviews, 54 successful candidates were selected from the 281 who applied. We look forward to following their progress.

112
residents involved currently

24
residency programmes

A large number of under-qualified doctors represents a challenge

Despite the large number of doctors in Georgia, they mostly have Soviet medical education with insufficient postgraduate medical training. The most critical fields with a significant shortage of skilled medical personnel are anaesthesiology, intensive care, emergency care, oncology, and technologically advanced surgery.

We invest in the next generation of doctors and position ourselves as the employer of choice

The main priority is for us to ensure that we can employ a sufficient number of doctors trained to western standards.

As part of our strategy to invest in human capital, we launched a residency programme to provide the next generation of doctors in Georgia with the highest quality of postgraduate training. This is both an investment in our pipeline of future medical pioneers and an investment in the future quality of care in the country. We were glad to see the high demand for our residency positions confirming the position of our brand and reputation.

Our residency programme improves the quality of postgraduate preparation and facilitates an increase in the number of qualified employed doctors in the country. Our residents are trained by the country's leading doctors and specialists at our healthcare facilities. In order to meet international training standards, physicians involved in the teaching process also complete the Trainers of Trainers ("ToT") programmes, facilitated by our own internal training centre.

As the first step towards choosing the best candidates, the applicants are examined in basic medical knowledge, general skills and English language proficiency by taking our internal tests. Those who successfully pass the testing process are interviewed by members of our clinical department.

To incentivise and support top talent to enrol in our residency programme, we offer grants, student loans and employment during the programme as well as after graduation. The graduates are required to work at GHG healthcare facilities for at least three years.

In total, since the launch of the programme in December 2015, we have received 557 applications from prospective residents. Currently, we have 112 talented residents involved in 20 specialties, 12 of whom have received a 100% grant, and 22 an 80% grant, 37 residents have obtained student loans. Successful residents have already started employment within GHG healthcare facilities as junior doctors.

We are committed to continuing the programme and are increasing the capacity in 2018. For 2018, we have announced 128 positions in 24 residency fields.

Residency postgraduate programmes	Current number of residents	Number for admission for 2018
Anaesthesiology and reanimation	21	8
Cardiac surgery	1	1
Cardiology	–	6
Children's cardiac/rheumatology	6	2
Children's endocrinology	4	2
Children's gastroenterology	1	1
Children's neurology	9	2
Children's surgery	1	8
Children's nephrology	–	3
Endocrinology	4	5
General surgery	3	15
Internal medicine	4	6
Laboratory medicine	6	5
Neonatology	4	7
Neurology	–	5
Neurosurgery	–	3
Obstetrics and gynaecology	7	3
Oncology	3	1
Paediatric ER	5	3
Paediatrics	21	14
Plastic and reconstruction surgery	1	3
Radiation oncology	3	1
Radiology	7	15
Traumatology/orthopaedics	1	9
	112	**128**

For each residency programme/specialty, the accreditation is granted by the Ministry of Labour, Health and Social Affairs for three years. The MOH also defines the maximum number of admissions for each programme that can be distributed over the period. After three years, a new accreditation has to be granted in order to continue postgraduate studies and receive further residents for that programme. Since 2015, we have received accreditation for 24 residency programmes with a total of 265 admissions.

Our strategy

Performance against strategy 2017

Strategic goal	2017 performance
Healthcare services	
Revenue growth and diversification	• Diversified revenue stream – the share of Government financing in the healthcare services business revenue decreased by 5.2 percentage points, from 72.6% in 2016 to 67.4% in 2017, while the share of the out-of-pocket revenue increased by 4.5 percentage points from 20.1% in 2016 to 24.6% in 2017. • Revenue increased to GEL 265.4 million in 2017, up 7.8% y-o-y from GEL 246.1 million in 2016. • Organic revenue growth rate was 6.9% y-o-y. • Polyclinics contributed 6% to the total revenue from healthcare services, compared to 5% in the previous year.
EBITDA margin of c.30%	• The EBITDA margin was 26.4% – reflecting the two big Tbilisi hospital redevelopment projects carried out during 2017. We expect margin to rebound gradually after the ramp-up phase of the hospitals is completed. Excluding the impact of these investments, the margin was 29.2%
Footprint and capacity expansion	• Successful launch of two flagship hospitals (c.600 additional beds) – We fully renovated and opened Tbilisi Referral Hospital in December 2017, within the schedule and the budget. – We completed renovation works in Deka hospital, which was fully launched in February 2018 within the budget and the revised schedule. – We launched an inpatient department at the West Georgia Oncology Centre, with 50 additional recently renovated beds. • We added three new district polyclinics, bringing the total number of clusters to 12. • We continued the process of launching new services at our referral hospitals. In 2017, we launched 54 new services. This includes some basic services like paediatrics, diagnostics and ophthalmology, as well as more sophisticated services, including oncology, transplantation of bone marrow, angio vascular and neuro vascular surgeries.
Pharma	
Successful integration of pharma companies	• **The process of the largest ever integration of two retailers in the country went smoothly and according to schedule. As a result of a successful integration of the back office and the software, the business delivered a resilient performance:** – Added more than 10 pharmacies countrywide. – Increased revenue to GEL 450.3 million in 2017, up 10.2% y-o-y compared to the 2016 pro-forma revenue[1]. – Eliminated GEL 2.3 million of unnecessary costs.
Enhanced retail margin	• **The gross margin in the pharma business increased by 380 bps y-o-y, up to 24.5% in 2017.** – Realised GEL 8.9 million procurement synergies out of the expected GEL 7.9 million on an annualised basis. – Added 18 private label medicines at our pharmacies in 2017, bringing the total number to 34. – Acquired the international private label brand Attirance, which specialises in natural cosmetics and personal care products, and has developed more than 400 of its own unique products and recipes. The acquisition will enable us to start offering private label personal care products in our pharmacies from mid-2018.
8.0%+ EBITDA margin	• Achieved EBITDA margin of 8.6%, in excess of the medium-term target.
Medical insurance	
Turning the corner on profitability	• **Since 2Q17, our medical insurance business has successfully implemented new initiatives to adapt to changes in the Government's Universal Healthcare Programme. As a result:** – Posted positive EBITDA in the last two consecutive quarters. EBITDA was GEL 0.7 million in 3Q17 (up 369.7% y-o-y) and GEL 0.1 million in 4Q17 (negative at GEL 0.6 million in 4Q16). As a result, in 2017 business posted negative EBITDA of GEL 0.4 million, compared to the negative EBITDA posted in 2016, GEL 2.0 million. – Improved the loss ratio by 110 bps in the second half of the year, compared to the same period of 2016. Overall the loss ratio in 2017 remained almost at the same level as in 2016.
Increased claims retained within the group	• The total amount of claims retained within the Group increased by 30.2% y-o-y. • The total number of claims retained within the Group increased by 59.1% y-o-y.

1 2016 pro-forma revenue includes Pharmadepot and GPC full-year results

Our strategy going forward

In 2018 our main goal is to continue the successful roll-out of newly launched hospitals and services. At the same time, we will focus on improving cash flow generation and return on invested capital through efficiency measures and driving more synergies across the Group.

GHG has a full presence in the Georgian healthcare ecosystem and our long-term growth strategy is focused on gaining a one-third market share both by number of beds and revenue in hospital business. We target to achieve c.15% market share in the polyclinic business and retain one-third market share in our medical insurance and pharma businesses, while increasing profitability.

We believe that the implementation of the UHC in Georgia (providing basic healthcare coverage to the entire population), the highly fragmented nature of the healthcare services market (where the top six providers control only approximately 40% of the market by number of beds as of 31 December 2017) and existing service gaps in both hospital and outpatient segments have created a significant opportunity for expansion and market share gains for our healthcare service business through organic growth and acquisitions.

Entering into the pharma market and becoming the largest player in this segment additionally created a significant platform with a cost and revenue synergy potential Group-wide. As the largest purchaser of pharmaceuticals in the country, we stay focused on gaining additional discounts from manufacturers and decreasing GHG's existing cost of pharmaceuticals, medical disposables and devices by redirecting more of its purchases to the combined pharma business (eliminating the distributor margin). In the pharma business, our strategy remains to expand our footprint and present more private label products that allow us a significant margin enhancement.

The medical insurance business remains a feeder for our pharma and healthcare services businesses, thus we continue to concentrate on retaining a greater number of claims within the Group.

GHG's strategy for the medium to long term is to gradually increase the healthcare services business EBITDA margin to c.30%, maintain and further improve the pharma business EBITDA margin and achieve medical insurance profitability by driving the loss and combined ratio down, all the while retaining more claims within the Group.

Our IT team will help us to move to the next level of development by getting to a fully integrated health information system that will help us to manage more efficiently and deliver better care to our customers. We also stay focused on enhancing our digital strategy and digital channels.

Segment	Hospitals	Polyclinic	Pharma	Insurance
Market share in 2017	By revenue | by beds 21% | 25%	By revenue 2%	By revenue 30%	By revenue 29%
In 2018	c.25% | 28%	c.5%	30%+	30%+
Long-term	30%+	c.15%+	30%+	30%+
Medium-to long-term P&L targets	Gradually improving to c.30% EBITDA margin		8.0%+ EBITDA margin	<97% Combined ratio
Key focus areas in the medium to long term	1. Enhancing footprint in Tbilisi 2. Strengthening existing services in elective care (investing in key doctors) 3. Filling service gaps (mental health, home care, etc.) 4. Enhancing digital channels 5. Developing medical tourism (in longer term)	1. Accelerated footprint growth 2. Increasing number of registered patients 3. Sales growth through various channels (new services, corporates, state) 4. Enhancing digital channels	1. Enhancing retail footprint 2. Enhancing retail margin (synergies; private label) 3. Growing wholesale revenue 4. Enhancing digital channels and customer loyalty	1. Value creation (portfolio re-pricing and cost efficiencies) 2. Creating new revenue sources 3. Group synergies (redirecting more patients to GHG polyclinics and pharmacies)

Our strategy continued

Healthcare services (hospitals)

Gradually improving EBITDA margin to c.30%

Key focus areas in the medium to long term for achieving our objectives, increasing our hospitals' utilisation and return on invested capital.

1 Enhancing footprint in Tbilisi

Successful roll-out of newly launched Deka and Tbilisi Referral Hospitals, which added c.600 beds in total.

Deka hospital – 306 beds

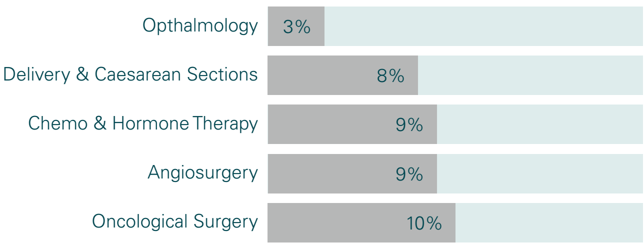
Tbilisi Referral Hospital – 332 beds

2 Strengthening existing services in elective care

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

- Focus on elective treatments where GHG has less than 10% market share today, representing a market of more than GEL 150 million. We have already started a new project "Investing in Key Doctors" and contracted eight teams of local "star" doctors, specialising in different fields, to improve the quality and increase our market share in the planned treatments.
- Focus on vertical programmes – the state programmes we are going to engage in further include dialysis, mental health and antenatal care.

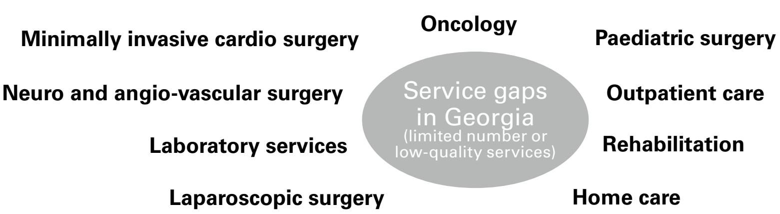
GHG share in elective care expenditure, where it has a 10% or less market share



3 Filling service gaps

Continuing to invest and develop new services to keep filling the existing service gaps in Georgia

In 2018, we are planning to launch c.50 new services in our hospitals. Services that are in the 2018 pipeline include mental health, which is at the initial stage of development at Tbilisi Referral Hospital; home care, which is not developed in Georgia at all; oncology; laparoscopic surgery; laboratory services; minimally invasive cardiac surgery; and bariatric surgery.



Healthcare services (polyclinics)

Gradually improving EBITDA margin to c.30%

Key focus areas in the medium to long term for achieving our objectives, increasing our polyclinics' utilisation and return on invested capital.

1 Accelerated footprint growth

Adding c.10 polyclinics over the next two years, bringing the total number of clusters to more than 20.

- Increasing the number of polyclinics through new launches and strategic acquisitions.
- Expansion both in Tbilisi and in regions.

2017

12 clusters

2019

20 clusters

2 Increasing number of registered patients

Currently we have c.93,000 registered patients in Tbilisi, that we are planning to increase up to c.200,000 by early 2019.

The increased number of registered customers enhances the cross-selling opportunities within GHG.

c.200,000

Target

GHG polyclinics value added services

GHG hospitals

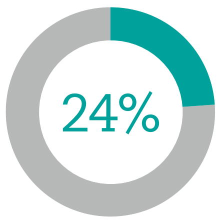
GHG pharmacies

3 Sales growth through various channels

Corporates and Group offerings

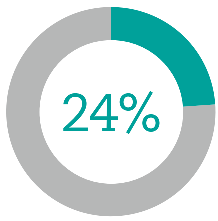
- To boost the sales-to-corporates strategy by increasing the number of contracted companies through offering incentives at our polyclinics and intensive marketing activities.
- Offering incentives on GHG products to insurance companies – Group incentives at GHG polyclinics, GHG hospitals and GHG pharmacies for competing insurance companies.

Number of insured %, as of 30 September 2017



GHG medical insurance – 24%
Top 9 competitors – 76%

Total claims %, as of 30 September 2017



GHG medical insurance – 24%
Top 9 competitors – 76%

Our strategy continued

Pharma

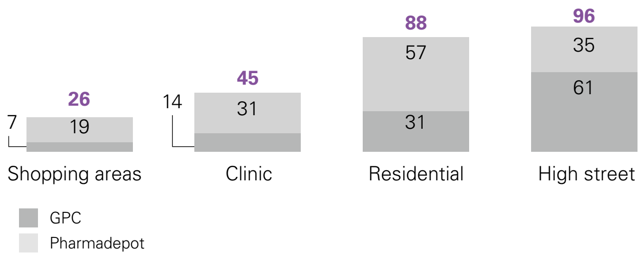
Maintaining EBITDA margin of above 8%

Key focus areas in the medium to long term for achieving our objectives.

1 Expanding retail footprint

GPC's and Pharmadepot's retail footprints complement each other – while GPC is a well-established retailer with a significant presence on the high street, Pharmadepot is better represented in residential areas.

Total of 255 pharmacies now



Heading to 300 pharmacies over the next two years

2 Enhancing retail margin

Establishing our position as a market leader in a private label segment in the Pharma business

- Increasing the number of private label medicines in our pharmacies.
- Present private label personal care products.

3 Growing wholesale revenue

Actively engaging in the medical disposables and medical devices market.

- Growing through increased hospital purchases for our healthcare services business.
- Growing wholesale revenue in hospitals and pharmacies by signing new corporate accounts.

4 Enhancing digital channels and customer loyalty

We aim to further enhance customer applications.

The enhanced version of our mobile app will have value added functionality:

- Find the doctor;
- Symptom checker;
- E-prescription;
- Medicine annotations; and
- Push notifications on special offerings.

GPC pharma mobile app with 40,000 active users

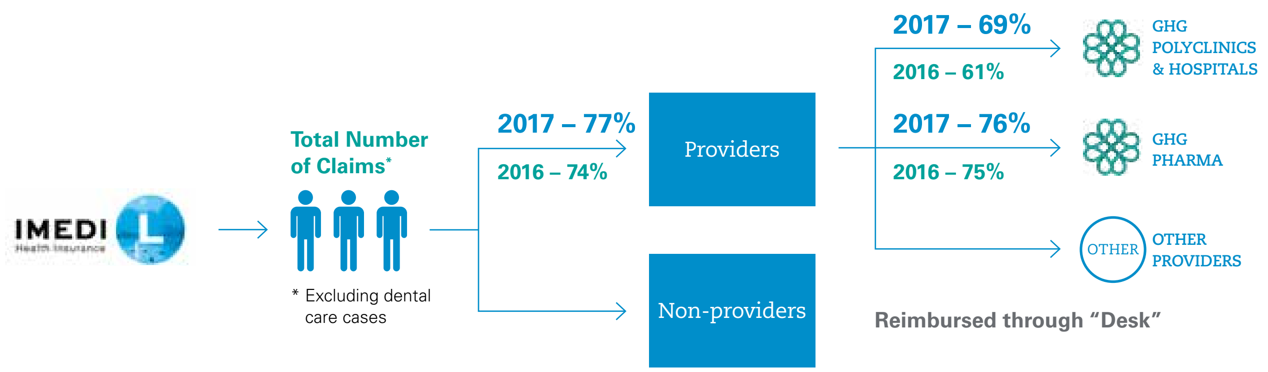
Medical insurance

Focus on increasing synergies within the group

Key focus areas in the medium to long term for achieving our objectives.

1 Group synergies

Targeting to retain more than 70% of the total number of claims within the Group by 2018.

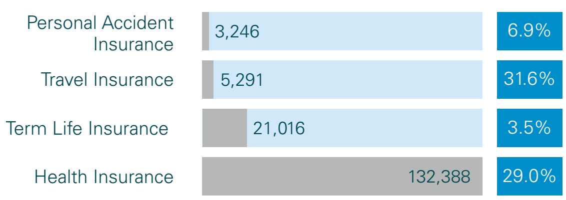


2 Creating new revenue sources

Room to grow in high margin products.

- Accessibility through new distribution channels like GHG Pharma: Travel Insurance, Critical Illness Insurance, Personal Accident Insurance.
- Participating in Compulsory Insurance Programmes: Compulsory Motor Third Party Liability Insurance to be launched in 2018.
- Other products under consideration: Term Life Insurance, Medical Malpractice.

GHG product line market (GEL thousands)



Source: insurance.gov.ge, as of 30 September, 2017

GHG medical insurance share

3 Value creation

Portfolio re-pricing and cost efficiencies.

	In 2017	Goal in the medium to long term
Loss Ratio	84.2%	<75%
Expense Ratio*	10.4%	<12%
Combined Ratio**	100.8%	<97%

* Expense ratio excluding commission, depreciation and amortisation expenses
** Excluding depreciation and amortisation expenses

Our strategy continued

Clinical strategy

To develop the next generation of doctors and nurses while building a robust clinical quality management process.

Our main challenges

Limited number of skilled doctors and nurses: improved quality and a new generation

- High number of doctors with Soviet education
- Average age c.51
- Shortage in a number of specialties

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

What we are doing

GHG Residency Programmes

- In 2017, we received accreditation for four new residency programmes, bringing the total number of programmes to 24.
- Currently, 112 residents are enrolled across the programmes.
- For 2018, we have announced 128 new residency positions.
- It takes on average 33 months to complete the residency programme.

128
available positions announced in December

GHG Staff Training Programmes

- 1,510 doctors completed training programmes in ten specialties including obstetrics and gyneacology ("OBGYN"), paediatrics, internal medicine, emergency medicine, neonatology, clinical quality, infection control and prevention, tuberculosis prevention, doctor specialised training and surgery (at the Mayo Trauma Workshop).
- 2,046 nurses completed training programmes in four specialties (anatomy, physiology, medical calculation procedures and nurse specialised training).

1,510
doctors trained in ten specialties

GHG Trainers of Trainers Programme ("ToT")

In 2017, 135 of our employees completed ToT programmes:

- 115 doctors; and
- 20 nurses.

135
employees completed Trainers of Trainers programmes

GHG Continuous Medical Education ("CME")

We remain focused on building a continuous medical education platform.

- In 2017, we conducted CME programmes in eight specialties:
  - OBGYN;
  - Paediatrics;
  - Neonatology;
  - Internal medicine;
  - Clinical quality;
  - Emergency medicine;
  - Nurses; and
  - Laboratory.
- In total, 18 CME programmes were conducted in 2017.

18
CME programmes conducted

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

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

Our main challenges

Low quality of basic medical care

- No official/comprehensive framework of protocols or treatment guidelines available on a national level

- Research studies are poorly designed, sporadic and underpowered, with low validity

What we are doing

GHG Clinical Quality Framework Development

In 2017, the following areas of clinical quality framework were implemented:

- Quality control – clinical quality monitoring system was implemented in all our referral and some of our community hospitals.
- Risk management – clinical risks assessment was conducted at eight of our hospitals.
- Safety – safety activities implemented in 12 of our hospitals.
- Infectious control and prevention – we have started implementing the control system in 12 of our hospitals.

Training professionals in the area of clinical quality control

GHG Clinical Protocols

We continue the process of development and implementation of internal protocols, while using evidence-based medicine and western standards of care as a baseline.

- In total, during 2016-2017, 221 protocols were approved:
  - 146 clinical; and
  - 75 SOPs.
- In quality and safety and infection control 14 SOPs/protocols were created, two documents were updated and ten standards were established.
- c.70 protocols in the pipeline for 2018 (c.30 clinical and c.40 SOPs).

221
protocols were approved in 2016-2017

GHG Clinical Quality Trainings Courses

- 115 training courses in quality management topics around infectious control and prevention, TB prevention, database management, root cause analysis, research and quality management were completed in 2017.
- Two training courses are ongoing.
- 43 training courses are planned for 2018.

43
training courses are planned for 2018

GHG Clinical Studies

We are trying to implement high-quality clinical research standards.

- In 2017, we conducted 60 clinical pharmacological studies in a total of 15 clinics.
- 20 studies are in the pipeline for 2018.
- Major western pharmaceutical companies are involved in our studies.

20
studies are in the pipeline for 2018

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

Key performance indicators

Value creation performance metrics

Diversified revenue sources across the Group through entering the pharma business in May 2016 and strengthening positions in 2017 by acquiring the second pharma company, growing the number of healthcare facilities and enhancing medical service mix, were the main drivers of profitability in 2017. The EBITDA margin in pharma and healthcare services businesses is a function of our scale – the largest purchaser of pharmaceuticals in Georgia – and focus on efficiencies. It largely reflects the realised procurement synergies and utilisation levels of our healthcare facilities in Tbilisi. The consolidation of both pharma companies' full-year results and improved cost efficiency, while two of our flagship hospitals are in their initial roll-out phases, translated into a 15.3% growth in profit before tax.

Profit before tax (GEL million)

46.3

+15.3% y-o-y

2017	46.3
2016	40.2
2015	23.6

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

Healthcare services EBITDA margin (%)

26.4

–3.8 ppts y-o-y

2017	26.4
2016	30.2
2015	27.4

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

Pharma EBITDA margin (%)

8.6

+4.3 ppts y-o-y

2017	8.6
2016	4.3
2015[1]	N/A

Pharma EBITDA margin is calculated as EBITDA divided by revenue.

Loss ratio (%)

84.2

+0.1 ppt y-o-y

2017	84.2
2016	84.1
2015	78.7

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

Earnings per share (GEL)

0.23

–0.01 GEL y-o-y

2017	0.23
2016[2]	0.24
2015	0.15

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

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

10.9

+1.9 ppt y-o-y

2017	10.9
2016[4]	9.0
2015	7.7

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

Growth KPIs

The record revenue of GEL 747.8 million for full year 2017 was mainly attributable to the pharma acquisitions, with GPC consolidated from May 2016 and Pharmadepot consolidated from January 2017, and 7.8% growth in our healthcare services revenue, of which c.7% was organic. In 2018 and beyond, we will continue to focus on profitable revenue growth, which we expect will be organic growth driven in part by the roll-out of recently opened hospitals; increasing our market share in the fast-growing, highly fragmented and under-penetrated outpatient market; investing in medical equipment, utilising existing service gaps, particularly in oncology, high-tech diagnostics, laboratory and specialist services; continuing to lead the market in the quality of our medical care; expanding the Group's pharma presence through new launches and adding more private label products to the range; and maintaining our existing market share in medical insurance.

Revenue (GEL million)[4]

747.8

+75.3% y-o-y

2017	747.8
2016	426.4
2015	246.0

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

EBITDA (GEL million)

108.1

+38.6% y-o-y

2017	108.1
2016	78.0
2015	56.1

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 We entered the pharma business in May 2016
2 2016 earnings per share is calculated on a normalised net profit. Normalised net profit for the full year 2016 is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments and one-off currency translation loss
3 Return on invested capital is adjusted to exclude newly launched Deka Hospital and Tbilisi Referral Hospital
4 The amount represents gross revenue before corrections and rebates (see financial statements, note 3). Revenue net of corrections and rebates was GEL 745.7 million in 2017 (2016: GEL 423.8, 2015 GEL: 242.4 million)

Number of hospital beds

3,014

+457 beds y-o-y

2017	3,014
2016	2,557
2015	2,670

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

Number of polyclinic clusters

12

+2 clusters y-o-y

2017	12
2016	10
2015	4

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

Number of pharmacies

255

+12 pharmacies y-o-y

2017	255
2016[1]	243
2015[2]	N/A

Represents number of existing pharmacies in Tbilisi and other regions.

Number of insured

155,000

c.–56,000 policies y-o-y

2017	155,000
2016	211,000
2015	234,000

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

Efficiency KPIs

The combined effect of increasing the share of out-of-pocket revenue in our revenue mix, increasing our number of polyclinics, expanding in the pharma market, stabilising our medical insurance business and integration activities carried out throughout 2017 for our pharma businesses and the healthcare facilities we acquired in the last three years, are the main efficiency drivers of our business. Through the Pharmadepot acquisition, we have already realised GEL 8.9 million annualised cost synergies and the process is still ongoing. New openings in 2017, such as the launch of two flagship hospitals in Tbilisi, new medical services and new polyclinics, all of which are in their initial roll-out phase, temporarily reduced our healthcare services operating leverage. After significant investments and acquisitions in last three years, our main focus in 2018 will be on increasing 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 centralised cost administration, represent the cost control measures we continue to deploy across the board.

Healthcare services operating leverage (%)

-10.5

–28.0 ppts y-o-y

2017	-10.5
2016	17.5
2015	10.3

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

Referral hospital bed occupancy rate (%)

61.6

–1.4 ppts y-o-y

2017	61.6
2016	63.0
2015	59.3

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.

Number of bills issued at our pharmacies (millions)

25.3

2017	25.3
2016	7.9
2015[2]	N/A

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

Combined ratio (%)

102.5

–2.2 ppts y-o-y

2017	102.5
2016	104.7
2015	96.7

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 We entered the pharma business in May 2016

Resources and responsibilities

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

We are the largest healthcare service provider, the largest pharmaceuticals retailer and wholesaler and the second largest medical insurance provider in the Georgian market. The Group operates a network of polyclinics and hospitals through its healthcare services business, and pharmacies through its pharma business. Read more about our business model on page 18.

The concept of sustainability lies at the heart of our business and reflects our commitment to sustainable development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Our sustainability agenda allows us to be profitable and, at the same time, environmentally and socially responsible. We continue to introduce new sustainability practices in our operations and are constantly seeking new ways to improve our performance, including in the following areas: environmental issues – focusing on the impact of the company's business on the environment, employee matters and social responsibility.

Our services cover more than 75% of the Georgian population by region with clinics located across the country providing access to high-quality medical services including to those living in remote mountain regions. Accessibility to such medical services is ensured by scheduling regular visits of specialists to small towns and villages and by providing patients with transportation 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 at various locations throughout the country including Batumi, Khulo, Keda, Shuakhevi, Poti, Zugdidi, Akhatsikhe and Telavi. In addition, GHG's specialists deliver free medical services, including examinations and treatments for socially and economically disadvantaged members of the population. In cooperation with other healthcare institutions, the Group arranges free blood donations for its patients.

Furthermore, GHG's healthcare service includes free medical check-ups at polyclinics and referral hospitals. It also runs a wide range of charitable activities on a permanent basis for children with leukaemia.

In August 2015 GHG's Board of Directors adopted and approved policies establishing minimum requirements and general standards for addressing environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Through respective policies, the Group recognises that its activities may impact the environment and the community in which it operates directly and indirectly and is committed to conducting its business in an environmentally, socially responsible and sustainable manner in order to reduce the environmental and social impact of its operations.

The list of issued policies is as follows:

- Environmental and Social Policy
- Code of Conduct and Ethics
- Employees' Relationship policy
- Directors' Conflicts Authorisation Procedure
- Division of Responsibilities
- Inside Information Disclosure Policy
- Related Party Transaction Policy
- Anti-Bribery and Anti-Corruption Policy

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

Compliance with the Group's standards is ensured by the centralised control performed directly by the respective business lines in their day-to-day activities. In addition, direct periodic control reviews are carried out by the Internal Audit Department and Risk Management activities, which include undertaking surveys, due diligence, monitoring and other internal control system tools and methods.

Environmental matters

Due to our strong sense of corporate social responsibility and the legislative requirements, sustainability management and resource efficiency are high on our agenda. The Group has a separate environmental division closely monitoring and leading environmental operations in our medical facilities. We recognise that our operations have an impact on the environment and we approach this matter responsibly. Most of the Group's environmental impact comes from medical waste generation, the utilisation of resources, predominantly energy, through electricity consumption and water, and combustion of fuels both for stationary use and for owned vehicles and paper. By developing various standards and procedures, we aim to become more resource-efficient and environmentally friendly.

Waste management

Medical facilities' most significant environmental impact is the generation of medical waste. Environmental risks can be significantly minimised with proper waste handling and safe disposal. In identifying and minimising this environmental impact and putting these procedures into practice we follow the undertakings in respect of environmental matters set out in our Environmental and Social Policy (published on the Group's website: http://ghg.com.ge/uploads/files/environmentalandsocialpolicy33-52.pdf. Our waste management procedures are compliant with the relevant Georgian legislation, which defines the risk categories and the appropriate procedures for medical waste treatment.

We have developed medical waste management record-keeping standards. Our personnel are responsible for filling out daily and weekly forms, such as waste registration forms, waste information forms and hazardous waste transportation forms. To further reduce risks and maintain compliance with the Georgian legislation, we have conducted internal trainings on waste management procedures and those attendees who successfully passed the test received special certificates. Specialist storage rooms were set up at each of our hospitals, to store the waste before final disposal. To prevent human and environmental harm, our clinics collect and dispose of medical and biological waste through an outsourced service specialising in medical waste disposal. For waste collection, we use plastic bags that have sufficient strength and are secured with staples to safely retain waste. Also, we do not fill more than two-thirds of the bags' capacity. Further, steam sterilisation is used to decontaminate biological and bio hazardous waste, including blood. All used 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 of waste is 24 hours.

We continuously strive to minimise GHG's environmental impacts. The damaging effect of plastic on the environment is becoming increasingly well known. In 2017, the Group's pharma business replaced plastic bags with eco-friendly canvas bags and put in place a reward system for our pharmacies' customers to encourage them to use the canvas bags. In addition to canvas bags, Pharmadepot reluctantly uses paper bags as well. To reduce the use of paper bags, Pharmadepot has launched the following campaign – customers who return five branded paper bags get a discount on their next purchase. The returned bags are recycled to save materials and to lessen our impact on the environment.

We introduced eco batteries at our pharmacies that are 100% safe for standard recycling. This is a totally exclusive and novelty product in the Georgian market. Selling eco batteries once again emphasises our company's responsibility for and approach to environmental matters.

To ensure reliability of our contractors, we examine their certificates and monthly reporting and impose penalties if necessary. In total, our hospitals generated 913 tons of medical waste in 2017.

Greenhouse gas emissions management

To light our hospitals' premises and run the necessary medical equipment, we annually consume thousands of kilowatts of electricity. The electricity usage accounts for approximately half of our total greenhouse gas generation. To reduce our negative impact, we have implemented a number of energy-saving solutions, such as installation of LED lights and energy-efficient equipment. We are also considering alternative methods to minimise our carbon footprint. We are improving heat insulation in a number of our hospitals. Despite this, there was still an increase of Scope 2 emissions in 2017 mainly due to electricity consumption by the Group's new medical facilities that were acquired and/or opened during 2017.

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 vehicles are more fuel-efficient and emit less gas.

Further steps

We are planning to implement a number of initiatives in the coming years to improve both our impact on the environment and our operating efficiency.

GHG emissions calculation methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and additionally reported on some emissions under Scope 3. These sources fall within our consolidated financial statements. We 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 Protocol ("GHG"): A Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion.

Factors for Company Reporting 2017

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.

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

- combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites; and
- combustion of petrol and diesel in owned vehicles (cars and buses).

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- electricity spent at owned and controlled sites; to calculate the emissions we used the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's GHG Conversion Factors for Company Reporting 2017; and
- used heat and steam.

Scope 3 includes emissions from:

- air business travel (short haul and long haul); information on class of travel is unavailable, hence we used an "average passenger" conversion factor; and
- ground transport, including taxis, coaches and cars hired.

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

The data are provided by on-site delegates, invoices and meter readings for 2017.

Tonnes of CO_2e	2015	2016	2017
Scope 1 (emissions from combustion of fuels in stationary equipment and in owned vehicles)	4,517	6,517	7,993
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	8,093	10,302	15,124
Scope 3 (emissions from air travel and land transport)	2,385	3,621	4,795
Total GHG emissions	**14,996**	**20,440**	**27,912**
Per FTE	**1.55**	**1.59**	**1.85**

Resources and responsibilities continued

Employee matters

Each of our employees plays his/her role in the delivery of quality healthcare services and is an integral part of the Group's success. As we expand our healthcare operations, our headcount is growing accordingly. In 2017, the number of our employees increased by more than 2,200, bringing our total number of employees to 15,078 people, and making us the largest private healthcare employer in Georgia. In view of the scale of our operations across Georgia, and in view of our role as a significant national employer, we aspire to be an employer of choice and to recognise our responsibilities to ensure that our employment policies are in line with good market practice.

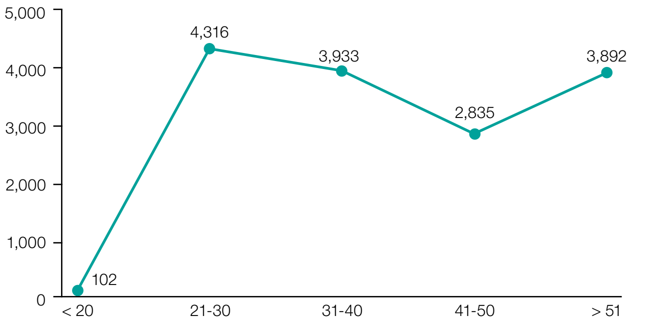
In order to satisfy the needs of our business, our first priority is to attract, retain and develop the best qualified professionals. In order to manage the healthcare services business workforce efficiently, we purchased five modules to use in our Human Resources ("HR") core processes: Human Resources Management System ("HRMS") data management, recruitment management, training management, self-service portal and payroll management. These applications are tailored to GHG HR policy and procedural needs. In 2017 we completed the process of implementation of HRMS and payroll application. The software will significantly increase automation and optimisation of the workflow of many of our HR-related organisational procedures, including employee data administration, recruitment data processing and statistical and analytical reporting.

Equally, our pharma business is developing its existing software to meet the Group's HR needs, as they arise, and address them efficiently.

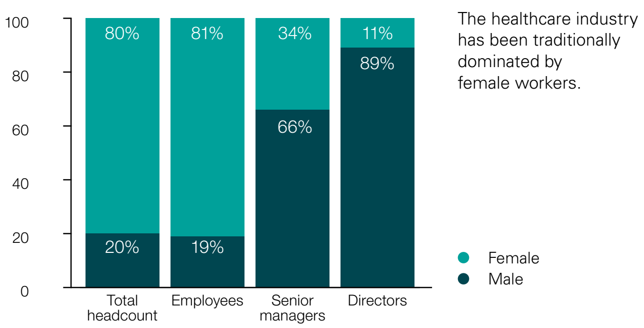
We are committed to employee engagement. We believe that communication and awareness is key, and to that end we strive to provide our employees with a continuous flow of information, which includes but is not limited to information about our corporate culture, the Group's strategy and performance, risks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

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

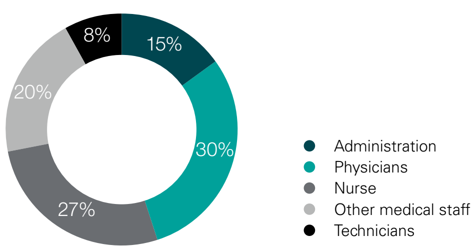
Total headcount of the Group broken down by age (as of 31 December 2017)



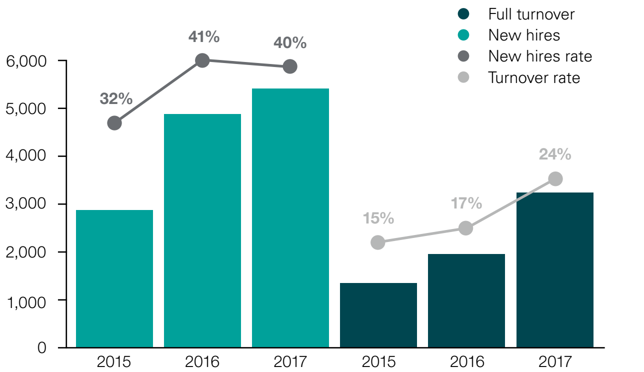
Gender distribution of the Group per employee category (% as of 31 December 2017)



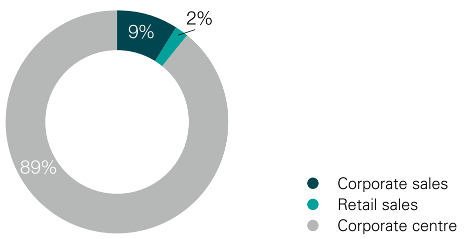
Headcount of Evex broken down by employee category (% as of 31 December 2017)



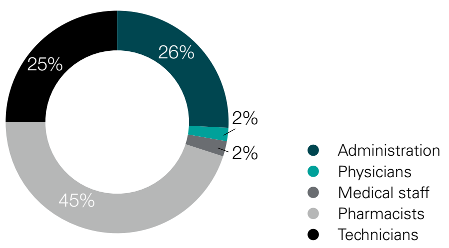
Total number and rate of the Group's new employee hires and employee turnover (%)



Headcount of Imedi L broken down by employee category
(% as of 31 December 2017)



Headcount of GEPHA broken down by employee category
(% as of 31 December 2017)



Total headcount per employee category broken down by gender as of 31 December 2016 and 31 December 2017

2016

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

2017

	Directors	Senior managers	Employees	Total
Female	1	31	12,075	12,107
Male	8	60	2,903	2,971
Total	9	91	14,978	15,078

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

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

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

Job fairs
Job fairs are one of the most effective tools for attracting young talent. In 2017, our healthcare services business participated in nine job fairs organised by our HR consultancy companies and leading universities in Tbilisi and other regions of Georgia. As for attracting medical students, in 2017, the HR department organised meetings with students in leading medical universities and nursing colleges in Tbilisi and other regions. Our healthcare services business attracted more than 300 students from universities and colleges to its nursing course as a result of these job fairs.

Memoranda of Understanding with universities
Medical educational institutions continue to be our main resource of emerging talent. Both the healthcare services business and its own learning centre ("the Evex Learning Centre") established partnerships and signed Memoranda of Understanding ("MoUs") with various nursing colleges and universities. We provided them with our clinical sites for various educational purposes, including basic on-the-job education, training programmes and affiliated residency programmes. For instance, in 2017, the Evex Learning Centre conducted six-month free nursing courses for 278 students from nursing colleges. As mentioned above, 72 graduates who achieved appropriate scores were offered jobs at our healthcare services facilities.

In 2017 a special memorandum was signed with "Panatsea", the biggest nursing college in Tbilisi. According to the agreement between our healthcare services business and Panatsea, we offer them our medical facilities for pre-graduation training of students. All college students will undergo a one-and-a-half-year practical training at our hospitals. The top five students will get a grant from Evex.

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

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

Resources and responsibilities continued

Employee matters continued

GHG leadership programme

In 2016 we launched the GHG leadership programme. The programme is long-term and its goal is to develop capacity and talent of our middle management, by improving their managerial and leadership skills. 150 managers from the Group will participate in the five-month management course during 2017-2018, which is designed by Bank of Georgia University, one of the top universities of Georgia.

Further development of the course includes building leadership competencies such as coaching, effective performance feedback, and self-awareness.

Training and development

We invest in various professional educational opportunities – mostly for our nurses and physicians in the healthcare services business and pharmacists in the pharma business. In 2017 our healthcare services business spent about GEL 2 million on training and development. Most of the expenditures went to nurse training, ER specialists' training and advancement of specialists in various medical fields.

We are proud to have our own Evex Learning Centre, the only centre in Georgia offering continuous medical education. Apart from modern training methods, the centre offers up-to-date equipment, auditoria, computer labs and other facilities that conform to the highest international standards. Our learning centre independently develops and runs a variety of Continuing Professional Development Programmes ("CPDs"). Most of the CPDs consist of medical training for physicians and nurses, although some non-medical staff, such as hospital administrators and registry employees, also participated. We are proud to report that in 2017 the Evex Learning Centre trained a total of 2,046 nurse participants, 1,510 physician participants and 1,508 administrative employees.

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

Our pharma business employee development process is led by 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).

Residency

In line with our strategy to develop a new generation of doctors in Georgia, we launched a postgraduate educational residency programme in a number of fields in 2015. These programmes ensure development of qualified specialists in the areas where we have lacked physicians. The programmes have proved to be popular. Currently, we have 112 talented residents involved in 20 specialties; 12 of them have received a 100% grant and 22 an 80% grant, while 37 residents have obtained student loans. In order to retain successful residents within GHG, those who have grants or student loans are required after graduation to work at GHG healthcare facilities for at least three years.

Partnerships

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

Currently 50 student nurses are enrolled in the study course at Tvildiani College with the most recent curricula and standards. They all have a three-year employment agreement with our hospitals and in the meantime undergo one-and-a-half-year-long on-the-job training at our medical facilities.

Incentive plans for employees

The healthcare services business has implemented a performance management system and pay-for-performance culture. At the beginning of each year all business units plan collective and individual goals that are aligned with annual Key Business Objectives ("KBOs"). Our employees undergo annual or 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.

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

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

Healthcare Services Business ("Evex")

Type of benefit	Number of participants in 2017	Total market value of the benefit (GEL)
Pension plan	50	–
Malpractice insurance	1,326	70,765
Medical insurance	8,288	452,415
Employee fund	2,900	143,491
New child benefit	12	7,500

Medical Insurance Business ("Imedi L")

Type of benefit	Number of participants in 2017	Total market value of the benefit (GEL)
Medical insurance	502	158,738
Getting married	6	3,750
New child benefit	21	13,125
Death in the family	6	3,750

Pharma Business ("GEPHA")

Type of benefit	Number of participants in 2017	Total market value of the benefit (GEL)
New child benefit	218	60,987
Parents benefit (for children under 16 years)	1,635	266,726
Medical insurance	2,640	367,364
Providing food for employees	587	193,133
Overtime	2,472	247,453

Nurses who successfully graduate from our internal nursing standards training are awarded with increased pay for one year, until their next annual review.

We pay due attention to employee engagement and satisfaction. In 2016 the healthcare services business established a new Corporate Culture Development Division to support our corporate culture and values by means of non-monetary rewards, employee surveys and team-building events.

Staff bonuses are paid on a monthly/quarterly basis, according to sales plans of the pharma business. Every employee participating in sales in any way is included in a financial incentive programme to some extent, depending on the employee's position and responsibilities. Technical staff do not receive any bonuses. In addition to those mentioned above, other types of incentives for employees include gifts, one-time premiums, thank-you letters and certificates. To motivate the employees in the pharma business we may authorise payment of an annual, quarterly, monthly and one-time additional bonus. Additionally, front line staff are annually awarded with "thank-you" certificates in categories such as Best Service and Best Consultant. The best employees may be sent for a weekend trip abroad. GPC and Pharmadepot employees' assessment methods include a categorisation examination for front staff (pharmacists, consultants and pharmacy managers), a manager assessment with a special questionnaire and structured interview enabling the employer to evaluate the employee's overall performance and competencies as well as KPI fulfilment, based on both quantitative and qualitative criteria. This takes place annually for the front-line staff, while pharmacy managers are appraised once every two years.

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 contribute to society across all of our business activities by developing socially oriented services, implementing responsible approaches to our business operations and carrying out sponsorship and charitable activities. In doing 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 Georgia's population by region and makes every effort to promote the healthy living and wellbeing of local communities. We use our medical expertise in our social initiatives to focus primarily on providing pro bono medical assistance, developing medical infrastructure and improving the health awareness of the Georgian population.

In 2017 the healthcare services business increased its financing of existing sponsorship projects. As a result, the Group's total sponsorship and charitable spending grew to GEL 2.2 million.

Free medical services

in January 2017 the first children's hospice, Firefly World, was launched in Tbilisi, Georgia. The children's hospice is a family-type facility that provides palliative care for children and adolescents with chronic and incurable illnesses, trying to improve the quality of lives of terminally ill children. The hospice provides three basic services:

- 24-hour service for ten children and their parents at any one time;
- daytime centre, where children and their parents can stay throughout the day to receive the necessary services; and
- home care service.

The children's hospice is specifically designed for children and adolescents who are not expected to reach adulthood due to incurable diseases. The basic concept of a children's hospice is to create a friendly and comfortable atmosphere, where, in addition to caring personnel, great importance is attached to the environment and the interior. Palliative care plays a crucial role for the terminally ill children and their families. The hospice team helps with pain management and other symptoms and provides psychological, social and spiritual support.

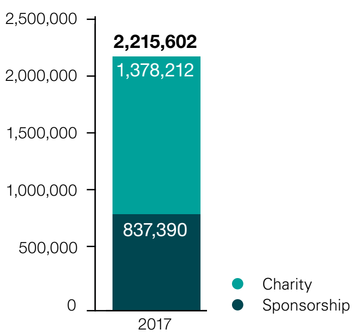
Construction of the children's hospice was launched in February 2016 driven by the Open Society Georgia Foundation, with initial funding from GHG's healthcare services business and with the support of the Georgian President's fund. Since then hundreds of donors, among them ordinary citizens and business companies, expressed readiness to support the hospice. Over GEL 1 million was raised during one year to build the hospice.

Firefly World meets the standards of the world's best hospices, with professional and attentive personnel, the environment and interior, all of which are paramount in children's life in the hospice.

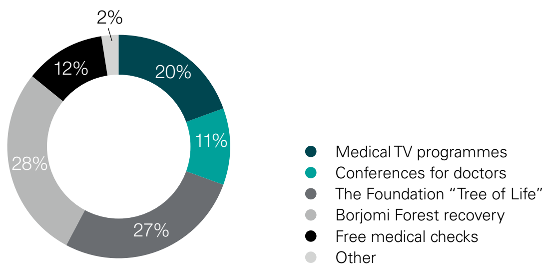
Children's Oncology Programme

The Group traditionally participates in the state Children's Oncology Programme, under which we offer oncology treatment for children with different oncology disorders (leukaemia, tumours, and lymphomas) in our Iashvili Paediatric Tertiary Referral Hospital ("Iashvili"), a multi-profile paediatric medical establishment. In 2017, after significant reconstruction works were completed, we have opened an onco-haematological department at Iashvili with 30 renovated and 14 new beds. The department is equipped with the latest medical equipment and enables us to receive paediatric patients with solid tumours. The new infrastructure at the hospital allows us to maximise the accuracy of the first diagnoses and improve the quality of treatment for the children diagnosed with cancer. The renovated area also includes a teaching room, a play room and a room for physiological assistance. Our clinic is a unique provider of paediatric oncology services in Georgia for which about GEL 2 million is subsidised annually.

Total sponsorship and charitable expenditure of the Group, 2017 (GEL)



The Group's sponsorship and charitable expenditure distribution, 2017 (%)



Resources and responsibilities continued

Social matters continued

Free medical check-ups

In the mountainous and border regions of the country, as well as in Tbilisi and other cities, the company regularly carries out free medical examinations and consultations in high-risk nosology. More than 7,000 patients received free medical examination and treatment from our healthcare services business between 2015 and 2017.

Hepatitis C Programme

According to WHO in Georgia, about 150,000 people, or 1 in 20, were affected by hepatitis C in 2015. We understand the importance of early diagnosis of hepatitis C and decided to support the country towards the goal of eliminating hepatitis C as a public health threat. We engaged in the State hepatitis C elimination programme and set up 32 screening cabinets at our pharmacies. The hepatitis C screening was provided free of charge and in order to further encourage the screening process, we offered different incentives (vouchers, gifts) to people to participate in the programme. In total we managed to screen more than 30,000 people around the country.

Parents' School

We have set up Parents' School at Iashvili hospital, where once a week the leading paediatricians in the hospital conduct online lessons and trainings for parents on various medical cases. The aim of the project is to raise awareness among parents about specific diseases and medical conditions that need urgent attention. In 2016 meetings with parents were held at Iashvili hospital; however, since 2017, due to increasing demand, the lessons are also transmitted online on social media, where parents can ask questions and get relevant advice immediately.

Office Without Tobacco

In 2017 the healthcare services business launched a new campaign, Office Without Tobacco, 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 who wish 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.

Supporting a healthy environment

Maintenance of the Natural and Cultural Heritage of the Caucasus

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 2017 GHG donated GEL 52,800 to support the project.

Mziuri Park

In 2016 our pharma business co-founded the New Mziuri Park project. The purpose of the project is to renovate the public park popular with Tbilisi locals that was ravaged by the June 2015 flood in Georgia's capital. Mziuri is the only park in Tbilisi completely adapted for use by people with disabilities. It is a popular place for simply relaxing or organising social projects and festivals.

Supporting healthy lifestyle

In 2017, as part of its social responsibility, GHG was a partner and a sponsor of several sports events and tournaments:

- the 16th UEFA European Under 19 Championship – our healthcare services business supported the championship by providing medical assistance during the games and placing ambulance cars near the field. Our doctors provided primary medical care for players in case of need;
- the World Rugby Under 20 Championship – GHG provided free medical check-ups for the participants in Tbilisi in 2017;
- the TCR International Series – we sponsored a truly historical event for local motorsport fans;
- World Stars for Georgia – GHG sponsored the charity match "World Stars for Georgia" held on 29 September 2017. The charity event was organised by the Georgian Football Federation to support rehabilitation of Borjomi forest, damaged during the wildfire in spring 2017; and
- Wings for Life World Run – each year GHG participates in Wings for Life World Run. We understand that every single person's participation counts, and it can help scientists find a cure for spinal cord injury.

Disaster recovery assistance

In August 2017 a massive wildfire raged in the Borjomi forest, a nature park that is an important tourist destination in Georgia. Borjomi is home to a number of unique types of trees. Some of them are in Georgia's list of endangered species. The fire damaged more than 10 hectares of this beautiful forestland. GHG has contributed GEL 500,000 to rehabilitate the damaged area and to help restore the remarkable nature of Borjomi.

In spring our pharma business is planning to purchase pine tree seedlings that will be planted in the damaged Borjomi forestland by GHG employees.

Raising Health Awareness

Sponsoring medical TV programmes is our way of raising health awareness and promoting healthcare practices, enabling us to reach a wide range of the Georgian population. We have three TV shows: The Doctors, Day Show, and Impulse, each of which show the relevant health expertise in a simple and clear manner on various health and wellness issues, such as screening programmes, allergies, cardiovascular disease, oncology, arthritis, and others. Sometimes celebrity interviews are conducted, or health news, healthy recipes and helpful tips are broadcast during the shows. In 2017 GEL 436,042 was spent on financing the above listed TV programmes.

Conferences for doctors

We believe that professional medical education is a cornerstone of healthcare quality in Georgia. For this reason, we make an effort to develop a healthy learning environment by financing international and local medical conferences. In 2017 we sponsored eight medical conferences (five international and three internal), which brought together medical scholars and healthcare practitioners from Europe, Asia, the USA and Georgia to share knowledge and experience that influence and shape healthcare delivery. Total financing to support the conferences amounted to GEL 243,277.

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 control procedures in place to provide equal opportunities and to prevent discrimination or harassment on any grounds, policy can be found on the Group's website: http://ghg.com.ge/uploads/files/GHG%20Code%20of%20Conduct%20and%20Ethics%202017%20pdf.pdf. Our HR Policy applies to all employment processes, including training and development.

Anti-Bribery and Anti-Corruption

The Group and its subsidiaries are committed to ethical business. 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 in 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 purposes; 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 active steps to ensure that all employees are aware of, and adhere to, the policy.

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.

This year the Group took decisive action under its Anti-Bribery and Anti-Corruption Policy, on a matter which did not have a material financial impact.

Group policies

Apart from our Anti-Bribery and Anti-Corruption Policy, the Group also has in place a Code of Conduct and Ethics, a Whistleblowing Policy and an Environmental and Social Policy. These relate to environmental matters, our employees, social matters and our respect for human rights. These policies can also be found on the Group's website: http://ghg.com.ge/policies.

In 2017, our newly developed Risk Management Department implemented due diligence processes with regards to components of environmental and social policy.

Quality matters

Ensuring a high quality of medical care is essential for Georgia Healthcare Group. Changes to our management team and the new business strategy initiated a number of fundamental changes to the way we approach the quality of our services. In 2017 the Group launched a new risk management unit, which operates in cooperation with the quality management unit. Overall, clinical risks are assessed regularly. We are striving to build an effective model of quality management based on patients' preferences, evidence-based medicine and scientific methodology. We also constantly collaborate with international healthcare organisations and local medical schools to discuss and define the most up-to-date healthcare quality principles.

Quality management

In 2015 we created a Quality Management Programme that relies on modern approaches to quality matters in healthcare. The main goal of the programme is to form a new quality management framework based on methodical and comprehensive assessment of clinical practices.

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

Committees

We have defined the main functions of committees in respect of the Quality Management Programme:

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

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

Working units

Our working units are responsible for execution of defined quality management goals and objectives. They collect medical data in hospitals and carry out their own analysis for increased centralised reporting. Prior to 2015 there was only one single re-designed working unit responsible for all our hospitals' quality management and it only operated at the head office level. In 2015 we made it our goal to re-design the working units within each of our hospitals in order to allow us to focus on proper quality management at the local level. By the end of 2017, we had a total of 52 professionals in all our existing working units – five of them in our head office, 29 in regional referral hospitals and 18 in other hospitals.

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

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

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

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

Databases

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

Quality standards

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

Resources and responsibilities continued

The main objectives of our Quality Management Programme are to:

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

We create protocols and pathways centrally for our physicians and nurses based on the appropriate national and international guidelines. These protocols and pathways serve as a tool for standardisation of the basic processes related to our clinical activities. In order to track adoption and effectiveness of the adjusted processes, we perform selective clinical audits. In 2016 we conducted audits of the activities related to radiation safety (in 13 hospitals), TB prevention (in 13 hospitals), sterilisation (in four hospitals) and laundry (in two corporation units and one outsource facility), and audit of our APACHE scores in five of our hospitals. In 2017, we conducted audit of an APACHE scores in all our hospitals (excluding Iashvili Paediatric Tertiary Referral Hospital and Children's New Referral Hospital).

Infection control and prevention

Our healthcare facilities host a large number of people every day and it is essential to protect our patients, visitors and personnel from healthcare-associated infections. This area remains a priority and will be constantly monitored. An effective audit system in terms of infection control was introduced in 2017 and continue to operate in 2018 as well. The audit includes monitoring of infection prevention activities.

We enhance our patients' safety by integrating effective infection prevention and control measures in our everyday clinical practice. We conduct relevant training to equip our staff with hands-on experience and educate them in all new procedures and policies. This training has already been completed by ICUs' head nurses and IC nurses. Our infection control and prevention system is being improved in close cooperation with the US CDC.

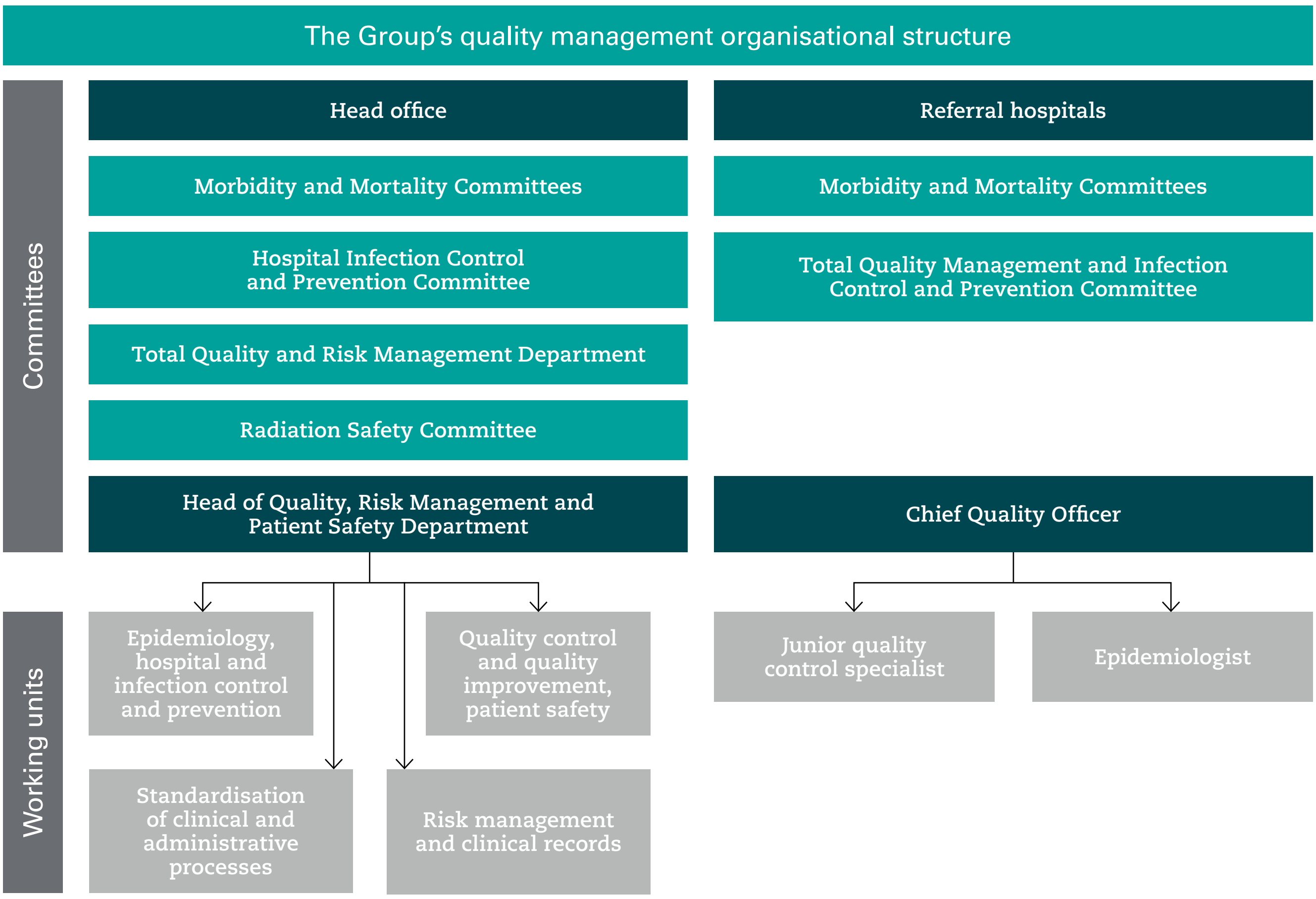
In 2017 a preventive antibiotic therapy protocol was developed for surgical services. Specific and general trainings regarding rational use of antibiotics will be conducted in 2018.

Independent medical case review process

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

In 2016 we designed a new medical case review process in our head office and five major regional referral hospitals. In 2017 a new medical case review process was implemented in regional and Tbilisi referral hospitals. In 2018 case review process will be focused on near-miss cases.

As part of this review process, we discuss recommendations for improvements with medical staff, and then we follow up on the improvement processes in our hospitals. We will keep this process throughout our network of hospitals and we also intend to organise our own training courses in near-miss review methodology.



Risk management

We are exposed to a variety of risks and uncertainties which could have a material adverse effect on our business, financial position, operational results and reputation as well as on the value of our shares. We recognise that the effective management of risk and a robust system of internal controls is critical to delivering our strategic objectives and protecting the interests of our shareholders.

Overview

We identify, evaluate, manage and monitor the risks that we face through an integrated control framework consisting of formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year ended 31 December 2017 and to the date of approval of this Annual Report and Accounts and is integrated into both our business planning and viability assessment processes.

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

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

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. We develop risk management strategies which address the full spectrum of risks that the Group faces. We are accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit Committee and Clinical Quality and Safety Committee assisting in the discharge of this responsibility. We also focus on the resolution of any internal control failures that may arise. No significant failures occurred during 2017 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. Through senior management, we ensure that our employees are given the appropriate training and knowledge to perform their roles in line with the framework we have developed.

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

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

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

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

Comprehensive reporting forms are 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.

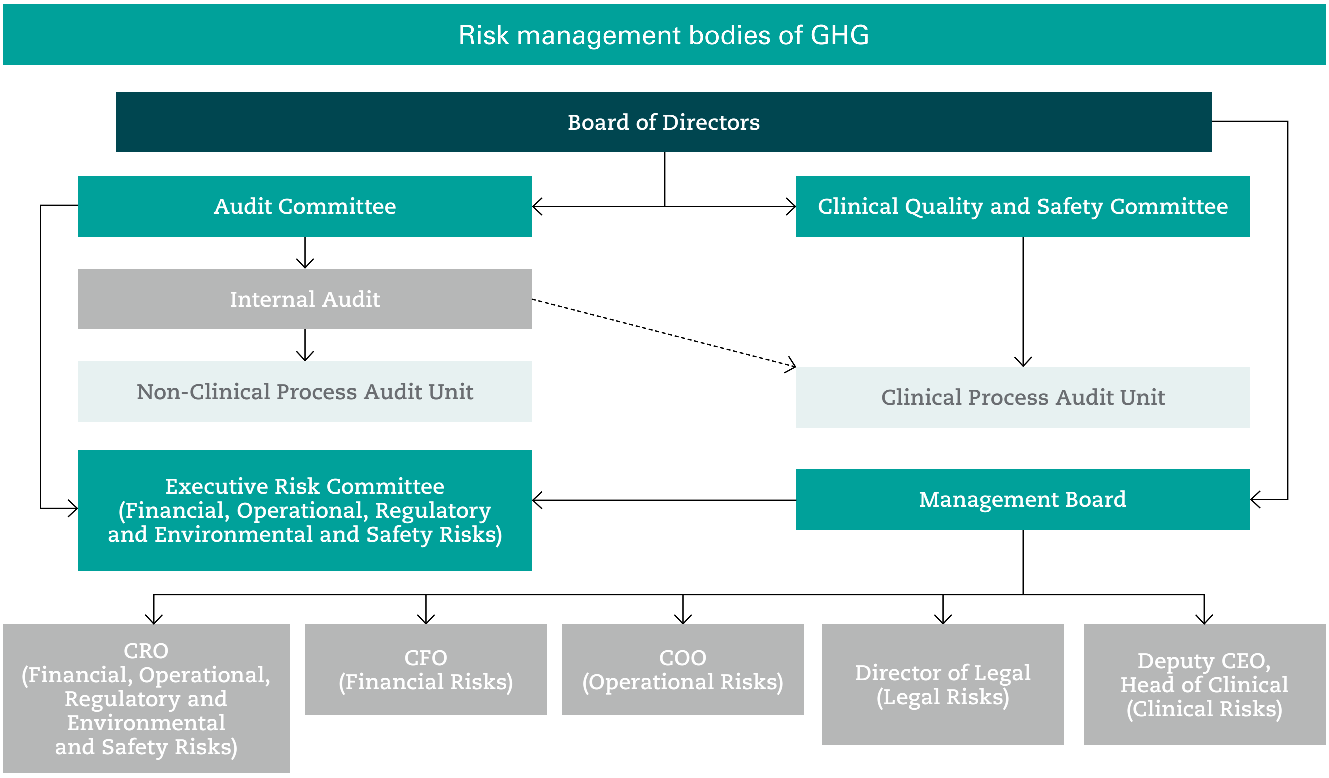
A description of these principal risks and uncertainties in addition to key drivers and trends as well as mitigation efforts can be found on pages 55 to 61.

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

Key elements of the Group's system of internal control which have operated in the year ended 31 December 2017 are:

- procedures for the assessment, approval, control and monitoring of major capital projects, including acquisitions and disposals such as the acquisition of the ABC pharmaceutical business;
- 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;

Risk management continued



- 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;
- the close involvement of the Executive Director (CEO) in all aspects of day-to-day operations, including regular meetings with senior management to review all operational aspects of the business and risk management systems;
- a structure of operational committees, including the Executive Risk Committee formed in September 2017, that have established various policies and which monitor the risk in the given operation;
- a Remuneration Policy for executives, which motivates them appropriately without encouraging excessive risk-taking (the Remuneration Policy can be found on pages 96 to 99);
- reviewing and monitoring the operation of the Whistleblowing Policy and procedures in place to allow staff to raise concerns on a confidential or anonymous basis about possible legal, regulatory, financial reporting or other improprieties;
- a Risk Event Database (RED) system, being implemented since October 2017 and formally approved in December 2017, which will collect and consolidate both actual and possible risk events across the Group and will enable 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; and
- updates, on a monthly basis, to the Management Board in relation to the Group's financial risk profile, policies, limits and ratios by the Chief Financial Officer.

Internal control

Board and Board Committees

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, operational and compliance risk issues. Certain matters, such as the approval of the long-term objectives and strategy, the annual operating and capital expenditure budgets and significant acquisitions or disposals, among others, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website, at http://ghg.com.ge/uploads/files/schedule-of-matters-reserved-for-the-board-81.pdf.

With respect to other matters, as above, the Board is often assisted by the Audit Committee and Clinical Quality and Safety Committee.

The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Group's risk management strategy related to the Group's internal financial controls and internal control and risk management system, control weaknesses, fraud or misconduct, IT, cyber security, compliance, corporate security and similar areas of operational risk. The Audit Committee facilitates the activities of the internal 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. Interaction is at least quarterly; 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.

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

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

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

Clinical Risk Reporting and Clinical Process Audit Unit
The Clinical Process Audit Unit reviews areas of non-financial risk pursuant to a programme approved by the Clinical Quality and Safety Committee. The Head of Clinical Process Audit Unit has a direct reporting line to the Chairman of the Clinical Quality and Safety Committee. Just as the internal 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.

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 preliminary defined quality and safety goals. The Clinical Department also identifies what is the 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, formed in 2017.

Executive Risk Committee and Risk Department
The Executive Risk Committee was established in September 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 in case of need.

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.

A centralised Risk Department was also established in 2017 to better coordinate the management of risks within the Group. 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.

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 to report concerns on an anonymous basis using a 24-hour hotline. The Audit Committee approves the Whistleblowing Policy on an annual basis and receives reports from the Chief Risk Officer on any significant issues raised.

Effectiveness review
Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit Committee and Clinical Quality and Safety Committee. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year ended 31 December 2017 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.

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 81 to 84 and pages 85 to 87, respectively.

Risk management continued

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 67. 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 67. 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 76.0% and 38.6% in 2017. All of the Group's strategies across all business lines are threaded by a 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 2018, 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 consider 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 67;
- the Group's principal risks and uncertainties, as set out on pages 55 to 61;
- 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%; b) extension of an average state receivables collection cycle from the current five months to seven months; c) increase of supplier prices by 5%, as a result of the exchange rate pressures on imported goods; d) a sudden deterioration of the receivables credit risk by 200 bps; e) depreciation of Lari by 20%; f) instant growth of total insurance claims by 15%; and g) in the last scenario, all of the previous stress scenarios happening all together. The stress test scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed funding. The 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 opposite 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 2018 to 31 December 2020.

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 material controls which have been put in place to mitigate the principal risks, and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board, Audit or Clinical Quality and Safety Committee meetings.

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

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Integration of new businesses		
The Group has grown in size, and added sectors, through acquisitions including its pharmaceutical businesses. The Group may face challenges in integrating its new businesses into the existing Group. Challenges could include, but are not limited to, the full integration of IT systems, a lack of human resources and failure to achieve expected synergies. **Impact** Failure to integrate successfully would adversely affect anticipated synergies, our strategy, projected growth and revenues.	In May 2016 and January 2017, the Group completed the acquisitions of JSC GPC and JSC ABC Pharmacia (brand name Pharmadepot) respectively, adding new business lines of pharmaceutical retail and wholesale chains. The merger of GPC and Pharmadepot into a single company and single operating unit named JSC GEPHA started in January 2017.	Integration of the pharma business was successfully completed in 2017 by a team of highly skilled and experienced professionals, having carried out over 30 integrations and acquisitions in the last seven years. Key personnel and management from GPC and ABC Pharmacia have joined the Company to ensure business continuity. These include GPC's CEO and ABC Pharmacia's CEO and COO.

Principal risks and uncertainties continued

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 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.	Changes to the UHC were introduced in 2017, further explained on page 63. 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. The Group is involved in contractual and other disputes and litigation. Our healthcare service business includes a network of different hospitals and a nationwide chain of polyclinics, each of which must comply with extensive documentation requirements and documentation maintenance requirements. Regulatory authorities (the Social Services Agency and the State agency for supervision of medical activities) conduct periodic inspections of Group clinics in order to determine compliance with relevant regulatory requirements.	Engaging in constructive dialogue with regulatory and Governmental bodies, where possible, and seeking external advice on potential changes to legislation. The Group has policies, procedures and controls to fulfil our compliance obligations, for example, Infection Control Management, Quality Management, Sentinel Event Management and Waste Management. The Group's Legal Department is involved in every material contract and advises on contractual disputes and litigation. The Tax Unit of the Finance Department follows changes in tax legislation and initiatives, checks compliance with rules and is involved in significant contracts. The Company has extensive process management systems in place to ensure that all documentation is carried out to a consistent standard and in compliance with Georgian regulatory requirements. Regular audits are carried out internally by a team of experienced practitioners and a quality control unit. Their programme and audit results are reviewed by the Clinical Quality and Safety Committee every quarter. Outcomes and changes to process are circulated throughout the Group. Our recently formed Regulatory Risks Unit is tasked to 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 the inspections carried out by the unit as well as by the Regulatory Authorities from 2012 to 2017, and prepare a detailed amendment action plan for each individual clinic in order to mitigate risk of future non-compliance.

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 2016 and 2017 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 continue to expand our nurse college, residency programme and 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. See pages 30 to 31 for more details.

Talent and training development programmes to enhance the skills of our highly experienced specialist doctors and nurses as well as 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 and 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 risks and uncertainties continued

Principal Risk/Uncertainty

Clinical Risk

An epidemic or outbreak of infectious and communicable disease at any of our facilities could adversely affect our business, in common with other healthcare facilities worldwide.

If our hospitals fail to accurately or timely diagnose, or to comply with internationally recognised clinical care and quality standards and protocols for infection and communicable disease control and prevention, previously healthy or uninfected people may contract and spread serious communicable diseases. Failures in antibiotic stewardship or neglecting to follow waste disposal or other clinical protocols could also have social and environmental impacts.

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 infectious and communicable diseases could result in:

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

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

Key Drivers/Trends

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

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.

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

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

Mitigation

We continue to prioritise and enhance our infection control and prevention programme.

In 2017 we have been implementing further protocols on containment of hospital acquired infection and communicable diseases.

Special interactive multidisciplinary groups are responsible for overseeing the infection prevention activities in the medical facilities. The infection control risk assessment process is implemented. Further quality control measures have been implemented in high-risk areas (critical care units), and data is tracked monthly in referral and Tbilisi hospitals.

The programme of initiatives on infection and disease control and prevention expanded further in 2017 to increase support units in our facilities and training throughout our network.

We also continue to work closely with the US Centers 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 the Group's clinical services and performance, internal governance and controls as well as compliance.

The Group follows strict procedures, adhering to regulations and best practice, including its Environmental and Social Policy, in relation to the proper handling of waste and its safe disposal.

The Group an the equipment maintenance and monitoring programme in place, which puts considerable emphasis on activities required for proper functioning of high-tech medical equipment. The Group also constantly works to improve the programme and implement new and more effective approaches to medical equipment maintenance.

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.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation

Concentration of Revenue

Principal Risk/Uncertainty

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

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

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

Key Drivers/Trends

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

Mitigation

Changes to the UHC introduced in 2017 resulted in a slight decrease in the number of programme beneficiaries. Nevertheless, the UHC remains a significant priority for the Government. Government expenditure on healthcare in 2018 is budgeted at GEL 1,056 million, which represents an 8% increase from 2017 and 8.5% of the approved state budget for 2018.

The Group monitors the macroeconomic environment in Georgia and budgetary performance of the state to assess the forecasted future cash flows from the State.

The Group has diversified its portfolio by the addition of pharmaceutical, retail and wholesale business lines.

The Group actively seeks to increase its share in the outpatient and planned medical services markets and thus reduce its dependence on the state insurance programme.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation

Currency and Macroeconomic

Principal Risk/Uncertainty

The Group is exposed to foreign currency risk, as a significant proportion of the medical equipment and pharmaceuticals we purchase is denominated in 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 Dollar and/or Euro and/or negative macroeconomic developments may have an adverse effect on our business including putting adverse pressure on our business model, revenues, financial position and cash flows.

Key Drivers/Trends

As the Group's operations continue to expand, the demand for medical equipment and pharmaceuticals will increase, which in turn will likely lead to an increase in foreign-currency-denominated expenses.

In 2017, the Lari appreciated in value by 2.1% against the Dollar and depreciated by 11.1% against the Euro.

Despite eventual appreciation of the Lari against the Dollar, there have been significant fluctuations in foreign currency exchange rates during 2017. The inflation rate has increased to 6.7% in December 2017 from 1.8% last year.

On the other hand, real GDP growth in Georgia increased to estimated 4.8% in 2017 from a modest 2.8% growth in 2016 and 2.9% in 2015, according to Geostat.

Mitigation

The Group actively monitors 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 the first half of 2017, the Group limited its foreign currency exposure by drawing down most of its remaining loan facilities from Development Financial Institutions in Lari instead of Dollars. The Group remains focused on increasing local currency borrowings and successfully placed GEL denominated bonds worth GEL 90 million in July.

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. In the event the Group experiences an information technology failure, important and confidential information may be lost. Software or network disruption may cause the Group to experience lost revenue, failed customer transactions or non-timely submission of mandatory or other reports. Non-recurring operational risks include incurring loss or unexpected expenses from system failure, human error, fraud or other unexpected events. **Impact** Any of the above could lead to disruption to our business and operations, affect patient and customer loyalty, and 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 recently acquired pharmaceutical business.	In 2017, the Group 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 2017–2018. The Group is currently implementing GHG consolidated and centralised IT infrastructure (hardware and network) that will further enhance the Group's overall information and cyber security level. We are also outsourcing part of the cyber security function to an independent and very experienced international company, which will be helping the Group to run analytical tools and observations, draw conclusions, and propose improvement actions. Internal Audit conducts regular reviews of IT controls such as the policies for information storage, availability and access, while updating its assessment of risks and recommendations. Internal Audit reports to the Audit Committee on its findings. The Group continues to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks.

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, and its revenue is sourced from, Georgia. The Georgian economy is dependent on economies of the region, 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 may intensify 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, as despite Russia repealing other sanctions on Turkey in March 2017, certain sanctions and legal limitations on Turkish nationals remain. In April 2017, amendments to the Turkish constitution were approved by voters in a referendum. The amendments, which grant the president wider powers, are expected to transform Turkey's system of government away from a parliamentary system. The implementation of the proposed amendments could have a negative impact on political stability in Turkey, which is already tense after a failed coup against the president in July 2016.

Conflict remains unabated between Azerbaijan and Armenia.

The Group actively monitors risks related to regional tensions and political instability and develops responsive strategies and action plans.

Despite tensions in the breakaway territories, Russia has continued to open its market to Georgian exports since 2013. 2017 saw increased demand for goods and services originating in Georgia from most of its regional trading partners. Georgian tourism sector increasingly benefits from growing Russian arrivals, with Georgia being re-discovered by Russia as well as other visitors from regional countries. Moreover, Georgia has benefited from increased exports earnings from non-traditional markets such as China, which was the fifth largest consumer of Georgia's exports in 2017.

In April 2017, the IMF approved a new three-year US$285 million economic programme, aimed at preserving macroeconomic and financial stability and addressing structural weaknesses in the Georgian economy to support higher and inclusive growth.

Georgia continued to deliver positive results in 2017. Real GDP growth increased to estimated 4.8% in 2017 compared to 2.8% in 2016 and 2.9% in 2015. Resilience of the economy has been acknowledged by a one-notch sovereign credit rating upgrade from Moody's as well as record high reinvestment by foreign companies in 2017. Tourist arrivals, a significant driver of Dollar inflows for the country, continued to increase. The Georgian Government boosted capital expenditure while the fiscal deficit reduced to 2.9% in 2017 under IMF supported programme.

Business review – overview of financial results

Discussion of Group results

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	FY17	FY16	Change, Y-o-Y
Revenue, gross	**747,750**	**426,439**	**75.3%**
Corrections & rebates	(2,039)	(2,686)	-24.1%
Revenue, net	**745,711**	**423,753**	**76.0%**
Revenue from healthcare services	263,357	243,453	8.2%
Revenue from pharma	450,315	133,002	238.6%
Net insurance premiums earned	53,710	61,494	-12.7%
Eliminations	(21,671)	(14,196)	52.7%
Costs of services	**(517,712)**	**(277,735)**	**86.4%**
Cost of healthcare services	(150,572)	(130,369)	15.5%
Cost of pharma	(340,210)	(105,472)	222.6%
Cost of insurance services	(48,583)	(55,772)	-12.9%
Eliminations	21,653	13,878	56.0%
Gross profit	**227,999**	**146,018**	**56.1%**
Salaries and other employee benefits	(75,430)	(39,750)	89.8%
General and administrative expenses	(48,618)	(26,149)	85.9%
Impairment of receivables	(4,175)	(2,332)	79.0%
Other operating income	8,372	240	NMF
EBITDA	**108,148**	**78,027**	**38.6%**
Depreciation and amortisation	(25,704)	(19,577)	31.3%
Net interest expense	(30,941)	(13,736)	125.3%
Net gains/(losses) from foreign currencies	(397)	(5,657)	NMF
Net non-recurring income/(expense)	(4,780)	1,118	NMF
Profit before income tax expense	**46,326**	**40,175**	**15.3%**
Income tax benefit/(expense)	(386)	21,156	NMF
of which: Deferred tax adjustments	–	23,992	NMF
Profit for the period	**45,940**	**61,331**	**-25.1%**
Attributable to:			
– shareholders of the Company	29,050	50,203	-42.1%
– non-controlling interests	16,890	11,128	51.8%
of which: Deferred tax adjustments	–	4,541	NMF

Revenue

We delivered revenue of GEL 747.8 million in 2017 (up 75.3% y-o-y). The y-o-y revenue growth was mainly attributable to the pharma acquisitions, with GPC consolidated from May 2016 and Pharmadepot consolidated from January 2017. The primary driver of organic growth is our healthcare business, up 7% organically in 2017.

Delivering on our strategy to diversify Group revenue. In the full year 2017, we achieved a well-diversified revenue mix at GHG, tapping all three segments of the Georgian healthcare ecosystem. 59% of our revenues came from the pharma business, 34% came from the healthcare services business, and the remaining 7% came from the medical insurance business. This translated into the Group's revenue being well-diversified by payment sources with total Group revenue from out-of-pocket payments now standing at 54%[1] in 2017, with only 24% from the Government (UHC) and 22% from other sources.

Gross profit

We delivered gross profit of GEL 228.0 million in 2017 (up 56.1% y-o-y). In 2017 the pharma business gross margin increased by 380 bps y-o-y. This was mainly as a result of realising previously announced procurement synergies as the largest purchaser of pharmaceuticals in Georgia. The successful implementation of new initiatives our medical insurance business started from the second quarter of 2017, to adapt to changes in the Government's Universal Healthcare Programme by adjusting contract pricing with existing clients and terminating certain loss-making contracts, resulted the loss ratio to remain almost at the same level as in 2016. As expected, in 2017 our healthcare services business margins were affected, and temporarily subdued, by significant launches of healthcare facilities and services, which are currently in their initial roll-out phase. In 2018 our main goal will be the continued successful roll-out of newly launched hospitals and services while, at the same time, focusing on implementing efficiency measures across our healthcare facilities, as well as Group-wide.

EBITDA

We reported EBITDA of GEL 108.1 million in 2017 (up 38.6% y-o-y). The healthcare services business was the main contributor to the Group's 2017 EBITDA, contributing 65% in total, with a 26.4% EBITDA margin. The next largest contributor was the pharma business with 36% contribution, while posting an 8.6% EBITDA margin, which exceeded our target of more than 8%. In 2017 our medical insurance business posted negative EBITDA of GEL 0.4 million, compared to the negative EBITDA posted in 2016, GEL 2.0 million.

Depreciation and amortisation. The 31.3% growth in depreciation and amortisation expense reflects the Group completing its heavy investment phase, as well as the consolidation of the pharma businesses.

1 Includes: healthcare services out-of-pocket revenue, pharma and medical insurance businesses revenue from retail

Financing costs. The y-o-y increase in net interest expense relates to the lower borrowings base in 2016. In 2016, the Group used its IPO proceeds to repay expensive local banks' debt, subsequently realising significant savings in interest expense throughout 2016. From the second half of 2016 and in the first quarter of 2017 the Group sourced longer-term and less expensive funding to finance acquisitions and planned capital expenditure to launch new healthcare facilities. In 2017, we also recognised interest expense of GEL 1.8 million on the mark to market of the Pharmadepot put option, which is a non-cash expense.

Profit

Our profit totalled GEL 45.9 million in 2017 (up 16.1% y-o-y on a normalised basis[1]). The healthcare services business was the main driver of the 2017 Group profit, contributing GEL 27.4 million, followed by the pharma business contributing GEL 21.2 million.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	31 Dec 17	31 Dec 16	Change, Y-o-Y
Total assets, of which:	**1,167,800**	**915,357**	**27.6%**
Cash and bank deposits	63,608	47,115	35.0%
Receivables from healthcare services	100,944	81,927	23.2%
Receivables from sale of pharmaceuticals	19,798	4,925	302.0%
Insurance premiums receivable	20,233	24,207	-16.4%
Property and equipment	642,859	574,972	11.8%
Goodwill and other intangible assets	143,674	73,028	96.7%
Inventory	118,811	54,920	116.3%
Prepayments	30,354	30,803	-1.5%
Other assets	27,519	23,460	17.3%
Total liabilities, of which:	**619,400**	**373,325**	**65.9%**
Borrowed funds	360,503	223,581	61.2%
Accounts payable	92,925	64,367	44.4%
Insurance contract liabilities	20,953	26,787	-21.8%
Other liabilities	145,019	58,590	147.5%
Total shareholders' equity attributable to:	**548,400**	**542,032**	**1.2%**
Shareholders of the Company	483,684	485,888	-0.5%
Non-controlling interest	64,716	56,144	15.3%

- The 27.6% y-o-y growth in total assets reflects the significant investments in hospital renovations, polyclinic roll-outs and the consolidation of the two pharma business acquisitions.
- The decrease in both insurance premiums receivable and insurance contract liabilities balances, is attributable to the termination of certain loss-making contracts from the second half of the year.
- The significant increase y-o-y in both inventory and goodwill is mainly attributable to the consolidation of the acquired pharma business, Pharmadepot. The pharma business makes up a major part of inventory and goodwill – GEL 98.9 million and GEL 77.8 million of the respective totals in these assets at the end of 2017.
- Borrowed funds have increased y-o-y as a result of the drivers explained above.
- The y-o-y increase in accounts payable is also attributable to consolidating the pharma business. Out of the GEL 92.9 million accounts payable balance, GEL 63.4 million relates to the pharma business.
- Increase in other liabilities balance y-o-y is due the recognition of the put option liability of GEL 55.0 million (present value) for the remaining 33% of Pharmadepot shares. The recognition of the put option also resulted in reduction of equity by GEL 27.2 million.

Discussion of segment results

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

Discussion of Healthcare Services Business Results

Main operating performance highlights and notable developments, healthcare services business

New Government initiatives

- Effective from May 2017, the Government introduced a revised reimbursement mechanism relating to the provision of intensive care, reducing the UHC reimbursement of these services. The revised level of reimbursement has slightly suppressed our hospitals margins and per our estimate reduced revenues by approximately GEL 4 million in 2017.
- At the same time, the Government also adopted a new regulation which bases UHC coverage eligibility on the income level of citizens and introduced deductible amounts for planned and certain urgent services:
    - Citizens with a monthly income below GEL 1,000 (other than children under 5, students, pensioners, veterans and socially vulnerable groups) continue to receive the same coverage from the UHC, with reimbursement of most of their healthcare service needs. The main change is for planned treatments and for certain urgent services, for which the state defined a deductible amount of GEL 500 per case or a minimum 30% co-pay whichever is greater;
    - Citizens with income of more than GEL 1,000 per month but below GEL 40,000 annually are partially covered by the UHC and the extent of the coverage is close to what they received under the UHC prior to the new regulation. The main change is for planned treatments and for certain urgent services, for which State also defined a deductible amount of GEL 1,000 per case or a minimum 30% co-pay whichever is greater;
    - Citizens with more than GEL 40,000 annual income are now completely excluded from UHC coverage.

1 Normalised as explained in footnote 3 on page 2

Business review – overview of financial results continued

Coverage for all other groups (children under 5, students, pensioners, veterans and socially vulnerable groups) remains unchanged. Additionally, for citizens who live below a certain level of poverty, reimbursement of certain medicines was introduced under the revised UHC.

The intent of this second UHC initiative is to make spending more efficient and shift part of the spending from Government funded healthcare programmes to out-of-pocket payments by patients and private medical insurance companies. The direct effect of this change on our 2017 revenue is hard to estimate, but we believe it to have been in the range of GEL 2-3 million. The initiative corroborates our strategy to further diversify our healthcare services business revenue mix and should also benefit our insurance business.

Hospital acquisitions

- **In July 2017, the healthcare services business acquired one referral hospital in Khashuri and a nearby community hospital in Kareli.** This is in line with our strategy to expand the healthcare services business' presence across the country, especially in under-represented regions of Georgia. Following these acquisitions, the number of referral and community hospitals in the Group has increased to 16 and 21, respectively.

  The two hospitals are located in the centre of the country in an area with a combined population of c.100,000 people, and they operate with 65 and 25 beds respectively. Both hospitals are the sole healthcare services providers in their respective areas and are located next to the new central highway connecting East and West Georgia. Khashuri referral hospital is also the referral centre for three other nearby towns. The integration of both hospitals is already completed.

Continued investment in facilities and services

- During 2017, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 89.3 million in 2017 on capital expenditures, primarily on the extensive renovations of Deka and Tbilisi Referral Hospital (formerly Sunstone), as well as enhancing our service mix and introducing new services to cater to previously unmet patient needs. Of this, maintenance capex was GEL 9.6 million.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	FY17	FY16	Change, Y-o-Y
Healthcare service revenue, gross	265,396	246,139	7.8%
Corrections & rebates	(2,039)	(2,686)	-24.1%
Healthcare services revenue, net	263,357	243,453	8.2%
Costs of healthcare services	(150,572)	(130,369)	15.5%
Gross profit	112,785	113,084	-0.3%
Salaries and other employee benefits	(30,998)	(24,048)	28.9%
General and administrative expenses	(16,392)	(12,617)	29.9%
Impairment of receivables	(4,107)	(1,881)	118.3%
Other operating income	8,783	(218)	NMF
EBITDA	70,071	74,320	-5.7%
EBITDA margin	26.4%	30.2%	
Depreciation and amortisation	(22,699)	(18,287)	24.1%
Net interest income (expense)	(18,210)	(12,198)	49.3%
Net gains/(losses) from foreign currencies	1,634	(4,270)	NMF
Net non-recurring income/(expense)	(3,425)	2,883	NMF
Profit before income tax expense	27,371	42,448	-35.5%
Income tax benefit/(expense)	(11)	22,054	NMF
of which: Deferred tax adjustments	–	24,990	–
Profit for the period	27,360	64,502	-57.6%
Attributable to:			
– shareholders of the Company	21,643	53,374	-59.5%
– non-controlling interests	5,717	11,128	-48.6%
of which: Deferred tax adjustments	–	4,541	NMF

In 2017, our healthcare services business revenue totalled GEL 265.4 million (up 7.8% y-o-y). Despite the fact that this year revenue was affected by the Government's two new UHC initiatives, effective from May 2017, the business posted organic revenue growth of c.7% y-o-y.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Healthcare services revenue, net	**263,357**	**243,453**	**8.2%**
Referral hospitals	225,502	209,563	7.6%
Community hospitals	22,147	22,273	-0.6%
Polyclinics	15,708	11,616	35.2%

In 2017, referral hospitals contributed 86% of the total revenue from our healthcare services. The y-o-y increase in revenue from referral hospitals is a result of launching new medical services, renovation of our facilities and the acquisition of Khashuri hospital. We expect a significant portion of the future growth of our healthcare services revenue to come from the two flagship referral hospitals in Tbilisi and continuous investment in developing new, high-quality elective care services in Georgia, to cover existing medical service gaps, in line with our strategy to improve the quality of care throughout the country.

In 2017 community hospitals contributed 8% of the total revenue from healthcare services. The full year revenue was affected by Government's new initiatives and was slightly decreased. Community hospitals 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.

In 2017, polyclinics contribution to total revenue from healthcare services was 6% compared to 5% in 2016. The growth in polyclinics revenue is driven by an increase in the number of polyclinics in our network, in line with our strategy to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia, as well as the new polyclinics campaign launched in June 2017.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Healthcare services revenue, net	263,357	243,453	8.2%
Government-funded healthcare programmes	177,449	176,668	0.4%
Out-of-pocket payments by patients	64,878	48,991	32.4%
Private medical insurance companies, *of which*	21,030	17,794	18.2%
GHG medical insurance	9,475	10,453	-9.4%

In 2017 we have continued to diversify our revenue stream. While UHC continues to be the main contributor to our healthcare services revenues, the share of the Government financing in the healthcare services business revenue decreased by 5.2 percentage points, from 72.6% in 2016 to 67.4% in 2017.

The goal to diversify our earnings is also furthered by growing out-of-pocket payments by patients (up 32.4% y-o-y). This is driven by two main factors: 1) growth in the number of elective services we provide that are partially or fully funded out-of-pocket; 2) the enhanced footprint of our polyclinics, the revenue from which is primarily out-of-pocket, as the Government provides minimal coverage for outpatient services.

The growth of revenue from private medical insurance in 2017, compared to the previous year, also continues to be supported by the roll-out of polyclinics as well as an enhanced relationship with other insurance companies who redirect their customers to our hospitals. The decrease in revenue from our medical insurance business is due to its recent initiatives to terminate loss-making contracts.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Cost of healthcare services	(150,572)	(130,369)	15.5%
Cost of salaries and other employee benefits	(95,655)	(80,397)	19.0%
Cost of materials and supplies	(40,887)	(38,059)	7.4%
Cost of medical service providers	(1,920)	(1,842)	4.2%
Cost of utilities and other	(12,110)	(10,071)	20.2%
Gross profit	112,785	113,084	-0.3%
Gross margin	42.5%	45.9%	
Cost of healthcare services as % of revenue			
Direct salary rate	36.0%	32.7%	
Materials rate	15.4%	15.5%	

The y-o-y growth in the cost of salaries and other employee benefits was driven by the expansion of the hospital business, the roll-out of new healthcare facilities and the launch of new medical services, some of which are in the early roll-out phase resulting in revenue generation lagging behind the respective salary expense growth and a significant y-o-y increase in the direct salary rate. We expect salary growth to stabilise and that the direct salary rate to improve with the completion of the ramp-up phase of the newly launched healthcare facilities and services.

The cost of materials and supplies remained well controlled in 2017, standing at almost the same level in last two consecutive years, despite the foreign currency exchange rate volatility throughout 2017.

The increase in the FY17 cost of utilities, reflects the growth in some utility tariffs in the country, effective from 4Q16, as well as to the expansion of the business.

As a result, the healthcare services business reported gross profit of GEL 112.8 million in 2017 (down 0.3% y-o-y). Our healthcare services gross margin remained under pressure due to the roll-out of new healthcare facilities and services and was down on a y-o-y basis.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Operating expenses	(42,714)	(38,764)	10.2%
Salaries and other employee benefits	(30,998)	(24,048)	28.9%
General and administrative expenses	(16,392)	(12,617)	29.9%
Impairment of receivables	(4,107)	(1,881)	118.3%
Other operating income	8,783	(218)	NMF
EBITDA	70,071	74,320	-5.7%
EBITDA margin	26.4%	30.2%	

The increase in operating expenses on a y-o-y basis is primarily driven by the expansion of the business as well as new openings.

In addition to the overall expansion of the business, the y-o-y increase in administrative salaries reflects an increase in the cost of share-based compensation for our employees in managerial positions and the introduction of a new share scheme to our key doctors, to attract, motivate and retain the country's best medical experts. The y-o-y increase in general and administrative expenses was mainly driven by increased rental and marketing costs after our launch of several new polyclinics during the last 12 months.

Other operating income mainly comprises rental income, gains/losses from: the call option, share of profit of associates and the sale of property and equipment.

In 2018, our focus will be on the successful roll-out of the new hospitals and services launched in 2017, with the main goal to introduce efficiency measures across our healthcare facilities and improve our margins.

We reported quarterly EBITDA of GEL 70.1 million (down 5.7% y-o-y). The EBITDA margin, at 26.4% in 2017, is below last year's margin, as a result of the hospital and polyclinic roll-outs. Excluding the dilutive effects of roll-outs, the EBITDA margin was 29.2% in 2017.

The EBITDA margin for our hospitals (both referral and community) in 2017 was 27.4% compared to 30.8% in 2016, primarily due to the roll-out of our two new flagship hospitals in Tbilisi and the effect of the Government's UHC initiatives which reduced our revenue from May 2017. Healthcare facilities and services still in roll-out phase, posted negative EBITDA of GEL 4.2 million in 2017.

The EBITDA margin of our polyclinics stood at 13.2% in 2017 compared to 15.1% in 2016. After the roll-out phase is completed, we expect the run rate EBITDA margin for our polyclinics to increase.

Overall, we expect our healthcare services EBITDA margin to improve gradually over the course of 2018.

Business review – overview of financial results continued

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Depreciation and amortisation	(22,699)	(18,287)	24.1%
Net interest income (expense)	(18,210)	(12,198)	49.3%
Net gains/(losses) from foreign currencies	1,634	(4,270)	NMF
Net non-recurring income/ (expense)	(3,425)	2,883	NMF
Profit before income tax expense	**27,371**	**42,448**	**-35.5%**
Income tax benefit/(expense)	(11)	22,054	NMF
of which: Deferred tax adjustments	–	24,990	
Profit for the period	**27,360**	**64,502**	**-57.6%**
Attributable to:			
– shareholders of the Company	21,643	53,374	-59.5%
– non-controlling interests	5,717	11,128	-48.6%
of which: Deferred tax adjustments	–	*4,541*	

The increase in depreciation expense is a result of the increased asset base from our expansion and the associated capital expenditures.

The increase in net interest expense reflects the increase in our total borrowing as explained earlier in this report, on page 63.

The healthcare services business reported profit before income tax expense of GEL 27.4 million in 2017. Compared to last year, the trend continued to reflect the expected pressure on margins from the newly launched healthcare facilities and services as well as the increased interest and depreciation expenses.

Other performance highlights and notable developments, healthcare services business

- Our hospital bed occupancy rate[1] was 55.7% in 2017 (55.7% in 2016). Our hospital bed occupancy rate adjusted to exclude the Tbilisi Referral Hospital 220 beds, opened in April 2017, was 57.6%.
- Our referral hospital bed occupancy rate[1] was 61.6% in 2017 (63.0% in 2016). Our referral hospital bed occupancy rate adjusted to exclude the Tbilisi Referral Hospital 220 beds, opened in April 2017, was 64.5%.
- The average length of stay[2] was 5.3 in 2017 (5.0 in 2016).
- The average length of stay[2] at referral hospitals was 5.5 in 2017 (5.2 in 2016).
- After significant reconstruction works in 2017, we have launched an onco-haematological department at Iashvili Paediatric Tertiary Referral Hospital with 30 renovated and 14 new beds. The department was equipped with the latest medical equipment and also enables us to receive paediatric patients with solid tumours. The new infrastructure at the hospital allows us to maximise the accuracy of first diagnoses and improve the quality for children suffering from cancer.
- We have commenced construction of the first largest laboratory in Georgia as well as in whole Caucasus region ("Mega Lab"), which we plan to finish and launch in mid-2018. The multi-profile laboratory will be equipped with the most up-to-date infrastructure and high-capacity automated systems. The laboratory will cover basic as well as sophisticated tests such as: clinical microbiology, immunology, bacteriology, pathology, molecular genetics, etc. We plan to get Joint Commission International accreditation for Mega Lab.

Discussion of Pharma Business Results

Our results of operations for the 2016 include only GPC results, which we have been consolidating since May 2016. Starting from 2017 our results include GPC's and Pharmadepot's combined results (consolidation of Pharmadepot started from January 2017). Accordingly, full year 2017 and 2016 figures aren't comparable.

Income statement, pharma business

GEL thousands; unless otherwise noted	FY17	May-Dec 2016
Pharma revenue	450,315	133,002
Costs of pharma	(340,210)	(105,472)
Gross profit	110,105	27,530
Salaries and other employee benefits	(40,679)	(11,357)
General and administrative expenses	(31,180)	(11,104)
Impairment of receivables	(44)	–
Other operating income	652	667
EBITDA	38,854	5,736
EBITDA margin	8.6%	4.3%
Depreciation and amortisation	(2,110)	(447)
Net interest income (expense)	(11,936)	(1,602)
Net gains/(losses) from foreign currencies	(2,065)	(1,277)
Net non-recurring income/(expense)	(1,496)	(88)
Profit before income tax expense	21,247	2,322
Income tax benefit/(expense)	(65)	(398)
of which: Deferred tax adjustments	–	(200)
Profit for the period	21,182	1,924

In 2017 we have successfully integrated two pharmacy chains, including the full IT platform integration, which completed in 2Q17. Still in process is the integration of our two pharma warehouses, which we expect to finalise by the end of 2018.

(GEL thousands, unless otherwise noted)	FY17	May-Dec 2016
Pharma revenue	**450,315**	**133,002**
Pharma business revenue from Retail	336,366	96,107
Pharma business revenue from wholesale	113,949	36,895

As a result of the strong business performance and marketing campaigns our pharma business performed well, posting full year revenue of GEL 450.3 million. The same-store growth rate on a pro-forma consolidated basis[3] was 7.9% in 2017 compared to 2016. The share of para-pharmacy sales in retail revenue was 29.3%.

After the acquisition of Pharmadepot and further strengthening our position this year as the largest purchaser of pharmaceuticals in Georgia, we have intensified renegotiations with manufacturers for additional discounts and have realised GEL 8.9 million procurement synergies on an annualised basis. We have also started the process of introducing higher-margin private label medicines at our pharmacies, while the introduction of personal care private label products is expected from mid-2018. In total, during 2017 we added 18 new private label medicines and the process of introducing more products will continue in 2018.

As a result of the above, in 2017 the pharma business gross profit reached GEL 110.1 million. The gross margin improved by 380 bps y-o-y and stood at 24.5% in 2017.

The growth in salaries and other employee benefits as well as in general and administrative expenses, reflects the expansion of the business and the addition of new pharmacies.

1 This calculation excludes emergency beds and 112 beds of Tbilisi Referral Hospital, launched in December 2017
2 This calculation excludes data for the emergency department and 112 beds of Tbilisi Referral Hospital, launched in December 2017
3 2016 same store revenue includes both pharma companies, GPC and Pharmadepot results

Since the pharma businesses acquisitions, we have successfully integrated both pharmacy chains within the Group, extracted synergies and the process is still ongoing. We are on track to deliver the initially expected cost savings and revenue enhancement, all of which are positively reflected in the pharma business 2017 performance. The business reported EBITDA of GEL 38.9 million, delivering a resilient full-year EBITDA margin of 8.6%, exceeding our "more than 8%" medium-term target.

Consequently, the pharma business reported a net profit of GEL 21.2 million in 2017.

Discussion of Medical Insurance Business Results

Income statement, medical insurance business

GEL thousands; unless otherwise noted	FY17	FY16	Change, Y-o-Y
Net insurance premiums earned	53,710	61,494	-12.7%
Cost of insurance services	**(48,583)**	**(55,772)**	**-12.9%**
Gross profit	**5,127**	**5,722**	**-10.4%**
Salaries and other employee benefits	(3,601)	(4,663)	-22.8%
General and administrative expenses	(1,636)	(2,428)	-32.6%
Impairment of receivables	(479)	(451)	6.2%
Other operating income	153	(209)	NMF
EBITDA	**(436)**	**(2,029)**	**-78.5%**
EBITDA margin	**-0.8%**	**-3.3%**	
Depreciation and amortisation	(895)	(843)	6.2%
Net interest income (expense)	(795)	232	NMF
Net gains/(losses) from foreign currencies	34	(110)	NMF
Net non-recurring income/(expense)	(200)	(1,677)	NMF
Profit before income tax expense	**(2,292)**	**(4,427)**	**-48.2%**
Income tax benefit/(expense)	(310)	(500)	NMF
of which: Deferred tax adjustments	–	(798)	NMF
Profit/(Loss) for the period	**(2,602)**	**(4,927)**	**-47.2%**

From 2Q17, the medical insurance business started to adjust the pricing of existing contracts that had become loss-making as a result of the Government's changes in UHC introduced in May 2017 (described in detail in the healthcare services section). This also resulted in the termination of certain loss-making contracts.

Our medical insurance business contributed GEL 53.7 million to the Group's revenue in 2017. Apart from the termination of loss-making contracts from 2Q17, the y-o-y decrease in insurance premiums earned is due to the expiration of the Ministry of Defence (MOD) contract, which was allowed to expire in January 2017 due to its high loss ratio.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	FY17	FY16	Change, Y-o-Y
Cost of insurance services	**(48,583)**	**(55,772)**	**–12.9%**
Net insurance claims incurred	(45,209)	(51,701)	–12.6%
Agents, brokers and employee commissions	(3,374)	(4,071)	–17.1%
Gross profit	**5,127**	**5,722**	**–10.4%**
Loss ratio	84.2%	84.1%	

Despite the Government's changes in UHC implemented in 2017, the full-year loss ratio was maintained at almost the same level as in 2016. Going forward we expect to see further stabilisation of medical insurance business earnings, with a targeted loss ratio of less than 80%.

Our insurance business plays a good feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. In 2017, our medical insurance claims expense was GEL 45.2 million, of which GEL 18.4 million (40.6% of the total) was inpatient, GEL 16.0 million (35.3 % of total) was outpatient and GEL 10.9 million (24.1% of total) accounted for drugs. In 2017, GEL 15.7 million, or 34.7% (23.3% in 2016) of our total medical insurance claims were retained within the Group, of which GEL 9.5 million and GEL 6.2 million were retained in the healthcare services and pharma businesses respectively. The feeder role of our medical insurance business is particularly important for the Group's outpatient services. In 2017, GEL 5.9 million, or 37.2%, of our medical insurance claims on outpatient services were retained within the Group.

Due to the 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 recently launched polyclinics initiative and its 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.

The business posted gross profit of GEL 5.1 million in 2017.

Throughout the year our medical insurance business was concentrated to optimise its operating expenses. This is reflected in y-o-y decrease in salaries and other employee benefits, down 22.8% in 2017 compared to last year. The optimisation in general and administrative expenses is a result of savings in rent expenses, as well as decreasing administrative expenses due to the re-negotiation of terms and conditions with different service providers. In 2017 the general and administrative expenses was down 32.6% y-o-y.

The expense ratio of our medical insurance business was improved to 18.3% in 2017 from 20.6% in 2016. The combined ratio stood at 102.5% in 2017 (down from 104.7% in 2016).

In 2017 the business posted negative EBITDA of GEL 0.4 million compared to GEL 2.0 million negative EBITDA posted in 2016.

Other operating highlight, medical insurance business

- Our medical insurance business has acquired a significant new client, the Georgian Ministry of Internal Affairs, by winning a recent tender process. The Ministry of Internal Affairs is the country's largest insurance client by number of insured, c.65,000. We expect significant synergies to come from this contract in 2018, further improving retention rates within GHG.

Directors' governance statement

Irakli Gilauri
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. We report against the 2016 UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council ("FRC") and, while we consider that we have adhered to high standards of Compliance of the Code, we have reported on this page any exceptions on Compliance with the Code. All Directors are fully aware of their duties and responsibilities under the Code, the Listing Rules, and the Disclosure Guidance and Transparency Rules.

2017 has been our second year as a premium listed company and we have continued to build on the robust structure we had established prior to listing. Among the corporate governance actions we have taken this year, we would like to highlight the following:

- We appointed Lintstock, 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.
- 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. We also oversaw the ongoing work in embedding a more patient-centric approach in our hospitals and the continuing work in integrating our pharmaceuticals business into the wider Group.
- Following deliberation with management we decided to create a new Risk department, and we oversaw the development and implementation of their framework and approach.
- Through our Audit and Clinical Quality and Safety Committees, the Board 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 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.
- We hosted an investor day in Tbilisi in November 2017, which provided investors and analysts with the opportunity to receive an update from members of the Board and executive management on strategy, with approximately 45 analysts and investors attending. Directors and management also met with shareholders in the United Kingdom, Europe, South Africa and the United States.

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.

Irakli Gilauri
Chairman
6 March 2018

David Morrison
Senior Independent
Non-Executive Director
6 March 2018

Compliance statement

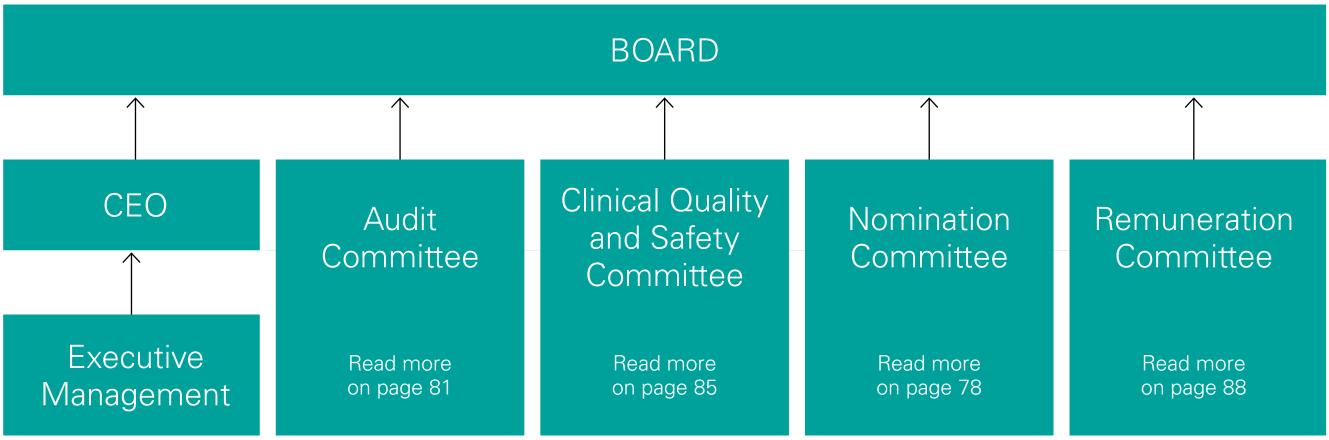
Throughout the year ended 31 December 2017 we applied the main Principles and complied with the Provisions of the 2016 UK Corporate Governance Code, save for two matters. Section A.3.1 recommends that the Chairman on appointment should be independent. Irakli Gilauri is the Company's Chairman and at the time of appointment to this role also served as Chief Executive Officer of the Company's principal shareholder, BGEO Group PLC. As such, the Board does not consider Mr Gilauri to be independent. Nevertheless, the Board continues to believe that it is in the Company's best interests to take advantage of Mr Gilauri's capabilities and experience in leading the Board.

Section D.2.1 of the Code recommends that the Chairman can be a member of the Remuneration Committee if he was independent on appointment. As above, the Board does not consider that Mr Gilauri was independent on appointment but nevertheless have concluded it is in the best interests of the Company to have him as member of the Remuneration Committee. His local expertise and business expertise in this area are considered highly valuable and further the Committee has appointed three independent members, beyond the requirements of the Code for a company of its size, to further balance the Committee.

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

Set out on our website at http://ghg.com.ge/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 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. See more about our responsibilities on page 74 of this Annual Report.

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. 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 and to ensure there is independent oversight of financial, audit, internal control and risk, clinical quality and safety issues, review of remuneration and oversight, and review of Board and executive succession planning, the Board has delegated certain responsibilities to its four Board Committees: the Nomination Committee, the Audit Committee, the Clinical Quality and Safety Committee and the Remuneration Committee.

Audit Committee

Assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and the external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other financial risks, compliance, IT and IS (including cyber security) and works closely with the Clinical Quality and Safety Committee in connection with assessing the effectiveness of the risk management and internal control framework. Full details of the internal control and management systems in relation to the financial reporting process are given within the Audit Committee report on pages 81 to 84.

Clinical Quality and Safety Committee

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

Nomination Committee

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

Remuneration Committee

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

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 and reviewed annually. Each Committee's Terms of Reference can be found on our website at http://ghg.com.ge/terms-of-references.

The Chairman of each Board Committee reports to the Board on the matters discussed at Board Committee meetings. Later in this section you will find reports from the Chairman of each Board Committee which describe the Committee's operation, activities in 2017 and priorities for 2018.

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

Directors' governance statement continued

The role of the Board

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

We believe that the success of the Group's implementation of strategy requires the alignment of strategy with the Group's internal governance framework. We view a strong risk management and internal control framework as essential to governance and it allows us to pursue our strategy in a way that enables risk appetite to be set and risks robustly identified, assessed, managed and reported effectively. You can read more about our risk management on pages 51 to 54, where you can also read about the new Risk department the Group are pleased to have implemented this year.

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

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

We are mindful of our wider obligations and consider the impact our decisions will have on the Group's various stakeholders, such as our employees, our shareholders, our customers and patients, the environment and our community as a whole. You can read more about our sustainability initiatives in the Resources and Responsibilities section on pages 42 to 50.

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

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

Operation of the Board

We schedule in-person Board meetings at least four times a year in Georgia for a period of one to two days each time. We also hold meetings at our London offices, with Directors either attending in person or via teleconference. Matters which require decisions outside the scheduled meetings are dealt with through additional ad hoc meetings and conference calls. In addition, in 2017, most members of the Board attended our annual investor day. In total, we met formally as a Board nine times during the year. The Board also passed written resolutions on five separate occasions.

In 2017 a number of the Non-Executive Directors also visited polyclinics and hospitals, including visiting Deka and Tbilisi Referral Hospital prior to the formal opening and meeting with residents 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.

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

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

Every quarter, the following topics are usually discussed in the Board meeting:

- Financial update (with formal financial results announcements typically being approved in separate phone conferences)
- Update on hospital business
- Update on pharma business
- Update on outpatient business
- Update on insurance business
- Regulatory and legislative update, including corporate governance as appropriate
- Information Technology and Risks update
- 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.

The Chairman and CEO seek input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any particular matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. In addition, the Chairman meets with the CEO after each meeting to 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 keeps in touch with the Non-Executive Directors outside of the Board and Committee meetings.

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

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2017 are as follows:

	BOARD		AUDIT COMMITTEE		CLINICAL QUALITY AND SAFETY COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
Members	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible
Neil Janin	8	9	–	–	2	2	–	–	–	–
Irakli Gilauri	9	9	–	–	–	–	3	3	3	3
David Morrison*	9	9	9	9	–	–	2	2	3	3
Tim Elsigood*	8	9	8	9	4	4	3	3	–	–
Jacques Richier*	8	9	8	9	–	–	–	–	3	3
Ingeborg Oie*	9	9	–	–	4	4	3	3	2	2
Mike Anderson*	9	9	–	–	4	4	–	–	3	3
William Huyett*	4	4	–	–	2	2	–	–	–	–
Nikoloz Gamkrelidze	9	9	–	–	–	–	–	–	–	–
Paul Goldfinch	–	–	8	9	–	–	–	–	–	–

Notes:
1 *denotes independent Director
2 William Huyett was appointed to the Board on 18 June 2017
3 Neil Janin resigned as a member of the Clinical Quality and Safety Committee from 18 June 2017 and William Huyett was appointed to the committee from the same date
4 Neil Janin resigned as Chairman and as a member of the Remuneration Committee on 30 May 2017. Tim Elsigood was appointed as Chairman of the Remuneration Committee on 18 June 2017
5 Neil Janin resigned as Chairman and as a member of the Nomination Committee on 30 May 2017. Ingeborg Oie was appointed as Chairman and as a member of the Nomination Committee on 18 June 2017.
6 Paul Goldfinch was a member of the Audit Committee between 1 January 2017 and 24 February 2018

The Board noted that 39% of independent shareholders voted against the re-election of Jacques Richier, an independent Non-Executive Director, at the 2017 AGM. As noted in a statement released shortly after the 2017 AGM, the Board understands that the voting position reflected certain investors' views on Mr Richier's record of attendance at Board meetings during 2016. The Board acknowledges the feedback and also notes the contribution Mr Richier has made outside of Board meetings in 2016 and 2017 including engaging with management, and the Board has concluded that Mr Richier continues to act as an effective independent Non-Executive Director.

Furthermore, as the Company updated shareholders and the market in November 2017, and as restated here for the full year 2017, the Board listens to shareholders' concerns and can confirm that the attendance of the whole Board, including Mr. Richier, at Board meetings has been 100% since the date of the 2017 AGM.

Board size, composition, tenure and independence

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

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

We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual. The average tenure of our Non-Executive Directors is less than three years, with the significant majority being appointed in August or September 2015, prior to our admission to listing on the London Stock Exchange. We value diversity in all forms in accordance with our Board Diversity Policy, adopted in 2015. See page 79 for further details.

We have assessed the independence of each of the eight Non-Executive Directors and are of the opinion that each acts in an independent and objective manner. We consider that, under the Code, six of our Non-Executive Directors are independent and free from any relationship that could affect their judgement. The Board also listened to shareholder concerns raised as to Neil Janin's independence, addressed these, considered the matter further and determined that Neil Janin could not be considered independent due to his position as Chairman of BGEO, the majority shareholder of the Company. 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 2017, we engaged Lintstock Ltd ("Lintstock") an external effectiveness evaluation specialist (also engaged separately by our parent company, BGEO Group PLC for their external evaluations), 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 results of the evaluation rated the Board highly or very highly in most of the above areas and confirmed that the Board operated effectively.

The Board's objectives for 2018 are:

- Assuring management focus on and oversight of the execution of (i) the healthcare (hospital and polyclinic) roll-out and (ii) improvement of business processes;
- Focusing on longer-term strategy and development opportunities;
- Strengthening the Board's expertise in certain identified areas and in line with our Diversity Policy;
- Integrating our new Board members and succession planning; and
- Developing management talent.

Directors' governance statement continued

Succession planning and Board appointments

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

The Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role and performance of the Nomination Committee is on pages 78 to 80.

Non-Executive Directors' terms of appointment

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

The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

External appointments

Any external appointment or other significant commitment of a Director requires the Director to inform the Senior Independent Director and Company Secretary, and in certain circumstances board agreement must be sought. Our Non-Executive Directors hold external directorships or other external positions but the Board believes they still have sufficient time to devote to their duties as a Director of the Company and believe that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company.

Board induction, ongoing training, professional development and independent advice

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

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2017, which included briefings, site visits, development sessions and presentations by our Group Company Secretary, members of management, external speakers and our professional advisors. During the year our Group Company Secretary provided updates on legislative changes including the Non-Financial Reporting Directive and diversity initiatives, and refresher training on section 172 and 175 duties under the Companies Act. In addition, amendments to the Disclosure Guidance and Transparency Rules and the FRC's guidance on reporting were presented. The Group Company Secretary also trained the Board on proposed changes to the UK Corporate Governance Code. She further trained each Board Committee on corporate governance matters of particular relevance to them.

In line with good 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.

Information and support

All Directors have access to the advice of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

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

Company Secretary

The Board appointed Rebecca Wooldridge as the new Company Secretary in September 2017. She was previously Deputy Company Secretary of the Company, and is an experienced corporate governance lawyer who previously worked at a FTSE 100 top 20 company and before that as corporate lawyer at a leading City law firm.

Re-election of Directors

In line with the Code's recommendations, all of our Directors seek re-election every year and accordingly all Directors who wish to continue on the Board will stand for re-election in April 2018. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election as applicable.

As part of the implementation of the demerger of BGEO Group, the Company's majority shareholder, in which their banking and investment businesses will be separated, Neil Janin will be resigning from the Board of Georgia Healthcare Group PLC at the conclusion of the AGM and hence will not be seeking re-election.

Annual General Meeting

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the Annual General Meeting, where there is an opportunity for individual shareholders to question the Chairman and, through him, the chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

As recommended by the UK Corporate Governance Code, all resolutions proposed at the 2018 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.

See page 180 for further Shareholder Information and, page 73 for further information on shareholder engagement.

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 response to this legislation the Group has implemented and enforces its Anti-Bribery and Anti-Corruption Policy. The Board attaches the utmost importance to the Policy and its systems. The Company has also introduced a whistleblowing system, including an anonymous helpline, under its Whistleblowing Policy.

Diversity Policy

See page 79 in the Nomination Committee report for a description of the Group Diversity Policy, its objectives, implementation and results.

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 104 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Accountability

Internal controls and risk management

The Group has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Group's objectives are attained. The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. It is accountable for reviewing and approving the effectiveness of internal controls operated by the Group, including financial, operational and compliance 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).

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 64 to 67. For detail on the management and mitigation of each principal risk see pages 68 to 71. The Group's viability statement is detailed on pages 84. Please refer to pages 81 to 87 for further detail in relation to the roles of the Audit and Clinical Quality and Safety Committees.

The Group's governance structure for risk management is illustrated on pages 51 to 54.

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 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.

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 United Kingdom, Europe, the United States and South Africa.

In November 2017, GHG hosted an investor day in Tbilisi, which was open to all investors and analysts. This investor day provided the opportunity for investors to receive an update from the Board and Executive Management on strategy and performance as well as meet informally with Board members and raise matters of interest. GHG was pleased to host approximately 45 investors and analysts at the investor day.

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

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

Our website, http://ghg.com.ge, provides our stakeholders with access 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. Irakli Gilauri


2. Nick Gamkrelidze


3. David Morrison


4. Neil Janin


5. Mike Anderson

1. Irakli Gilauri

Non-Executive Chairman

Irakli Gilauri was appointed Non-Executive Chairman on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected by shareholders at the 2017 AGM. He also serves as a member of both the Nomination Committee and the Remuneration Committee. Mr Gilauri serves as Chairman of the JSC GHG Supervisory Board and as a member of its Nomination and Remuneration Committees. He is also Chairman of the Supervisory Board of JSC Evex.

Skills and experience: Mr Gilauri has also been Chief Executive Officer of BGEO Group PLC since 2011, and was appointed Chairman of Bank of Georgia in September 2015 having previously served as Chief Executive Officer of the Bank since May 2006, and he also serves as CEO of JSC BGEO Group and is Chairman or CEO of various subsidiaries, and their Supervisory Boards, of the BGEO Group. He is an executive director of BGEO Group PLC. Ahead of the proposed demerger of BGEO Group PLC, Mr Gilauri has also been appointed as CEO and Chairman of Georgia Capital plc. 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.

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

2. Nick Gamkrelidze

Chief Executive Officer

Nikoloz Gamkrelidze was appointed as Chief Executive Officer on 28 August 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM.

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 Board of JSC Imedi L, as a member of the Supervisory Board of JSC GEPHA and acting chairman of 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. Mr Gamkrelidze started his career at the Georgian State Medical Insurance Company in 1998, where he worked for two years.

Education: Mr Gamkrelidze graduated from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Imperial College Business School.

3. David Morrison

Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and was re-elected by shareholders at the 2017 AGM. 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, Nomination and Remuneration Committees.

Skills and experience: Mr Morrison is a member of the New York bar and worked for 28 years at Sullivan & Cromwell LLP until he withdrew from the firm in 2007 to pursue his other interests. At Sullivan & Cromwell, he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, from capital raisings and IPOs to mergers and acquisitions. Key clients included investment banks and a wide range of commercial and industrial companies. He advised on a number of the largest privatisations in Europe, and was advisor to Germany's development bank, Kreditanstalt für Wiederaufbau (KfW), for over 20 years (serving on the board of directors of KfW's finance subsidiary). Mr Morrison is the author of several publications on securities-law-related topics, and has been recognised as a leading lawyer in Germany and France. In 2008, Mr Morrison turned his attention to financing for nature protection. He became the Founding CEO of the Caucasus Nature Fund ("CNF"), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. He resigned as CEO in March of 2016 and now serves on its board of directors as well as on the boards of two new conservation trusts funds he helped to create in 2015 and 2016. Mr Morrison is a non-executive director of BGEO Group PLC. Ahead of the proposed demerger of BGEO Group PLC, Mr Morrison has also been appointed to the Board of Georgia Capital plc.

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

4. Neil Janin

Non-Independent Non-Executive Director

Neil Janin was appointed as a Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM. He served as Chairman of both the Nomination Committee and the Remuneration Committee until May 2017 and was a member of the Clinical Quality and Safety Committee from February to June 2017. Mr Janin serves as a member of the Supervisory Board of JSC GHG.

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

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

5. Mike Anderson

Independent Non-Executive Director

Mike Anderson was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM. 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 Nomination and Clinical Quality and Safety Committees.

Skills and experience: Dr Anderson was initially appointed as a physician at West Middlesex University Hospital in 1990. He subsequently became a medical manager and joined the board of West Middlesex University NHS Trust as Medical Director in 2003. He served as a medical director at Chelsea and Westminster Hospital from 2003 to 2015, as well as continuing in his role as a physician. Dr Anderson was one of the medical directors for the North West London reconfiguration programme (Shaping a Healthier Future) and continues as a physician at Chelsea and Westminster Hospital and in private medical practice.

Dr Anderson has also worked as a clinical 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.

6. Tim Elsigood

7. Ingeborg Oie

8. Jacques Richier

9. William Huyett

10. Caroline Brown

11. Rebecca Wooldridge

6. Tim Elsigood

Independent Non-Executive Director

Tim Elsigood was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM. He serves as Chairman of the Remuneration Committee and as a member of both the Audit Committee and the Clinical Quality and Safety 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 Independent Director of Avivo Group, based in Dubai, covering the UAE and Kuwait. The Group has a broad range of healthcare facilities and products. Until 2016 he was a Consultant Advisor to Abraaj in Egypt, Tunisia and Morocco as they expanded their healthcare operations in these countries. Prior to his role in North Africa, Mr Elsigood carried out an extensive review of a major medical diagnostics business in India, evaluating the existing business and advising potential investors on the best path to follow to expand the business and build on the existing portfolio. Before this, he was Vice President for Medsi Group, a private hospital group in Russia. Prior to this, Mr Elsigood worked in Kiev, Ukraine where he was Chief Executive Officer of Isida Hospital, a specialist maternity and women's hospital with a large IVF centre. He has also carried out executive healthcare roles in Romania and Greece. Initially, Mr Elsigood started his career in the UK National Health Service and after 15 years moved to the private sector in the UK. He then became Senior Vice President of business development in Capio AB, based in Sweden. Mr Elsigood has also served as the UK Head of Alliance Medical Ltd, the largest medical imaging company in Europe.

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

7. Ingeborg Oie

Independent Non-Executive Director

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

Skills and experience: Ms Oie is Head of Investor Relations at Smith & Nephew, the global medical technology company listed on the London Stock Exchange. Prior to joining Smith & Nephew in 2014, she was a research analyst and managing director at Jefferies, the global investment banking firm, covering the Medical Device and Healthcare Services sectors in Europe, the Middle East and Africa. Her focus spanned European and Middle Eastern hospitals as well as the orthopaedics, dialysis, cardiovascular, hearing aids, drug delivery and dental sectors. She commenced her career at Goldman Sachs in London as an analyst in the Global Investment Research division.

Education: Ms Oie graduated with a first class honours degree in Biomedical Engineering from Imperial College London and completed an MSc in Public Health at the London School of Hygiene and Tropical Medicine. She is a CFA charterholder.

8. Jacques Richier

Independent Non-Executive Director

Jacques Richier was appointed as an Independent Non-Executive Director on 4 September 2015 and was elected by shareholders at the 2016 AGM and re-elected at the 2017 AGM. 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. Since 2014, he has also served as Chairman of Allianz WorldWide Partners.

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

9. William Huyett

Independent Non-Executive Director

William ("Bill") Huyett was appointed as a Non-Executive Director on 18 June 2017 and serves as a member of the Clinical Quality and Safety Committee. He also serves as a member of the Supervisory Board of JSC GHG and of its Clinical Quality and Safety Committee.

Skills and Experience: Mr Huyett was recently appointed as Chief Operating Officer of Ironwood Pharmaceuticals, a publicly-held biopharmaceutical company in Cambridge MA. Prior to that, during a 30-year career at McKinsey and Company, he served clients in health care and other technology-intensive industries. He is co-author of a text on corporate finance: *Value: Four Cornerstones of Value Creation*, published by J. Wiley. He currently serves on the boards of several not-for-profit institutions, including Rockefeller University (Member of the Technology Transfer Committee), the Marine Biological Laboratory Woods Hole, the University of Virginia Darden School Foundation (Chair of Nominating and Governance) and the National Parks Conservation Association. Prior to joining McKinsey, Mr Huyett held a variety of line management positions in the automation industry with Rockwell/Allen-Bradley. Ahead of the proposed demerger of BGEO Group PLC, Mr Huyett has been appointed to the Board of Georgia Capital plc.

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

10. Caroline Brown

Advisor to the Board; Member of the Audit Committee

Caroline Brown was appointed as an advisor to the Board and a member of the Audit Committee from 24 February 2018.

Skills and experience: Dr Brown has managed divisions of FTSE100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC. She has chaired audit committees of listed companies for the past 15 years and is a Fellow of the Chartered Institute of Management Accountants. Dr Brown currently serves as an independent Non-Executive Director, and audit chair on the boards of several London quoted companies. She is a director of Luceco PLC, Earthport PLC, Hydrodec Group PLC, LB-Shell PLC and Gray's Inn Mansion Limited. Ahead of the proposed demerger of BGEO Group PLC, Dr Brown has also been appointed to the Board of Georgia Capital plc. She also serves on the MBA Advisory Board of the Cass Business School, University of London.

Education: Dr Brown holds a first-class degree and PhD in Natural Sciences from the University of Cambridge and a Masters of Business Administration from the Cass Business School, University of London.

11. Rebecca Wooldridge

Group Company Secretary

Rebecca Wooldridge was appointed Company Secretary of Georgia Healthcare Group PLC in September 2017 having previously acted as the Deputy Group Company Secretary since 2016. She is additionally the Company Secretary for BGEO Group PLC. Ahead of the proposed demerger of BGEO Group PLC, Ms Wooldridge was also appointed as Company Secretary of Bank of Georgia Group plc and Georgia Capital plc. She also serves as the secretary to the Audit, Nomination, Remuneration, and Clinical Quality and Safety Committees.

Skills and experience: Ms Wooldridge is a lawyer specialising in corporate governance. She was previously 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).

Education: Ms Wooldridge is a qualified solicitor of England & Wales. She holds a Post Graduate Diploma in Law and a Legal Practice Course qualification from Nottingham Law School. She also holds a Masters degree in English from Cambridge University.

Management team


1. Irakli Gogia


2. David Vakhtangishvili


3. Giorgi Mindiashvili


4. Enrico Beridze


5. Mikheil Abramidze


6. Givi Giorgadze


7. Giorgi Gordadze

Nick Gamkrelidze

Chief Executive Officer

Please see his biography on page 74.

1. Irakli Gogia

Chief Financial Officer

Irakli Gogia was appointed Chief Financial Officer on 27 March 2017.

Prior to this, Mr Gogia served as Chief Operating Officer of the Group, and prior to that 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

Chief Risk Officer

David Vakhtangishvili was appointed as Chief Risk Officer on 27 March 2017. Prior to this he served as Chief Financial Officer. Prior to joining the Group, Mr Vakhtangishvili was Chief Financial Officer for Bank of Georgia, a position he held since January 2007. Prior to joining Bank of Georgia, Mr Vakhtangishvili worked in global international audit and advisory firms for nine years, including five years at Andersen and four years at Ernst & Young.

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

3. Giorgi Mindiashvili

Deputy CEO, Commercial

Giorgi Mindiashvili was appointed as Deputy CEO, Commercial on 29 March 2015. Prior to this role, Mr Mindiashvili was CEO of Evex Medical Corporation from April 2013 and a member of the supervisory board of Evex Medical Corporation from 2010. In 2012, he also served as executive director of Imedi L. Prior to this, he was CFO of Insurance Company Aldagi from 2009 and a member of the supervisory board of My Family Clinic. He started his career in 2003 in the finance department of Insurance Company BCI.

Mr Mindiashvili graduated from Tbilisi Technical University and the European School of Management, specialising in the fields of financial mathematics, management systems, financial management and corporate finance.

4. Enrico Beridze

CEO of GEPHA

Enrico Beridze was appointed CEO of GEPHA, the combined pharmaceuticals business, on 6 January 2017. Prior to this appointment Mr Beridze was CEO of ABC Pharmacia for more than 15 years, leading it to become the fourth largest pharmaceutical retailer and wholesaler in Georgia. In 2009 as part of ABC he launched the pharmacy chain under the name of Pharmadepot and grew it to the highly successful brand it has become today. He founded ABC Pharmacia following his career as a representative agent for Bristol-Myers Squibb Company in Georgia and Azerbaijan, primarily focusing on the oncology business.

Mr Beridze holds a Bachelor's degree in Biology from Moscow State University.

5. Mikheil Abramidze

Head of Operations at GEPHA

Mikheil Abramidze was appointed as Head of Operations of GEPHA, the combined pharmaceuticals business, on 6 January 2017. Prior to this Dr Abramidze was COO of ABC Pharmacia for more than 15 years, having founded it with Enrico Beridze in 1999; 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.

6. Givi Giorgadze

CEO, Insurance Company Imedi L

Givi Giorgadze was appointed as CEO of Imedi L in July 2016. Prior to joining GHG, Mr Giorgadze worked as a Business Analyst at the Secretariat to the Georgia Investors Council. Prior to this role, Mr Giorgadze served at Bank of Georgia for seven years, as a Deputy Head of Investment Management from 2013 to 2015, as a Deputy Global Head of Asset and Wealth Management from 2011 to 2013 and as a Head of Private Banking from 2008 to 2011. He joined Bank of Georgia from the energy sector, where he served as a Head of Customer Service. Mr Giorgadze also worked at Insurance Company BCI as a Head of Sales Office and later as a Director of Corporate Sales.

Mr Giorgadze holds an MSc in Finance and Investment from CASS Business School.

7. Giorgi Gordadze

Head of Polyclinic Business

Giorgi Gordadze was appointed the Head of Polyclinic Business (outpatient clinics) in May 2017. Mr Gordadze has more than 20 years' experience in the pharmaceuticals business and has 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.

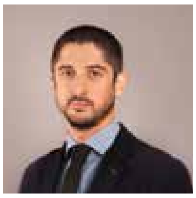
Mr Gordadze graduated from the Faculty of Economics at Ivane Javakhishvili Tbilisi State University. He holds a MBA from CERMA business school.

8. Gregory Khurtsidze

9. Nino Kortua

10. Nino Chichua

11. Medea Chkhaidze



12. Otar Lortkipanidze

13. Manana Khurtsilava

8. 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.

9. Nino Kortua

Chief Legal Officer

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

Ms Kortua graduated from the Faculty of Law at Ivane Javakhishvili Tbilisi State University with honours in 2001. She obtained her bar certificate in Georgia in 2006.

10. Nino Chichua

Chief Marketing and Communications Officer

Nino Chichua was appointed Chief Marketing and Communications Officer on 29 April 2015. Prior to joining 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.

11. 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.

12. Otar Lortkipanidze

IT Director

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

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

13. Manana Khurtsilava

Head of Internal Audit

Manana Khurtsilava was appointed Head of Internal Audit on 29 April 2015. She formerly held various managerial positions within the Bank of Georgia group. Prior to this, Ms Khurtsilava was head of the internal audit department of Insurance Company Aldagi from August 2014. She previously served as the group information and corporate security project manager for Bank of Georgia. Ms Khurtsilava has worked at Bank of Georgia for 11 years. During this time, she has held various senior positions including internal control officer, senior corporate banker and principal banker (from 2003 to 2014). Prior to joining Bank of Georgia, Ms Khurtsilava was a business consultant for the World Bank's CERMA Project in Tbilisi (from 2002 to 2003) and served as a credit administrator in Bank Republic Société Générale Group, Tbilisi (from 2001 to 2002).

She holds Masters and undergraduate degrees in economics, major in finance, banking and taxation, from Ivane Javakhishvili Tbilisi State University.

Nomination Committee report

Ingeborg Oie
Chairman of the Nomination Committee

Chairman's Overview

I am pleased to present the Nomination Committee report for 2017.

The Nomination Committee focused on Board and senior management succession planning in line with our strategic objectives and the rapid expansion of our Group. We also reviewed the composition of the Committees of the Board, the time commitment of the Non-Executive Directors, recommended to the Board the re-appointment of all Non-Executive Directors at our AGM, and assessed what new and existing skills would strengthen the Board's ability to meet future strategic requirements of the Group. The Committee also facilitated the evaluations of the Board and our Committees, both externally and internally.

We were delighted to confirm, following a rigorous recruitment and assessment process, the appointment of Bill Huyett to the Board and to the Clinical Quality and Safety Committee in June this year. As part of the assessment process, Bill attended Board meetings and spent significant time with management in an advisory role for which he was paid only the equivalent of a Non-Executive Director's fees. The agreement with Mr Huyett under which he had previously acted as an advisor to the Board was terminated upon his appointment as a director of the Company.

Bill brings a wide range of skills and expertise to the Board, which will supplement our current skills profile. He has deep and broad knowledge of healthcare systems, and draws on years of experience in corporate strategy and finance. I am delighted that we have attracted a candidate with Bill's experience to serve on our Board and take this opportunity to officially welcome Bill on behalf of the Board and our shareholders. In the circumstances, it was not considered appropriate to engage a search consultancy, as our network of advisors provided a broad range of potential candidates.

In 2018, we will maintain 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 are set out below.

Paul Goldfinch was a member of the Audit Committee and an advisor to the Board from 1 January 2017 to 24 February 2018, and we are very grateful to him for his contribution. Following an extensive search by the Nomination Committee for a candidate with accounting and financial experience to succeed Paul, we were delighted that Dr Caroline Brown has been appointed as a member of the Audit Committee and as an advisor to the Board with effect from 24 February 2018. Dr Brown is a qualified accountant and experienced finance executive and has recent and relevant financial experience, with non-executive directorships on a range of listed companies. Dr Brown also chairs the audit committee of Luceco plc. We look forward to working with her over the forthcoming year.

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 80.

Finally, I was pleased to accept the appointment of Chairman of the Committee in June 2017, taking over the role from Neil Janin. I would like to thank Neil for the work he has done as Chairman of the Committee, which I look forward to building upon.

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
6 March 2018

Responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee are:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, 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.

The Nomination Committee's full terms of reference are available on the Group's website: http://ghg.com.ge/uploads/files/ghg-nomination-committee-tors-7.pdf.

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 74 and 75.

The composition of the Nomination Committee and the members' meeting attendance for the year 2017 is set out in the Board and Committee meeting attendance section on page 71.

Following the resignation of Neil Janin from the membership and Chair of the Committee on 30 May 2017, Ingeborg Oie was appointed as member and Chair on 18 June 2017.

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

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

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

Board Diversity Policy 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.

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.

Nomination Committee report continued

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 2017 the Company ran a Leadership Programme for the levels below senior management for their personal development and to help them enhance their careers. The Committee is pleased to note that 70% of the participants on this programme were female.

Our nursing programme is also helping to revolutionise nursing in Georgia into a career path, helping social mobility, and while nursing is traditionally an almost exclusively female job in Georgia, we have male and female participants on the programme.

Board recruitment and 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.

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

Shortlisted candidates are generally seen first by the Chairman, the Chairman of the Nomination Committee, the Senior Independent Non-Executive Director and the CEO. If the selection process progresses further, each potential candidate is invited to meet other members of the Nomination Committee as well as members of management. We then decide whether to recommend an appointment first as an advisor to the Board and relevant Committees, with the Board deciding whether to extend an advisory agreement to the candidate. It is our usual practice to appoint a Board candidate as an advisor prior to offering an appointment to the Board as an extended trial 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 advisor be appointed to the Board. The Board will ultimately resolve whether to make the suggested appointment.

Nomination Committee activities in 2017

In 2017, the Board, upon the Committee's recommendations, refreshed the membership of the Nomination, Remuneration 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.

Neil Janin elected to step down as Chair of the Nomination Committee and of the Remuneration Committee on 30 May 2017 as he was reclassified as a Non-Independent Non-Executive Director. The Nomination Committee recommended that Ingeborg Oie be appointed as the new Chair of the Nomination Committee and that Tim Elsigood be appointed as the new Chair of the Remuneration Committee, and the Board appointed them to these roles on 18 June 2017. Tim has been a member of the Remuneration Committee since the Company listed, has a strong background in healthcare management and development in emerging economies and will bring this experience and alignment to the role.

Following the Board recruitment and appointment process described above, the Nomination Committee recommended Bill Huyett for appointment to the Board and to the Clinical Quality and Safety Committee, and the Board approved such appointment. Bill received the equivalent to a Director's fee only during his time as an advisor and his remit was restricted to Board matters.

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

The Committee also led a skills matrix exercise with the Board to assess the skills and expertise of the Board and to identify both strengths and weaknesses to help the Committee with succession planning.

Committee effectiveness review

Lintstock performed the effectiveness review of the Committee and also helped us to consider our priorities for 2018. The evaluation 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 2018

In the coming year the Nomination Committee will focus on:

- Board succession planning, taking into account the gaps identified by the skills assessment and current diversity characteristics and Committee evaluations;
- Management succession planning in line with Group strategy for the medium to long term; and
- Appropriate talent development of management.

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

Audit Committee report

David Morrison
Chairman of the Audit Committee

Chairman's Overview

Dear Shareholders,

In 2017 our Committee has:

- overseen the introduction of the new, centralised Risk Management department within the Group, and monitored the implementation of business strategy and its impact on the Group's internal control and risk management framework. Significant work has been undertaken in 2017 to embed a revised risk management and internal control structure that focuses on the risks facing the business and the healthcare sector more widely;
- improved the regular financial reporting of the finance department to the Board in relation to business unit performance and budget;
- reviewed the significant financial judgements made during the financial year and in the preparation of the Annual Report and Accounts, including in relation to revenue recognition, goodwill and the valuation of premises;
- kept under review the actions being taken across the Company to prepare for the implementation of the new international financial reporting standards (IFRS 9 and 16);
- reviewed the ongoing development of our in-house internal audit function and monitored progress on the internal audit plan;
- reviewed the process and timeline for assessing the effectiveness of the external auditor conducted the review and made a final recommendation to the Board to re-appoint EY for the year ending 31 December 2018; and
- conducted (at the request of the Board) a review of this Annual Report to confirm that it was fair, balanced and capable of being understood by shareholders.

I wish to record the Committee's gratitude to Paul Goldfinch for the work he undertook throughout 2017. Paul's role as an Advisor to the Board came to an end in February 2018 and we are very grateful to him for his very valuable contribution to the work of the Committee. As mentioned elsewhere in this Annual Report, Dr Caroline Brown has been appointed as an adviser to the Board and as a member of the Committee. Dr Brown is a qualified accountant and experienced financial executive and has recent and relevant financial experience, with non-executive directorships on a range of listed companies. We look forward to working with her.

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

David Morrison
Chairman of the Audit Committee
6 March 2018

Composition and operations of the Audit Committee

The composition of the Committee complies with the 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 composition of the Audit Committee and the members' meeting attendance for the year 2017 is set out in the Board and Committee meeting attendance section on page 71. We believe that the composition of the Audit Committee provides the range of financial and commercial expertise necessary for the Committee to operate effectively and fulfil its wide range of responsibilities. The Board is satisfied that, over the course of 2017, Mr Goldfinch brought recent and relevant financial experience to the Committee. The Board remains satisfied that the Audit Committee as a whole has competence relevant to the sector in which it operates.

The Board appointed Paul Goldfinch to serve as an advisor to the Board and as a member of the Audit Committee effective as of 1 January 2017. Mr Goldfinch's appointment concluded on 24 February 2018 and he has been succeeded by Dr Caroline Brown. Both Mr Goldfinch and Dr Brown are qualified accountants with extensive accounting and financial experience. The biographies of the Audit Committee members are set out on pages 74 and 75.

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 (reviewed and updated in 2017 as part of our standing annual review). It also reacts to relevant business developments as and when they occur. Our meetings are regularly attended by the CFO, the Head of Internal Audit, the Director of Legal, the Head of IT, and occasionally by our CEO.

Starting in March 2017, our new Chief Risk Officer, in a newly established role, created to lead the re-structured Risk Management function (now integrated and centralised at the Group level), attends Committee meetings. The external auditor also attends the Audit Committee meetings.

During the year, we also regularly held separate private meetings with the Head of Internal Audit and the external auditor. 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.

Key purpose and responsibilities

On behalf of the Board, the Audit Committee encourages and seeks to safeguard high standards of integrity and conduct in financial reporting, internal control and (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/uploads/files/audit-committee-31.pdf

Audit Committee report continued

Financial reporting

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

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

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

Recognition of Healthcare and Pharmaceutical revenue, including IFRS 15

It was decided to early adopt IFRS 15 from 1 January 2017 using the modified retrospective application method. The Committee asked the auditors to review the manner in which IFRS 15 had been applied and the auditors confirmed that the Group properly applied IFRS 15 as at 1 January 2017 and for the year ended 31 December 2017.

Business combinations

In 2017, the Group acquired JSC ABC Pharmacia ("ABC"), as well as a number of hospitals and polyclinics. In relation to each material acquisition, the Committee reviewed with management the fair value of identifiable assets acquired (including any intangible assets) and allocation of the purchase price between identifiable assets and goodwill. Our management explained the methodology and assumptions underlying the calculation of fair value for each type of asset. The Committee also questioned management as to whether all intangible assets had been identified. The Committee is comfortable that the accounting and financial reporting of business combinations during the year is appropriate and in accordance with IFRS requirements.

Goodwill impairment

The Group carries goodwill on its balance sheet as a consequence of its acquisitions of the pharma business and numerous hospitals and other healthcare facilities. The Committee received a management report outlining the goodwill impairment assessment, the valuation methodology used, applicable assumptions and future cash flow projections, noting in particular that the risk associated with goodwill impairment has decreased in the current year as a result of the improvement in the medical insurance business' financial improvement over the year. After challenging key assumptions, the Committee is satisfied that there was no impairment of goodwill impairment during the year.

Valuation of hospitals, clinics, land and office buildings

We received management reports on the assumptions to be used in valuing the Group's hospitals, clinics, land and office buildings. In 2017, the Group engaged an independent external valuer to appraise 22 of its hospitals and clinics as well as land and office buildings. Management presented the results of the external valuation to the Committee. Our auditors tested the valuation and reported its findings. We scrutinised and challenged management accordingly and we were satisfied with the assumptions and judgements applied. Disclosures in relation to our property valuations are set out in Notes 11 and 43 of the consolidated financial statements.
In addition to the significant financial judgements discussed above, we also discussed accounting and financial reporting matters relating to:

- the classification of non-recurring income and expenses;
- provisions for ongoing litigation; and
- the implementation timetables of IFRS 9 and 16.

Internal Audit

The Internal Audit function, established in 2015, has continued to evolve throughout 2017 when a revised structure was put in place alongside a newly established role of Chief Risk Officer, discussed below. 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. It then designs a Non-Clinical Internal Audit Plan using a risk-weighting approach aligned to the Group's strategy.

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

Internal audits of non-clinical processes are reported directly to the Audit Committee (internal audits of clinical processes are reported directly to the Clinical Quality and Safety Committee). Throughout the year, we received regular reports from the Non-Clinical Internal Audit department on its audit activities and significant findings as well as the corrective measures recommended to management. We also reviewed and monitored management's responsiveness to the corrective measures proposed through follow-up reports provided by Internal Audit.

Throughout the year, we assessed the performance of our Non-Clinical Internal Audit function by measuring progress against the agreed plan, taking into account the rapid expansion of the Group. We also considered the quality of reporting by the Internal Audit function to the Audit Committee and the ability of Internal Audit to address areas identified for improvement in an effective and efficient manner. On this basis, the Committee concluded that the Internal Audit function is effective and respected by management and confirms to the standards set by the Institute of Internal Auditors.

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.

Risk management and internal controls

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

With a view to further improving how risks are managed across the Group, and how those risk management activities are coordinated, a centralised risk department was established within the Group in 2017 reporting to an Executive Risk Committee and to the Audit and Clinical Safety and Quality Committees.

Since its formation, the risk department has played a leading role in undertaking due diligence activities across the Group's clinics and head office, implementing risk management policies across the Group, and supporting the Executive Risk Committee. The Committee is pleased with the progress that the risk department has made to date, and expects further progress in embedding this risk management approach to be made in 2018.

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.

We are pleased with the work completed over 2017 in respect of refining the Company's risk management approach, including changes to the internal control environment across our operations and the recruitment of a number of key figures within the team. Improved IT systems are significantly strengthening our control processes.

Over 2017, we have regularly reviewed a number of operational 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. The Committee recognises that the threat associated with cyber risk continues to grow year-on-year; in response, the Committee was pleased that, over 2017, the Group formed an Information and Cyber Security department. Good progress has been made over the year in developing an information and cyber security strategy and operational action plan, and the Committee is confident that the department will continue to take robust actions to mitigate cyber and information security risk.

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 2017, the Committee updated the Company's Whistleblowing Policy.

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

The findings of each completed internal audit in 2017 (see the section Internal Audit on the previous page) were presented to the Committee and included a recommended management action plan in relation to any weaknesses identified. Our Internal Audit team regularly reported to the Committee the progress made by management in implementing any such action plans until each audit issue identified was fully resolved. The Committee is pleased to report that during 2017 and up to the date of this Annual Report, our Internal Audit team did not find any significant weaknesses in our risk management processes or internal controls.

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

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, re-appointment or removal, as applicable, of the external auditor.

Audit tender and lead audit partner rotation

EY are appointed as our Group statutory auditors in 2015 ahead of our listing on the London Stock Exchange, following a competitive tender process. EY appointed John Headley as our lead partner in 2016. The external auditor is required to rotate the audit partner responsible for the Group at least every five years. The Group will be required to put the external audit contract out to tender no later than 2025.

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

The Company complied with the mandatory audit processes and the Committee complied with the responsibility provisions set out in terms of the Competition and Markets Authority Statutory Audit Services Order 2014 ("CMA Order") relating to a) putting the audit services engagement to tender every 10 years; and b) strengthening the accountability of the external auditor to the Committee, including requiring that only the Committee is permitted to agree to the external auditors' fees and scope of services, influence the appointment of the audit engagement partner, make recommendations regarding the appointment of auditors and authorise the auditors to carry out non-audit services.

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 2017 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 34 of the audited IFRS Financial Statements for 2017, the total fees paid to EY for the year ended 31 December 2017 were GEL 1.48 million of which GEL 0.36 million related to the Group's 2017 half-year interim accounts review. None of these fees related to work other than the audit or review of the interim accounts.

Effectiveness

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

Audit Committee report continued

- 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 2017 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;
- 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.

EY was re-appointed by shareholders at the 2017 AGM, and the Board was authorised to set the remuneration of the auditor, by 100% votes in favour for each resolution.

The Committee has recommended to the Board that EY be re-appointed under the current external audit contract and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2018 AGM.

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

The Audit Committee ensures that there are effective procedures relating to whistleblowing. In particular, we have developed a Whistleblowing Policy which allows staff to confidentially raise any concerns about business practices through an independent whistleblowing hotline. We keep this policy under review and receive regular updates from management as to any issues raised by employees. Having updated the Company's Whistleblowing Policy during 2017, we are confident that the whistleblowing arrangements are 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 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.

Continuing education and training

Throughout the year, the Audit Committee received presentations and training from the Company Secretary in respect of recent guidance from the FRC (which included the letter to Audit Committee Chairs), the Non-Financial Reporting Directive and the European Union Audit Directive and Regulation in conjunction with the FRC's Ethical Standard for Auditors.

The whole Board also received training on the current UK Corporate Governance Code, and proposed changes to it, affecting the Audit Committee and other areas.

Viability statement

In accordance with the Code, the Directors are required to assess the viability of the Group. We spent time considering the timeframe over which the viability statement should be made, including considering the recommendations of the FRC guidance, as well as an assessment underlying the period of coverage, which we agreed should be three years, which corresponds to the Group's business planning cycle and is viewed as appropriate in a young and rapidly evolving market environment.

In particular, we looked closely at the Group's principal risks and uncertainties, including those that will threaten our business model, future performance and solvency or liquidity; 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 viability statement is set out on page 54.

Fair, balanced and understandable reporting

At the request of the Board, we reviewed the 2017 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 2017 Annual Report and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness review

An externally facilitated review of the Committee was performed by Lintstock. The evaluation principally addressed the composition of the Committee, the review and testing of the work of the internal and external auditors, 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. Some practical suggestions arose from the review for areas where communications and focus could be improved, which the Committee began to implement in the remainder of the year.

Based on the results of the evaluation and further internal discussion, our priorities for 2018 are to:
- continue to shape the direction of the new Risk Management department;
- provide a continued focus on the successful implementation of new international financial reporting standards (IFRS 9 and 16).

Clinical Quality and Safety Committee report

Mike Anderson
Chairman of the Clinical Quality and Safety Committee

Chairman's Overview

The Committee has devoted significant time this year to reviewing the progress made in further improving our clinical performance and quality. In line with national and international healthcare priorities, and as would be rightfully expected from our patients, the Group continues to refine its approach toward infection control and prevention across all of its clinics. The Committee has also overseen greater controls in antibiotic stewardship, as detailed subsequently in this report.

Further the opening of the new large-scale laboratory in 2018, covering microbiology amongst other areas, will strengthen and support the Company's initiatives in these areas. The Committee is proud to oversee the Group's contribution to this public policy issue, given the rise of antibiotic resistance and untreatable infections in Georgia and beyond.

The Committee receives at least quarterly reports from the Head of the Clinical Department to ensure a good flow of information on data points and reporting procedures, and to consider the ongoing development of our risk management approach. Our Head of Clinical Process Unit of the Internal Audit team updates us every quarter, and our employees have been excellent in their supportiveness and openness in respect of internal audits and our subsequent Committee enquiries. Later in this section we list some of the main internal audits for 2017.

Committee members visited the Group's hospitals and pharmacies throughout 2017 to review facilities and practices and to talk to doctors and nurses about their work. We continue to be enormously impressed both with the dedication showed by our medical staff and by the quality of the learning programmes provided by the Group to doctors and nurses.

Finally, we have over the year carefully considered and proposed changes to the Board on the Committee's duties and responsibilities, which the Board subsequently accepted. We are confident that our revised remit allows us to be properly focused and continue to provide effective support to the Board and to the Group more widely. The Committee refreshed its membership in June 2017 and also revised its terms of reference in December 2017 with these aims.

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
6 March 2018

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 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 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 healthy and safety matters by identifying themes and trends in health and safety management reports.

Clinical Quality and Safety Committee report continued

In discharging its duties, the Committee engages with and receives regular reports from the Head of Clinical Department and supervises the clinical quality aspects of internal audit (the organisational and reporting structure of the internal audit department is set out on page 52).

The principal 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, compliance and similar areas of operational risks).

The responsibilities and functioning of the Committee are governed by formal terms of reference approved by the Board. These were reviewed by the Committee and the Board in December 2017.

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 of the Clinical Quality and Safety Committee and meetings

The Clinical Governance and Safety Committee must 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 74 and 75.

The composition of the Clinical Quality and Safety Committee and the members' meeting attendance for the year 2017 is set out in the Board and Committees' meeting attendance section on page 71.

Our meetings are regularly attended by members of the Company's senior management team, including the Chief Executive Officer and Chief Financial Officer, as well as members of the internal and clinical audit teams. Over the year, other members of management have been invited to attend meetings in order to provide further detail and insight, including the Company's Chief Epidemiologist, who provided an update on progress on antibiotic stewardship within the Group, and representatives from the Quality Assurance teams, who periodically provide the Committee with a summary of progress on embedding quality and consistency across the Group's clinics. In addition, non-Committee Board members are also invited to attend.

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

Meetings of the Clinical Quality and Safety Committee take place prior to the Board meetings in order for the Committee to report its activities and matters of particular relevance to the Board.

Clinical Quality and Safety Committee activities in 2017

We have continued to make progress in understanding our growing number of clinical facilities and our new pharmacy businesses. 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 implementation of a revised 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.

The Committee has continued to monitor and oversee the revised risk management structure within the Company and the proposals for the new Risk department. We held three joint meetings with the Clinical Quality and Safety Committee and the Audit Committee in the year, which focused on this revised structure, which we are confident will sharpen the focus on clinical quality risks. Since its formation, the risk department has played a leading role in undertaking due diligence activities across the Group's clinics and head office, implementing risk management policies across the Group, and supporting the Executive Risk Committee. The Committee is pleased with the progress that the risk department has made to date, and expects further progress in the development of the risk and operations control functions over 2018.

Over the year, we have been encouraged by the progress we have made in embedding a refreshed approach toward managing clinical risk across our hospitals, with a particular focus this year on infection control. We have also dedicated time this year to understanding the ways in which the Company is managing risks on radiation safety, TB prevention and our clinics' general approach toward health and safety.

We were pleased that the Group made appointments in 2017 in senior pharmacological positions, which will, alongside the creation this year of a centralised microbiology department, serve to improve the antibiotic control processes in our facilities. The Committee will continue to focus on monitoring progress in this area.

Alongside this work, we note that the Group continues to develop new services, including in vitro fertilisation (IVF) treatments, to benefit our patients and address a number of public health priorities in Georgia. As detailed in the Resources and Responsibilities section of this report, the Committee welcomes the Group's involvement in the hepatitis C elimination programme in Georgia, a key national public health priority.

The Group opened two new hospitals in Tbilisi in 2017, which are vital to the continued delivery of services to our patients. The Committee will continue to monitor in 2018 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 Process Audit Unit of the Internal Audit team 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.

Our Head of Clinical Process Unit of the Internal Audit team updates us every quarter, 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 audit of medical documentation maintenance processes across a number of clinics, audits of first level of intensive care in selected hospitals, and audits of the antibiotic management process employed in selected clinics and the effectiveness of controls within this process.

The Head of Clinical Department attended the Clinical Quality and Safety Committee meetings at least every quarter to inform the Committee on data points and clinical governance and to keep the Committee apprised of any developments. His focus this year, in relation to clinical risks, has been on radiation safety, TB prevention and general on-site health and safety, and the Clinical Department has launched a number of initiatives and reported on their progress and the goals achieved to the Committee. The Committee 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.

During 2017, the GHG Clinical Quality and Safety Committee members visited a number of the Group's facilities, including Deka Hospital and Tbilisi Referral Hospital. The members met with management and doctors to discuss clinical quality and safety procedures prior to the formal opening of the facilities. Members of the Committee also visited the Laparoscopy Surgery Centre and met with residents in Tbilisi Referral Hospital to gain further insight into the range of services offered and understand the patient experience.

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

Committee effectiveness review

Lintstock performed a review of the effectiveness of the Committee.

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 Bill Huyett joining the Committee.

Looking ahead to 2018

The Clinical Quality and Safety Committee considered its priorities for 2018 and its focus for the coming year is to:

- focus on the infection control and antibiotic management processes in place across the Group's facilities, in line with wider national and public health priorities;
- monitor the correct usage of the new microbiology lab and surrounding procedures;
- review and monitor appropriate care and safety in intensive care, post-operative care and nursing care;
- oversee the roll-out of, and the quality of clinical services in our two new larger Tbilisi hospitals, Tbilisi Referral Hospital and Deka Hospital, and the development of new services by the Group; and
- continue to monitor progress on the revised risk management structure, including the management of clinical quality risks.

Remuneration report

Tim Elsigood
Chairman of the Remuneration Committee

Chairman's Overview

Dear Shareholders,

I would like to outline again the structure of our Directors' Remuneration Policy, approved by shareholders at the 2016 AGM and which the Committee continues to apply. It is comprised of two core elements: salary compensation consisting of a modest cash sum and deferred shares that vest over a five-year period; and discretionary compensation payable entirely in deferred shares which vest over a three-year period.

We pay no cash bonuses, which is another distinguishing feature of our structure, and in contrast to many other UK companies, the Group does not operate a long-term incentive plan ("LTIP"). As a very significant percentage of an executive's compensation is in the form of deferred shares with long vesting periods, executive management are continuously incentivised to create value for the long-term. This structure provides alignment with the Company and its shareholders over the long term. There have been no substantial changes to the directors' remuneration made during 2017. Although members of executive management below the Board level are outside the scope of our Policy, we equally apply the structure of the Policy to them. The Policy supports our corporate culture which focuses executives on team performance that creates value (for both shareholders and the executives) when the Group succeeds over the long term.

One of the most important matters covered by the Remuneration Committee in 2017 was the consideration and award of discretionary deferred shares for CEO Nikoloz Gamkrelidze, our sole Executive Director. The Committee made its annual determination of the discretionary remuneration for our CEO and the executive management team. Mr Gamkrelidze's performance over 2017 has been strong, with the majority of his key performance indicators having been met or exceeded. His leadership of the Company over 2017 continues to drive success for the Company over the longer term.

We also considered the performance against KPIs and the appropriate bonuses of senior management.

To put our decisions in context we received training from the Company Secretary on the recent remuneration trends within the wider industry; and also on wider corporate governance developments.

I was honoured to be appointed the Chairman of the Remuneration Committee in June by the Board, taking over from Neil Janin. I would like to thank Mr Janin for his outstanding commitment and contribution to the Committee. His insights and experience have been invaluable.

Tim Elsigood
Chairman of the Remuneration Committee
6 March 2018

What is in this report?

This Directors' Remuneration Report describes the implementation of GHG's Directors' Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2017.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2016 AGM and took formal effect from the date of approval and will apply until the 2019 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. Our Directors' Remuneration Policy has again been included in this report (set out on pages 96 to 101) for the purposes of clarity and transparency.

The Annual Report on Remuneration (set out on pages 88 to 103) (which includes the Annual Statement by the Chairman of the Remuneration Committee set out on this page will be subject to an advisory vote at the 2018 AGM.

1. 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 and designated members of executive management that rewards fairly and responsibly, and is designed to promote the long-term success of the Group. The Remuneration Committee's full Terms of Reference were last updated in September 2017 and 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 together with Irakli Gilauri. Mr Gilauri serves as Chief Executive Officer of the Company's principal shareholder, BGEO Group PLC. As such, the Board does not consider Mr Gilauri to be independent. The Board nonetheless maintains the view that Mr Gilauri's knowledge of the local employment market and remuneration trends in Georgia provide an invaluable insight for the Committee and that the Committee benefits significantly from his contributions. The Board also notes that it has appointed three independent members to help balance the Committee, which is more than required by the UK Corporate Governance Code for a company of this size.

The composition of the Remuneration Committee and the members' attendance is shown in the Board and Committee meetings attendance table on page 71.

Following the resignation of Neil Janin from membership and Chair of the Committee on 30 May 2017, Tim Elsigood was appointed as Chair on 18 June 2017.

In addition to the formal meetings held during the year, the Committee participated in various discussions by telephone outside of these meetings. Other attendees at Committee meetings who provided advice or assistance to the Committee on remuneration matters from time to time included the CEO, the other Board members and the Director of Legal. Attendees at Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Committee received advice 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.

2. Shareholder context and Remuneration Policy and Report

Our Directors' Remuneration Policy was approved by shareholders at our AGM on 26 May 2016 (the "2016 Policy"). The Directors' Remuneration Report received the following votes from shareholders at the 2017 AGM:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	119,540,079	94.91	6,411,635	5.09	125,951,714	0

3. Directors' remuneration

3.1 Single total figure of remuneration for the Executive Director (audited)

The table below sets out the remuneration earned by the Company's sole Executive Director, Nikoloz Gamkrelidze, in respect of his employment with the Group for the years ended 31 December 2017 and 31 December 2016. For 2017, 79.2% of Mr Gamkrelidze's compensation as set out in the table below is in the form of deferred shares that have a vesting period of three or five years.

	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Deferred share compensation (US$)[3]	Taxable benefits (US$)[4]	Pension benefits[5]	Total
2017	**225,000**	**452,022**	677,022	**575,369**	**43,089**	**1,575**	**1,297,055**
2016	225,000	452,022	677,022	643,171	8,440	2,164	1,330,797

Notes:

1 Cash salary is expressed in Dollars but paid in GBP and Lari as applicable, converted into the respective currency as described in Note 2 of the table in section 6.2 of the Policy. Accordingly, there may be variations in the numbers above and those provided in the accounts.

2 Deferred share salary. The figures show the value of GHG shares underlying nil-cost options granted under the Executive Director's service contract with JSC GHG in respect of service in the relevant year. For 2017 and 2016, Mr Gamkrelidze was awarded 175,000 deferred share salary shares. The value attached to each GHG share is calculated by reference to the share price as of 12 November 2015, the date of admission to listing, which was US$2.58298 (based on the official share price of GBP 1.7 per share converted into Dollars using an exchange rate of 1.5194, being the official exchange rate published by the Bank of England on the same date).

3 Discretionary deferred share compensation. The figure shows the value of GHG shares underlying nil-cost options granted in respect of service in the relevant year. The discretionary deferred share compensation award is capped at 100% of total salary. For 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 Dollars using an exchange rate of 1.3376, being the official exchange rate published by the Bank of England on the previous business date, i.e. 8 December 2017). For 2016, options were awarded over 141,981 GHG shares. The value of this discretionary deferred share compensation is calculated by reference to the share price on 28 February 2017 which was US$4.52998 (based on the official share price of GBP 3.64 per share converted into Dollars using an exchange rate of 1.2445, being the official exchange rate published by the Bank of England on the same date). Discretionary compensation in respect of 2017 is subject to three-year straight line vesting beginning in January 2019, 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 2017 discretionary award is described in section 3.2 below.

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

5 Pension. The figure shows the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined pension scheme the normal retirement age is 65.

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

7 No money or other assets are received or receivable by Mr Gamkrelidze in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of the performance measures or targets relating to a period ending in 2017.

Remuneration report continued

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gamkrelidze, for the year ended 31 December 2017 and his discretionary compensation as a percentage of maximum opportunity.

	2015	2016	2017
Single total figure of remuneration (US$)	1,205,387	1,330,797	**1,297,055**
Discretionary compensation as a percentage of maximum opportunity (%)	100	95	**85**

Note:
1 Maximum opportunity is 100% of total salary (cash salary and deferred share salary). Total salary for 2017 and 2016 is set forth in the table above.

3.2 Basis for determining Mr Gamkrelidze's discretionary deferred share compensation

The number of discretionary deferred shares granted to Mr Gamkrelidze in a given year is dependent on both Group performance and his achievements of the KPIs set for him by the Remuneration Committee.

The following table details the KPIs set for Mr Gamkrelidze in respect of 2017, as well as his performance against these.

Key performance measure (KPI)	2017 target	2017 performance
HEALTHCARE Meeting budget for revenue, EBITDA and net profit	Meeting budget	Budget was not fully met. Revenue target was underperformed by 6%, leading to underperformance in EBITDA and net profit.
HEALTHCARE Delivery of the two large hospital capex projects	Delivery to schedule	Both major developments of the Group's portfolio were on track for completion, within budget. The development of two large hospitals in Tbilisi is a core element of the future growth strategy.
HEALTHCARE Delivery of the strategy in respect of new products and services	Delivery on strategy	A range of 54 additional services and products has been developed and implemented throughout the year.
HEALTHCARE Quality of care improvements	Delivery on strategy	A programme of activity for the year had been agreed with the Group Medical Director. Improved focus on quality has been at the centre of delivering a more consistent service throughout the Group.
HEALTHCARE Delivery of outpatient strategy	Delivery on strategy	Significant progress was made through the year, with the CEO implementing specific changes which accelerated progress by adding approximately 93,000 new customers. He led a review of management capabilities and drove changes that had clear impact in Q4.
HEALTHCARE Development of IT strategy and first steps on implementation	Delivery on strategy	Very strong progress was made in the year after the appointment of a Senior Manager with responsibility for delivering on the agreed strategy.
PHARMA Successful integration of the GPC and ABC acquisitions	Delivery on strategy	Driven by the Chief Executive Officer, this project was a major success in 2017. The acquisition of a second company, together with integration between the two businesses and within the Group as a whole, was successful due to the direct leadership and commitment of the CEO.
PHARMA Improved gross margins and EBITDA margins	Delivery of agreed target	The targets agreed for 2017 have been fully achieved. The integrated pharma companies achieved 8.6 annual EBITDA margin, exceeding mid-term target
PHARMA Extraction of anticipated synergies	More effective purchasing and reduction in running costs	The efficiencies were realised, and exceeded expectations, as a result of strong negotiating and constant monitoring.
PHARMA Progress on retention of pharma customers and expansion of loyalty platform	Implementation of the agreed strategy	Each element of this programme was achieved, with the positive impact shown in the financial results of this Division.
INSURANCE Retention of healthcare insurance claims within Evex	30%	The target agreed for the year, notwithstanding the cancellation of some contracts, was achieved with results of 34.7%.
INSURANCE Improvement of combined ratio (includes depreciation and amortisation expense)	Under 100%	The agreed target was not met in 2017, with results at 102.5%, although due to changes implemented in the second half of the year, the insurance business reached 98.6% combined ratio.

Key performance measure (KPI)	2017 target	2017 performance
GROUP-WIDE Talent development and retention	Delivery on strategy	Significant progress has been made in the year, against an agreed programme of activities. The Board requested that the CEO lead this strategy and he has strengthened management as a result.
GROUP-WIDE Establishment and effective functioning of a new risk management function	New risk management function implemented within the Group	A very strong start was achieved in the creation of this function with all targets achieved. This change required adjustment to organisational structures and was implemented without disruption to the business.
GROUP-WIDE Personal development of executive management including Mr Gamkrelidze himself	Delivery on strategy	Delivery of the programme put in place, including the involvement of the CEO himself, was achieved.

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 2017, Mr Gamkrelidze met or exceeded most of the KPI targets. While the Committee was mindful that the financial KPIs had not been met, against a backdrop of difficult market conditions, the Committee nonetheless recognises the significant achievement by Mr Gamkrelidze in driving performance across the healthcare, pharma and insurance businesses.

In particular, Mr Gamkrelidze's role in driving the development and delivery of a range of new products and services for the Group, in line with our strategy priorities, serves to put the Group in a strong market position going forward. 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 the development of an IT strategy for the Group, a revised risk management structure 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.

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 122,900 shares valued at US$575,369. This amounted to 85% 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. See section 4.2(b) of the 2016 Policy which describes why the Remuneration Committee steers away from strict weighting of the performance measures and the discretion it retains in respect of determining the number of discretionary deferred shares that may be granted.

For 2018, the Remuneration Committee plans to measure Mr Gamkrelidze's performance against KPIs which reflect the Group's strategy and priorities, as follows:

- Achieve agreed Group Revenue and EBITDA, Net Income and Free Cash Flow targets
- Achieve revised targets for increased efficiency, measured by improvements in Gross and Net Margin and ROIC
- Drive through the agreed strategy for the creation of management fee related business
- Complete the analysis and implementation plan for developing medical tourism into GHG facilities
- Drive forward the outpatient strategy to achieve the desired strategic target by year end
- Ensure that the Group IT Strategy supports the overall Group Strategy as well as operational performance with particular emphasis on optimising opportunities for digital platforms and integration between Healthcare and Pharma
- Continue to strengthen the depth of management across the Group, especially at Senior and Middle Management level

At its March 2018 meeting the Remuneration Committee will review the detail of each KPI and ensure that measurable targets are included for each. These will be reviewed by the Remuneration Committee throughout the year and by the Board as appropriate.

Remuneration report continued

3.3 Further details of fixed and discretionary contingent deferred share compensation granted during 2017 (audited)

The following table sets out details of the nil-cost options over GHG shares which have been granted to Mr Gamkrelidze in 2017 in respect of the year ended 31 December 2016.

	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.	141,981 granted on the basis described in the table in section 4.2 and section 4.2(b) of the 2016 Policy available at http://ghg.com.ge/annual-reports.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	US$202,699[1]	US$643,171[2]
Face value	US$452,022[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	US$643,171[2]
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2016 performance (and is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options make up the entirety of the Executive Director's performance-based compensation and so no payment is required upon exercise.
Vesting period	20% in each of 2018, 2019 and 2020 and 40% in 2021.	33% in each of 2018, 2019 and 2020.
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 2016 Annual Report available at http://ghg.com.ge/annual-reports.
3. Whilst the Remuneration Committee has determined the award for discretionary deferred share compensation, this will be reported in the 2018 Annual Report and Accounts as it relates to 2017.

3.4 Percentage change in the remuneration of the Chief Executive Officer

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2016 and 2017, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2016 and 2017. 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 2016 and 2017	Average percentage change for the Group's employees as a whole (excluding Mr Gamkrelidze) between 2016 and 2017
Total cash salary	0%	15%
Total deferred share salary	0%	0%
Taxable benefits[1]	410.5%	9.7%
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)	-10.5%	0.4%

Notes:
1. The increase in benefits in 2017 reflects tax equalisation.

3.5 Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director for the year ended 31 December 2017.

	GHG PLC fees (US$) 2017	JSC GHG fees (US$) 2017	Total fees (US$) 2017	Total fees (US$) 2016
Irakli Gilauri	–	–	–	–
David Morrison	83,500	72,500	**156,000**	156,000
Neil Janin	60,624	41,495	**102,119**	111,000
Ingeborg Oie	52,542	52,000	**104,542**	104,000
Mike Anderson	59,000	48,000	**107,000**	107,000
Tim Elsigood	63,126	64,876	**128,002**	126,000
Jacques Richier	59,000	48,000	**107,000**	107,000
Bill Huyett	23,857	23,857	**47,714**	–
Allan Hirst	–	–	–	96,000
Total	401,649	350,728	**752,377**	807,000

Notes:

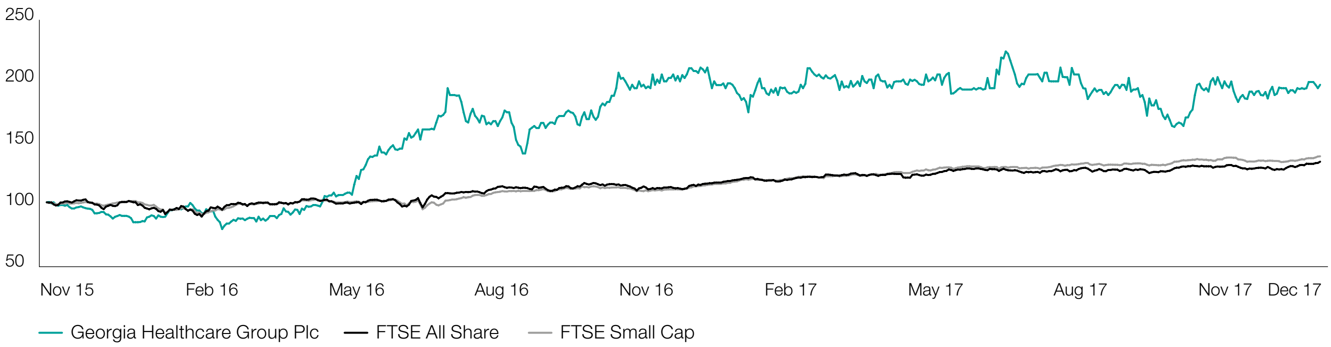
1 Bill Huyett joined as a member of the Board and of the Clinical Quality and Safety Committee on 18 June 2017.
2 Neil Janin resigned as a member of the Clinical Quality and Safety Committee from 18 June 2017 and as Chairman and as a member of the Remuneration Committee and of the Nomination Committee on 30 May 2017.
3 Ingeborg Oie was appointed as member and Chairman of the Nomination Committee on 18 June 2017.
4 Tim Elsigood was appointed as Chairman of the Remuneration Committee on 18 June 2017.
5 Due to the changes in responsibilities during the year, fees will be adjusted in 2018 in respect of the work year 2017.

In accordance with the Articles of Association of GHG PLC, fees for Non-Executive Directors (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) may not exceed GBP 750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of GHG PLC.

3.6 Total Shareholder Return

Georgia Healthcare Group PLC TSR

The following graph compares the total shareholder return of the Company with the companies comprising the FTSE All Share Index and FTSE Small Cap index, for the period since the Company's listing on the premium segment of the London Stock Exchange on 12 November 2015 until 31 December 2017. These comparators have been chosen on the basis that they are the markets within which GHG PLC operates.



3.7 Relative importance of spend on pay

The following table shows the Company's actual spend on pay for all employees.

	Remuneration paid to all employees of the Group
Year ended 31 December 2016 (US$)	49,960,569
Year ended 31 December 2017 (US$)	65,999,923
Percentage change	32.1 %

The increase in remuneration paid to all employees of the Group in the table above is primarily due to acquisitions made by the Group and the associated headcount increase.

Remuneration report continued

3.8 Directors' interests in shares audited

	As at 31 December 2016				As at 31 December 2017			
	Number of GHG shares held directly	Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GHG shares	Number of GHG shares held directly	Number of vested but unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GHG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GHG shares
Nikoloz Gamkrelidze[1 2]	117,500	–	412,500	530,000	117,500	114,167	615,314	846,981
Irakli Gilauri	411,700	N/A	N/A	411,700	411,700	–	-	411,700
David Morrison	116,600	N/A	N/A	116,600	116,600	–	-	116,600
Neil Janin	88,000	N/A	N/A	88,000	88,000	–	-	88,000
Ingeborg Oie	29,000	N/A	N/A	29,000	29,000	–	-	29,000
Tim Elsigood	14,700	N/A	N/A	14,700	14,700	–	-	14,700
Mike Anderson	11,500	N/A	N/A	11,500	11,500	–	-	11,500
Jacques Richier	–	N/A	N/A	–	-	–	-	-
William Huyett	–	N/A	N/A	–	10,000	–	-	10,000

Notes:
1 In the Annual Report for year ended 31 December 2016, we presented Mr Gamkrelidze's unvested and unexercised shares inclusive of all options granted in respect of that work year. In the above table, we have presented only the number of unvested and unexercised shares as at 31 December 2016 and 31 December 2017. Further details of the awards made and determined in respect of those work years are in Notes 2 and 3 below.
2 In 2017, Mr Gamkrelidze received awards of 175,000 salary deferred shares and 141,981 discretionary deferred shares for 2016 work year.
3 Whilst the Remuneration Committee has determined the awards for discretionary deferred share compensation, this and the salary deferred shares will be reported in the 2018 Annual Report and Accounts and is not included in the table above, which is as at 31 December 2017. The awards to be received in 2018 respect of the 2017 work year are 175,000 salary deferred shares and 122,900 discretionary deferred shares as set out in Notes 2 and 3 to the table in section 3.1 above.

As at 5 March 2018, Mr Gamkrelidze's vested and unvested shareholding remains 846,981 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 Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The long vesting periods, particularly for deferred salary shares (five years), will result in future years in executive management having large holdings of unvested shares. Accordingly, the Group does not apply a shareholding guideline or impose a holding period on Mr Gamkrelidze's or executive management's shares. The Policy naturally results in Mr Gamkrelidze and our executive management team holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Management Association.

The Group does not require Non-Executive Directors to hold a specified number of shares in GHG. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the Non-Executive Directors' GHG shareholdings since 31 December 2016, or as at the date of their appointment to the Board.

3.9 Details of Non-Executive Directors' letters of appointment

The Company has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 4 September 2015, with William Huyett's letter of appointment being effective from 18 June 2017. Each Non-Executive Director is put forward for election at each Annual General Meeting following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each Annual General Meeting.

A succession plan adopted by the Board provides for a tenure of six years on both the GHG and JSC GHG boards. Upon the expiry of such six-year tenure, the appointment of the relevant Director will generally cease at the next upcoming Annual General Meeting.

Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Director on the Board beyond the relevant six-year period, the Board may offer the Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

3.10 Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received on our remuneration structure each year as well as guidance from shareholder representative bodies, as we view shareholder input as key when shaping our remuneration policy. In 2016 and 2017, we met with a number of our significant shareholders to discuss our remuneration structure and engaged directly with several shareholder advisory groups. The feedback we received was positive and our shareholders were widely supportive of our executive remuneration structure, understanding that although it varies from a typical UK remuneration structure in that we do not operate an LTIP or give cash bonuses, the absence of cash bonuses and the dominance of deferred share compensation in the overall remuneration package creates a direct and natural alignment of shareholder and executive management interests.

3.11 Consideration of employment conditions elsewhere in the Group

When determining an Executive Director's remuneration, the Remuneration Committee considers: (i) the pay and employment conditions of executive management (other than Directors) and executive management; (ii) any changes in pay and employment conditions across the Group as a whole; (iii) whether employees across the Group are personally satisfied with the way they are remunerated; and (iv) any feedback received during the year from the Human Resources department, executive management and other employees on the executive remuneration structure.

We frequently benchmark remuneration at all levels within the Group in order to ensure that our remuneration is competitive in order to attract the right candidates and remain competitive in order to motivate, satisfy and retain our talent. For a FTSE All-Share company of our size and depth, our Executive Directors must have the skills, experience, work ethic and attitude required to successfully execute our strategy, meet our objectives and create value for shareholders over the long term. In order to recruit and retain this talent, we must benchmark the value of remuneration against other FTSE companies of similar size and sector listed in the UK. Top Executives are not paid cash bonuses and therefore remuneration in the form of deferred shares will comprise by far the largest part of total remuneration.

The compensation of employees in the Group, other than Executive Directors, is benchmarked against the Georgian labour market as this is the most relevant comparator. Our employees are offered competitive remuneration packages which include benefits and the opportunity to participate in the pension scheme on the same terms as applicable to Mr Gamkrelidze and executive management. Bonuses are usually paid in cash. The results of the most recent survey conducted by the Human Resources department in 2016 in respect of remuneration confirmed that employees are largely satisfied with their fixed compensation and bonus opportunity. We will continue to regularly monitor staff satisfaction in this area.

4. 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 2016 and 2017.

	As at 31 December 2016			As at 31 December 2017		
	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	3,400	144,500	147,900	**18,910**	**294,384**	**313,530**
David Vakhtangishvili	–	151,000	151,000	**–**	**199,056**	**199,056**
Giorgi Mindiashvili	–	145,000	145,000	**–**	**197,763**	**197,763**
Enrico Beridze[1]	N/A	N/A	N/A	**–**	**–**	**–**

Notes:
1 Mr Beridze joined GHG in 2017 and as at 31 December 2017 held 693,119 GHG shares directly.

As mentioned in the Chairman's Statement, the structure of the Policy as it applies to Mr Gamkrelidze equally applies to executive management. Irakli Gogia, David Vakhtangishvili and Giorgi Mindiashvili receive a modest cash salary, 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 2017 in respect of the 2017 work year. For each of Mr Gogia, Mr Vakhtangishvili and Mr Mindiashvili, deferred shares accounted for no less than 75% of total remuneration in 2017. The predominance of deferred shares defines our remuneration structure. Like Mr Gamkrelidze, executive management is focused on long-term value creation. In January 2017, Enrico Beridze joined the Group. The agreed structure of the acquisition of his company at the time, JSC ABC Pharmacia, was that part of the consideration was paid in shares rather than cash so that Mr Beridze was fully engaged in the Group and incentivised in a similar way to other senior management who had built up shareholdings.

5. Committee effectiveness review

Lintstock 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 2018 include further work to ensure that senior management key performance indicators are aligned with the Company's long-term strategy and even greater focus on future performance targets for senior managers, including the Executive Officer.

Remuneration report continued

6. Directors' Remuneration Policy

Our Directors' Remuneration Policy was approved by our shareholders at the 2016 AGM. The approved Directors' Remuneration Policy (which has not been amended) is valid for three years from the date of the 2016 AGM and will not be presented to shareholders for approval at the 2018 AGM. We have provided the Directors' Remuneration Policy in order to provide context to the discussion of the implementation of the policy in the Directors' Remuneration Report on pages 88 to 103. Please refer to the 2016 Annual Report for the full text of the approved Directors' Remuneration Policy, which is also available on our website, at http://ghg.com.ge/annual-reports.

Information on how the policy will be implemented in 2018 is included on pages 102 and 103. There will be no significant changes between the Directors' Remuneration Policy and its implementation in 2018.

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

6.1 Policy table

Component[1]	Purpose and link to strategy	Operation	Opportunity
Salary in the form of cash and deferred shares	**Cash salary** Modest yet sufficient to cover reasonable living expenses and, when combined with the other elements of the package, competitive enough to attract, retain and develop high-calibre talent. **Deferred share salary** Fixed compensation in the form of nil-cost options over GHG shares which vest over a five-year period. The long vesting period promotes the long-term success of the Group by closely aligning the Executive Director's and shareholders' interests. Cash salary is paid in part under the Executive Director's service contract with JSC GHG and in part under his service contract with GHG, to reflect the Executive Director's duties to each. Deferred share salary is paid under the Executive Director's service contract with JSC GHG.	**Cash salary** Cash salary payable under the GHG contract is expressed in Dollars but paid in GBP on each monthly payment date[2]. Cash salary payable under the service contract with JSC GHG is expressed in Dollars but paid in Lari on each monthly payment date[2]. **Deferred share salary** Awarded annually over the number of GHG shares that is stated in the Executive Director's service contract with JSC GHG. Awards are formally granted in January of the first year following the work year, and vest as to 20% in January of each of the second, third and fourth years following the work year, and as to 40% in January of the fifth year following the work year. At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date[3]. Unvested deferred share salary lapses upon termination by GHG or JSC GHG "for cause" or by the Director other than for "good reason" or if the Director does not remain employed by the Group or serve as a Director of a subsidiary of the Group (each as defined in the relevant service contract and explained, in the case of Mr Gamkrelidze, in section 6.4(b) below on pages 100 to 101). There is no provision for the recovery or withholding of cash or vested deferred share salary.	**Cash salary** The amount is fixed in the Executive Director's contract with GHG and, if applicable, with JSC GHG. The total amount payable to Mr Gamkrelidze under his current contracts is US$225,000. **Deferred share salary** The number of shares underlying each annual award is fixed for the duration of the Executive Director's contract with GHG or JSC GHG, as the case may be. The number of deferred share salary shares under Mr Gamkrelidze's current contract with JSC GHG is 175,000 per annum. The level of salary for an Executive Director is reviewed by the Remuneration Committee when the service contract is renewed. Renewal is due to take place in 2020.

Component[1]	Purpose and link to strategy	Operation	Opportunity
Discretionary deferred share compensation	Annual performance-based compensation paid entirely in the form of nil-cost options over GHG shares which vest over a three-year period. As with the deferred share salary, this promotes the Group's long-term success by closely aligning the Executive Director's and shareholders' interests. The Group pays no cash bonus to its Executive Directors and has no LTIP.	Awarded annually after the end of the work year in respect of which the award is made over a number of GHG shares that are determined annually by the Remuneration Committee, based on the performance of the Group and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year (see section 6.1(b) below). Awards vest as to 33.33% in January of each of the second, third and fourth years following the work year. At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date[3]. Unvested deferred share compensation lapses upon termination by GHG or JSC GHG "for cause" or by the Executive Director other than for "good reason" or if the Director does not remain employed by the Group (each as defined in the relevant service contract, as is explained for Mr Gamkrelidze in section 6.4(b) below). The Board has, however, reserved the right to permit unvested discretionary deferred shares to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group. If at any time after awarding discretionary deferred share compensation it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse.	Discretionary deferred share compensation is granted out of a pool of shares made available for such awards. The Remuneration Committee reserves the right to award no discretionary deferred share compensation if the Group's performance is unsatisfactory or if the Executive Director's performance is poor in light of the KPIs set by the Remuneration Committee for the Executive Director. For Mr Gamkrelidze, the maximum value of discretionary deferred share compensation that may be awarded in a given year for the remainder of his service contract with the Group is capped at 100% of total salary (see section 6.1(b) below). Discretionary deferred share compensation for any newly appointed Executive Director, other than Mr Gamkrelidze, will not comprise more than 125% of the Executive Director's total salary. However, the Remuneration Committee has reserved the right to increase the maximum discretionary deferred share compensation to 150% of the Executive Director's total salary for performance that has resulted in outstanding benefits for shareholders.
Pension	The provision of retirement benefits helps to attract and retain high-calibre talent.	The Group operates a defined contribution pension scheme. The Executive Director and the Group each contribute a minimum of 1% of the Executive Director's gross monthly cash salary payable under his service contract with JSC GHG. There is no provision for the recovery or withholding of pension payments.	The Group will match in additional contributions in a proportion of 0.2 to 1, up to a maximum additional Group contribution of 1% of gross monthly salary where the Executive Director makes additional contributions up to 5% of gross monthly salary.
Benefits	Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	Benefits consist of health insurance, disability insurance, Directors' and officers' liability insurance and personal security arrangements (if requested by the Executive Director). A tax equalisation payment may be paid to an Executive Director if any part of his remuneration becomes subject to double taxation. There is no provision for the recovery or withholding of benefits.	There is no prescribed maximum on the value of benefits payable to an Executive Director. If the Executive Director's personal circumstances do not change and the Group is able to obtain benefits on substantially the same terms as at the date of the publication of this Policy, the aggregate cost of benefits for an Executive Director during the Policy's life is not expected to change materially.

Notes:
1 Under service contracts with GHG and/or JSC GHG (as applicable).
2 GHG cash salary is converted from USD to GBP at the exchange rate published by the Bank of England on each monthly payment date. JSC GHG cash salary is converted from Dollar to Lari at the exchange rate published by the National Bank of Georgia on each monthly payment date.
3 Dividend equivalents (if any) are paid in Lari as at the date dividends were paid to other shareholders.

Remuneration report continued

a) Deferred share salary
The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. Heavily weighting base 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 service contract and is therefore not subject to performance targets or measures. The salary increases or declines in value depending on Group performance over the four years following the work year, aligning the Executive Director's interests directly and naturally with those of the Group's shareholders.

b) Discretionary deferred share compensation
The Group does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share compensation. No cash bonuses are paid to the Executive Director. Instead, individual and Group performance is rewarded through an award of discretionary deferred share compensation that vests over the three years following the work year.

As discretionary deferred share compensation is awarded to reward past performance over the work year, it is not subject to any performance measures over the period from award to vesting. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and the Executive Management as a whole is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:
- financial objectives;
- strategic objectives; and
- people and similar softer objectives.

The number of shares over which the Executive Director's discretionary deferred share compensation will be granted is determined by the Remuneration Committee by reference to the performance of the Group and the Executive Director's KPIs. These KPIs are set for the Executive Director by the Remuneration Committee at the start of the financial year and reflect the Executive Director's required contribution to the Group's overall key strategic and financial objectives for that financial year. See section 3.2 above for a description of the KPIs set for Mr Gamkrelidze in respect of 2017 and his performance against these, as well as the KPIs which have been set for him in respect of 2018.

Whilst the Remuneration Committee has defined the set of factors to be considered in determining the aggregate pool of discretionary deferred shares and evaluating an Executive Director's performance, it seeks to steer away from defining a series of narrow objectives for Executive Management and does not employ strict weighting of performance measures. A high level of discretion is intentionally maintained when determining the quantum of discretionary deferred shares awarded to the Executive Director even in a "good" year for the Executive Director (e.g. achievement of most of his KPIs). In a "bad" year for the Group (e.g. poor financial performance by it), the Executive Director could receive little or no discretionary share compensation.

As mentioned in the Policy table above, the maximum value of discretionary deferred share compensation that Mr Gamkrelidze may be awarded in a given year for the remainder of his service contract with the Group is capped at 100% of his total salary. For these purposes, total salary comprises the annual cash salary and the deferred salary shares provided for in Mr Gamkrelidze's service contract, the latter being valued, for the current service contract, by reference to the share price as of the date of admission to the London Stock Exchange, and for future service contracts, by reference to the share price as of the date of the contract.

c) Equity compensation trust
An equity compensation trust has been established for the purpose of satisfying deferred share salary and discretionary deferred share compensation in the form of nil-cost options awarded to any eligible executive. The trust was established in 2015. If GHG needs to issue new shares or repurchase shares, or a combination of both, in order to ensure that there is a sufficient number of shares committed to the trust in order to satisfy awards, the Group has committed to shareholders that new shares issued in satisfaction of deferred share compensation from the time of listing on the London Stock Exchange will not exceed 10% of GHG's ordinary share capital over any 10-year period.

d) Comparison with the remuneration policies for employees generally
The components of the remuneration package for Executive Directors (as provided for by the Policy) are broadly the same as those for non-Board members of the Executive Management. Other members of executive management and middle management receive their entire salary in cash and do not receive deferred share salary. Their bonuses may be in the form of cash and/or of shares which vest over a three-year period following the award. All other employees within the Group receive a cash salary and may be eligible to receive cash bonuses, portions of which may be deferred until the publication of the audited annual results for the work year and/or based on continuous employment with the Group. The deferred portion of the cash bonus may also be reduced if it is revealed, upon completion of the annual audit, that the annual results published by the department where the employee works were incorrect in any material respect. All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on the same terms as applicable to Executive Directors.

e) Business expenses
Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

6.2 Elements of the Policy – Non-Executive Directors

In 2017, each member of the Board of GHG, with the exception of Mr Gamkrelidze, served as a member of the supervisory board of JSC GHG. Each non-executive member of the Board, with the exception of Mr Gilauri, received (in respect of their services to GHG) a base fee and was further remunerated for membership on the Audit, Remuneration, Nomination and Clinical Quality and Safety Committees, where applicable.

The Policy provides for a Non-Executive Director's remuneration package to be comprised of the following elements:

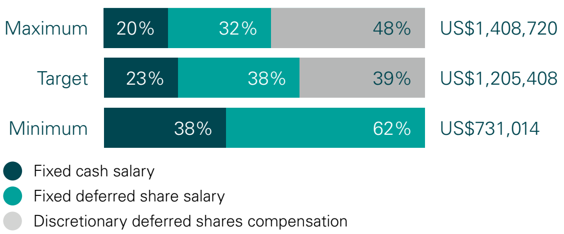
Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain experienced individuals. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.	Cash payment on a quarterly basis	The amount of remuneration is reviewed every three years by the Remuneration Committee, which reserves the right, in its sole discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate GHG fees for all Non-Executive Directors which may be paid under GHG's Articles of Association is GBP 750,000.
Cash fee for each committee membership	Additional fee to compensate for additional time spent discharging committee duties	Cash payment on a quarterly basis	The amount of remuneration for committee membership is reviewed every three years by the Remuneration Committee.

Notes
1 Non-Executive Directors did not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives in 2016.
2 Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.
3 Non-Executive Directors who are appointed to the Board of the Company and/or to the supervisory board of JSC GHG by shareholders of the Company are required to waive any entitlements to fees which would otherwise be payable to them under the Policy for so long as they are appointees of a shareholder.

6.3 Total remuneration opportunity for our sole Executive Director

The chart below shows the remuneration which Mr Gamkrelidze, the sole Executive Director, could receive in respect of 2018 under the Policy at three different performance levels. It should be noted that, at the maximum level, 80% of Mr Gamkrelidze's 2018 compensation will be in the form of deferred shares for which the vesting period is either three or five years. At the minimum level, 62% of Mr Gamkrelidze's 2018 compensation will be in the form of deferred shares for which the average vesting period is either three or five years.

Total remuneration opportunity for our sole Executive Director



Notes:
1 Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gamkrelidze's total cash salary in 2018 in respect of both his service contract with GHG and JSC GHG will be US$225,000. Deferred share salary is calculated as described in Note 2 to table 3.1. Deferred share salary in respect of 2018 will be formally granted in January 2019 and will vest from January 2020 to January 2023. For the purpose of this chart, tax equalisation for the calendar year has been added and the value of pension and non-tax equalisation benefits for 2017 has been used as it is assumed the value will be substantially the same in 2018.
2 The means of determining the number of shares underlying the discretionary deferred share compensation and terms and conditions applying to this compensation are described in section 6.1(b). Discretionary deferred shares in respect of 2018 will be formally granted in January 2019 and will vest in January 2020, January 2021 and January 2022.
3 Minimum opportunity reflects a scenario whereby Mr Gamkrelidze receives only fixed remuneration, comprised of cash salary, deferred share salary, benefits and pension contributions and the Remuneration Committee considers that the Group's and/or the Director's performance in 2018 does not warrant any award of discretionary deferred share compensation.
4 On target opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described above) and assumes a discretionary deferred share compensation award at 70% of the maximum opportunity for Group and individual performance which is in line with the Group's expectation, which is excellent performance.
5 Maximum opportunity reflects a scenario whereby Mr Gamkrelidze receives fixed remuneration (as described above) and a discretionary deferred share compensation award of 100% of total salary (i.e. the Remuneration Committee considers that the Group's and the individual's performance in 2018 warrant the highest possible level of discretionary deferred share compensation).
6 The value of deferred shares does not take into account any increase or decrease in share price over the vesting period or dividend equivalents (if any) payable on vesting (upon exercise of the nil-cost options).

Remuneration report continued

6.4 Payments for loss of office (audited)

From the date of listing up to the year end, no Executive Director left the Group and therefore no payments for loss of office were paid to, or receivable by, any Director.

The following paragraphs a) and b) describe the Group's policy for payments on termination of Mr Gamkrelidze's service contracts with GHG and JSC GHG. In 2017 and as at the date of this Annual Report, Mr Gamkrelidze is the sole Executive Director on the GHG Board. The Group's policy on payments for loss of office for Non-Executive Directors and its approach to payments for loss of office for future Executive and Non-Executive Directors is described in paragraph 6.5 on page 101. The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office.

a) Termination of GHG PLC service contract dated 1 May 2017 (effective on admission)

Mr Gamkrelidze's service contract with the Company is for an indefinite term (subject to annual re-election at the Annual General Meeting) and is terminable by either party on not less than four months' written notice. Where the service contract is terminated on notice the Company may put Mr Gamkrelidze on garden leave for some or all of the notice period and continue to pay his cash salary under the Company service contract provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

The Company may terminate Mr Gamkrelidze's employment early with immediate effect and without notice and pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related) or becoming of unsound mind.

The Company may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of cash salary due under the Company's service contract as at the date of termination of employment.

b) Termination of JSC GHG service agreement dated 29 April 2015

On 29 April 2015 the Group entered into a service contract with Mr Gamkrelidze. Neither party shall have the right to terminate the agreement prior to expiration of the employment term for any reason whatsoever, except for:

- termination by the Group for cause, which shall be on the basis of a written notice to the Chief Executive Officer and shall have immediate effect;
- termination by the Group without cause, which shall be on the basis of a written notice to the Chief Executive Officer and shall have immediate effect; and
- termination by the Chief Executive Officer upon serving three months' prior written notice. Unless otherwise agreed with the Board, the Chief Executive Officer will resign only upon expiration of this three-month notice period.

Separation payments

In the circumstances listed below where Mr Gamkrelidze's service contract is terminated, he is entitled only to accrued and unpaid cash salary and accrued but not yet paid business expenses, a leaving allowance and severance payment constituting the immediate monetary equivalent of no less than six months' base salary and any accrued but unpaid tranches of the cash bonus (if any) if termination is by the Company without cause. Mr Gamkrelidze is entitled to three months' base salary and any accrued but unpaid tranches of the cash bonus (if any) in the case of termination by Mr Gamkrelidze for good reason.

The aforementioned circumstances are:

- termination by the JSC GHG for "cause" (cause being defined as gross and wilful misconduct in the course of his duties having a material adverse effect on the Group, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances);
- termination by reason of death or disability (in which case he receives life or disability insurance benefits); or
- termination by Mr Gamkrelidze other than for "good reason" (meaning uncorrected material breach of a material provision of the service contract by JSC GHG which is not cured within 30 days of Mr Gamkrelidze serving notice of breach).

The Group may restrict Mr Gamkrelidze from being employed in the healthcare industry and/or providing consulting or similar services to a competing healthcare institution for a period of up to four months following the termination of his employment and will continue to pay him his full cash salary under the JSC GHG service contract as compensation for his unemployment during this period.

In addition, without the prior written consent of the Company, Mr Gamkrelidze shall not contact, deal with or solicit any customer or client of the Group with whom he has had any business dealings in the six months prior to the termination of his service contract, for the purpose of providing services similar to or in competition with those provided by the Company.

The garden leave and non-compete period does not in aggregate exceed six months.

Vesting and lapse of awards

If the agreement is terminated by the Company for cause, Mr Gamkrelidze terminates the agreement for any reason other than for good reason, upon the expiry of the agreement Mr Gamkrelidze does not accept a new service agreement upon substantially similar terms and/or Mr Gamkrelidze does not remain or immediately become an executive of another Group company as defined in his service agreement, then unless otherwise resolved by the Board, any unvested awarded deferred cash salary and discretionary deferred share compensation as at the date when the Executive ceases to be an "executive" shall lapse.

If the agreement is terminated without cause, upon the expiry of the agreement Mr Gamkrelidze is not offered a new service agreement upon substantially similar terms or Mr Gamkrelidze ceases to be an "executive" by reason of injury, disability, redundancy or retirement (at normal retirement age), then any unvested awarded deferred share salary and discretionary deferred share compensation as at the date when the Executive ceases to be an "executive" shall continue to vest in the normal way during the respective vesting period(s).

If before the end of the vesting period Mr Gamkrelidze ceases to be an "executive" by reason of death, Mr Gamkrelidze terminates the agreement for good reason or a change of control event occurs, then any unvested awarded deferred share salary and discretionary deferred share compensation shall vest immediately.

c) Termination of Non-Executive Directors' appointment

Each Non-Executive Director is required to submit himself or herself for annual re-election at the Annual General Meeting.

The letters of appointment 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.

6.5 Policy on the appointment of external hires and internal appointments

Any new Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her remuneration package would comprise the components described in section 6.1 above. The Remuneration Committee may, in its discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package. This discretion will only be exercised to the extent required to facilitate the recruitment of the particular individual. In addition, the terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Relocation support for an incoming Executive Director and, where relevant, his or her family, may be provided depending on the individual's circumstances. The Group has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

Upon the recommendation of the Remuneration Committee, the Group may "buy out" incentive awards which were granted to an incoming Executive Director by a previous employer and which have been forgone. In these circumstances, the approach will be to match the estimated current value of the forgone awards by granting awards of deferred share compensation which vest over a similar period to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation. Any payment upon termination of a new Executive Director's service contract would not exceed 12 months' cash salary under the relevant service contract, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may also continue to pay a former Executive Director his full cash salary for any period following the termination of his appointment during which he is prohibited from competing with the Group.

It is expected that the following vesting provisions will apply to deferred share compensation in the case of termination of a new Executive Director's service contract:

- Unvested deferred share compensation would lapse upon termination of the service contract by the Company or JSC GHG for cause, termination by the Executive Director other than for good reason or if the Executive Director's employment is terminated for any other reason and he/she is not offered continued membership of the GHG Board or JSC GHG's supervisory board.
- Unvested deferred share compensation would continue to vest in the normal way during the respective vesting period(s) upon termination by the Company or JSC GHG without cause, if the Executive Director's service contract expires and he/she is not offered a new service contract on substantially similar terms on expiration or if the Executive Director ceases to be an Executive Director by reason of injury, disability, redundancy or retirement (at normal retirement age).
- Unvested deferred share compensation would vest immediately upon death of the Executive Director, termination of the service contract by the Executive Director for good reason or a change of control.

Notwithstanding the above, the Board reserves the right to permit unvested deferred share compensation to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

Any new Non-Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary in light of market practice among other FTSE All Shares Index companies and the current remuneration of other Non-Executive Directors. His or her remuneration package would comprise the same components as the existing Non-Executive Directors.

If an existing employee of the Group is appointed as an Executive or Non-Executive Director, any obligation or commitment entered into with that individual prior to his/her appointment will be honoured by the Group in accordance with the terms of those obligations or commitments, even where they differ from the terms of the Policy.

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

In accordance with the statement in this section of the Annual Report 2016, the Remuneration Committee has taken into account shareholders' views after the Annual General Meeting held on 1 June 2017 – please see sections 3.10 and 3.11 above.

6.7 Minor changes

The Committee may make minor amendments to the Directors' Remuneration Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

Remuneration report continued

7. Statement of Implementation

There will be no significant changes in the way that the remuneration policy will be implemented in the next financial year compared to how it was implemented in this financial year.

Details of how the remuneration policy will be implemented for the 2018 financial year are set out below.

a) For Nikoloz Gamkrelidze

Fixed pay

Total cash salary (combined GHG, JSC GHG and JSC Evex)	US$225,000
Total deferred share salary (JSC GHG)	US$452,022
Pension and other benefits	No change from the stated policy

2018 Discretionary deferred compensation

Opportunity	Maximum 100% of total salary (including cash salary and deferred share salary).
Deferral terms	Awarded annually after the end of the work year in respect of which the award is made over a number of GHG shares to be determined by the Remuneration Committee, based on the performance of the Group and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year. Awards vest as to 33.33% in January of each of 2020, 2021 and 2022. At vesting (upon exercise of the nil-cost options), Nikoloz Gamkrelidze receives (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.
Performance measures and targets	For 2018, the Remuneration Committee plans to measure Mr Gamkrelidze's performance against KPIs which reflect the Group's strategy and priorities, as follows: • Achieve agreed Group Revenue and EBITDA, Net Income and Free Cash Flow targets • Achieve revised targets for increased efficiency, measured by improvements in Gross and Net Margin and ROIC • Drive through the agreed strategy for the creation of management fee related business • Complete the analysis and implementation plan for developing medical tourism into GHG facilities • Drive forward the outpatient strategy to achieve the desired strategic target by year end • Ensure that the Group IT Strategy supports the overall Group Strategy as well as operational performance with particular emphasis on optimising opportunities for digital platforms and integration between Healthcare and Pharma • Continue to strengthen the depth of management across the Group, especially at Senior and Middle Management level

Due to the potential impact on our commercial interests, annual bonus weightings and targets are considered commercially sensitive and will therefore be disclosed in the 2018 remuneration report following the completion of the financial year.

There are circumstances in which unvested compensation may lapse and narrow circumstances in which it may vest immediately, all as set out in the Policy.

If at any time after awarding discretionary deferred share compensation it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year, or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse, as set out in the Policy.

b) Non-Executive Directors' Remuneration

The table below shows the fee structure for Non-Executive Directors for 2018. Non-Executive Directors' fees are determined by the Remuneration Committee.

Component purpose and link to strategy Operation Opportunity	Component purpose and link to strategy Operation Opportunity	Component purpose and link to Operation Opportunity	Component purpose and link to strategy to Operation Opportunity
Base cash fee	The fee for the GHG Board is competitive enough to attract and retain individuals. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.	Cash payment on a quarterly basis	The amount of remuneration is reviewed every three years by the Remuneration Committee. The Remuneration Committee reserves the right, in its sole discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate GHG fees for all non-executive directors which may be paid under GHG's Articles of Association is GBP 750,000.
Cash fee for each committee membership	Additional fee to compensate for additional time spent discharging committee duties.	Cash payment on a quarterly basis	The amount of remuneration for committee membership is reviewed every three years by the Remuneration Committee.

Signed on behalf of the Board of Directors

Tim Elsigood
Chairman of the Remuneration Committee
6 March 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated and stand-alone financial statements in accordance with applicable law and regulations.

Company law requires us to prepare financial statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law.

We must not approve the accompanying consolidated and stand-alone financial statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and stand-alone financial statements, Article 4 of the IAS Regulation.

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

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' responsibilities

We confirm that to the best of our knowledge:

- the consolidated and stand-alone financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Strategic Report and the Directors' Report contained in this Annual Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces.

In arriving at this position the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:

- the Annual Report is drafted by appropriate senior management with overall coordination by the Head of Investor Relations to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by the Chief Executive Officer and other senior executive management;
- an advanced draft is considered and reviewed by GHG's legal advisors; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Irakli Gilauri
Chairman
6 March 2018

Nikoloz Gamkrelidze
Chief Executive Officer
6 March 2018

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2017.

Strategic Report

The Strategic Report on pages 2 to 67 was approved by the Board of Directors on 6 March 2018 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 67 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 67
Going Concern Statement	Pages 54
Viability Statement	Pages 54
Risk Management	Pages 51 to 54
Principal Risks and Uncertainties	Pages 55 to 61
Directors' Governance Statement	Pages 68
The Board of Directors	Pages 74 to 75
Nomination Committee Report	Pages 78 to 80
Audit Committee Report	Pages 81 to 84
Clinical Quality and Safety Committee Report	Pages 85 to 87
Greenhouse Gas Emissions	Pages 43
Research and Development	Page 50
Employee Matters	Pages 44 to 47
Environmental Matters	Pages 42 to 43
Share Capital	Note 25 on page 160
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	Note 42 on page 167

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 160 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 2017 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 2018 or if earlier, at the close of business on 1 July 2018,

At the 2017 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 31 March 2017, and b) to allot equity securities up to an aggregate nominal amount of GBP 438,939.40, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2018 AGM (or, if earlier, at the close of business on 1 September 2018) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control of GHG.

There are no restrictions on transfers of shares other than:

- Certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Group Share Dealing Code, whereby the Directors and designated employees require approval to deal in GHG's shares; and
- Where a person with an interest in GHG's shares has been served with a disclosure notice and has failed to provide GHG with information concerning interests in those shares.

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 Trust, has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by GHG.

Results and dividends

The Group made a profit before taxation of GEL 46.3 million (year ended 31 December 2016: GEL 40.2 million). The Group's profit after taxation for the year was GEL 45.9 million (year ended 31 December 2016: GEL 61.3 million).

GHG may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by GHG's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of GHG available for distribution.

Directors' report continued

As GHG is a holding company, GHG relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders. GHG stated in its listing prospectus that it does not intend to pay dividends for the first two years following the admission of shares to listing, and the Company continues to keep its policy under review.

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 2017. 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 approved by shareholders in 2016. The fees paid to the Non-Executive Directors in 2017 pursuant to their letters of appointment are shown on page 93. The fees paid to our sole Executive Director in 2017 pursuant to his service agreements with GHG are shown on pages 89 to 92.

Directors' interests

The Directors' beneficial interests in ordinary shares of GHG as at 31 December 2017 are shown on page 94 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 44 to the consolidated financial statements on page 176 of this Annual Report.

Significant agreements – change of control

On 23 October 2015, GHG entered into a Relationship Agreement with BGEO and JSC BGEO Investments which regulates the degree of control that BGEO and its associates may exercise over the management and business of the Group. The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of BGEO and its associates. The Relationship Agreement took effect on 12 November 2015 and will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) BGEO, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If BGEO ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as BGEO and its associates together hold 20% or more of the voting share capital of GHG, BGEO and its associates shall amongst other things:

- conduct all transactions, agreements or arrangements entered into between: (i) BGEO and its associates, and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving BGEO.

The Relationship Agreement entitles BGEO to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG.

The Relationship Agreement also provides that (subject to permitted exceptions) neither BGEO nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with BGEO or its associates. The Company has complied with the terms of the Relationship Agreement and, in so far as it is aware, BGEO and its associate has complied with the mandatory provisions of the Relationship Agreement during the financial year.

A copy of the Relationship Agreement is available to view at the Company's registered office.

At no time during 2017 did any Director hold a material interest in any contracts of significance with GHG or any subsidiary of the Group. The Company is not party to any significant agreements (apart from the Relationship Agreement) that would take effect, alter or terminate following a change of control of the Company.

There are no agreements between the Company and any Director or employee that would provide compensation for loss of office or loss of employment that occurs because of a takeover bid. However, under the plans and provisions of the Company's share schemes (including for deferred share salary and discretionary share compensation) and certain service agreements entered into between the Company and the Executives (as described in further detail in the Directors' Remuneration Report) and between the Company and certain senior managers, certain awards granted to the Executive and senior management will vest on a takeover or other change of control.

Presence outside of Georgia

We have our Group office in London: see page 180.

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 44 to 47 and in the Nomination Committee Report on page 78.

Political donations

The Group did not make any political donations or expenditures during 2017. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2018 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

The table below lists shareholders with voting rights of more than 3% as of 31 December 2017.

	As of 31 December 2017	
Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital*	75,118,503	57.05
Wellington Management Company	9,680,753	7.35
T. Rowe Price	8,057,579	6.12

*Previously known as JSC BGEO Investments

Source: Georgeson, Computershare

From the period 1 January 2018 up to and including 5 March 2018, there have been no further notifications to the Company in respect of interests in voting rights. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Post balance sheet events

On 12 February 2018 the Board of Directors of BGEO Group PLC, the parent of a majority shareholder in the Company, announced the implementation of its demerger (subject to a number of conditions precedent) into a banking and investment business, the latter to hold its shareholding in the Company as previously announced on 3 July 2017, alongside certain matters regarding the proposed structure.

On 16 February 2018 BGEO Group PLC announced that it considered that is highly probable that its Group will own less than a 50% shareholding in the Company at the end of 2018 (and hence classified the Company as a disposal group held for sale in its own accounts).

In January 2018 JSC Insurance Company Imedi L acquired a significant new client, the Georgian Ministry of Internal Affairs, by winning the tender process. The Ministry of Internal Affairs is the country's largest insurance client by number of insured clients.

Please also see page 177, Note 45 regarding events after the reporting period in the Financial Statements.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Group's auditors are unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

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 106.

The Directors' Report on pages 105 to 107 was approved by the Board of Directors on 6 March 2018 and signed on its behalf:

By order of the Board

Rebecca Wooldridge
Company Secretary
6 March 2018

Independent auditor's report to the members of Georgia Healthcare Group plc

To the members of Georgia Healthcare Group plc

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 2017	Separate statement of financial position as at 31 December 2017
Consolidated statement of comprehensive income for the year ended 31 December 2017	Separate statement of changes in equity for the year ended 31 December 2017
Consolidated statement of changes in equity for the year ended 31 December 2017	Separate statement of cash flows for the year ended 31 December 2017
Consolidated statement of cash flows for the year ended 31 December 2017	Related notes 1 to 45 to the extent they apply to the company financial statements, including a summary of significant accounting policies
Related notes 1 to 45 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

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.

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 pages 55 to 61 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 104 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 104 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 54 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Recognition of healthcare and pharmaceutical revenue, including application of IFRS 15 • Valuation of hospitals and clinics, and land and buildings • Business combinations • Goodwill impairment
Audit scope	• We performed an audit of the complete financial information of 3 components and other audit procedures on the remaining component. • The components where we performed full audit procedures accounted for 97% of Profit before tax and non-recurring items, 93% of Revenue and 96% of Total assets.
Materiality	• Overall Group materiality of GEL 2.5m 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
Recognition of Healthcare and Pharmaceutical revenue, including IFRS 15 (GEL 692m, 2016: GEL 363m) *Refer to the Audit Committee Report (page 82); Accounting policies (page 131) including disclosures of the impact of IFRS 15 (pages 132 to 133); and Notes 26 and 27 of the Consolidated Financial Statements.* Investor and analyst expectations of GHG could result in pressure on management to report inappropriate revenue growth. The pharma acquisitions have brought new revenue streams and the management of the pharma business are incentivised to maximise its value through their ownership stake. The Group has early adopted IFRS 15 for the current year. As allowed by the standard, it has been applied prospectively from 1 January 2017, with no restatement of comparatives. In applying IFRS 15, judgment is required to be exercised by management in determining the point at which it is appropriate to recognise revenue, and in particular the nature of performance obligations and the allocation of the contract price to those obligations. Specific considerations include: • The treatment of corrections and rebates in GHG's hospital business • The measurement of revenue in respect of loyalty schemes and barter transactions in the pharma business As with any major new accounting standard, there is a risk that the Group does not apply IFRS 15 appropriately. These factors mean that there is a greater risk of misstatement in revenue balances, either by fraud or error, including through the potential override of controls by management. The risk has increased in the current year as a result of the acquisition of the ABC Pharmacy business and the early adoption of IFRS 15.	• We obtained an understanding of the process for recording transactions in each significant revenue stream in the healthcare and pharmaceutical businesses, including the application of IFRS 15; • We assessed the design and operational effectiveness of key controls over the processing of revenue; • We assessed the Group's approach to recognising revenue in respect of significant sales contracts and the Universal Healthcare Programme ("UHC") to determine whether it was in accordance with the requirements of IFRS 15; • We inspected sales contracts and terms under the UHC to confirm that revenue was recognised in a manner consistent with the contracts/UHC terms; • We tested the veracity of recorded transactions by agreeing revenue details to supporting documentation for each significant revenue stream including key item testing, representative sampling, testing of manual and topside adjustments and cut-off testing for a sample of transactions either side of year end; • We performed analytical review procedures over healthcare and pharmaceutical revenue, to understand the movements on a year-on-year and monthly basis, and investigated any unusual trends; • We analysed healthcare invoices not approved by the Government as at 31 December 2017 to assess the recoverability of receivables; • We tested the validity of journal entries and other adjustments in order to identify and test the risk of misstatement arising from management override of controls as at 31 December 2017; • We confirmed that the accounting of pharma barter trade transactions and the issuing and redemption of points under customer loyalty programmes are in accordance with IFRS 15; • We audited the completeness and appropriateness of IFRS 15 adjustments in relation to corrections and rebates to the government. We compared the adjustments to the historical average of corrections and rebates to access this adjustment; • We considered whether the presentation and disclosure of revenue in the financial statements is in accordance with IFRS 15.	Based on the results of our audit procedures, we concluded that revenue for the year ended 31 December 2017 has been recognised in accordance with IFRS. In particular, the Group properly applied IFRS 15 as at 1 January 2017 and for the year ended 31 December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of hospitals and clinics and land and buildings **(GEL 442m, 2016: GEL 409m)** *Refer to the Audit Committee Report (page 82); Accounting policies (page 128); and Note 11 of the Consolidated Financial Statements.* The Group applies the revaluation model for the measurement of its hospitals and clinics and land and office buildings. Valuations are performed when there is a material change in fair values in the market. The Group engaged an external real estate valuer to perform valuations of hospitals and clinics, land and buildings as at the balance sheet date. 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 secondary market is relatively illiquid, particularly in respect of hospitals and clinics. Although the valuations are performed by appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. The level of risk has remained consistent with the prior year.	• We engaged our real estate specialists to evaluate the appropriateness of the Group's valuations of hospitals and clinics, land and buildings including the following: – We evaluated the competence, professional qualifications and objectivity of the external valuer engaged by the Group; – Through reading the valuation reports and discussion with management and the valuers, we obtained an understanding of the objectives and scope of the valuers' work, the methods and assumptions that they had used and the conclusions that they had reached; – We challenged the methods and assumptions used in the valuation, including consideration as to whether there was contrary market intelligence that had not been taken into account in the valuers' analyses; – We selected 22 key and representative items to test specific valuations, representing GEL 317m or 72% of the total value of GEL 442m. We tested the data, application of the methods and logic and reasoning applied by the valuers. To the extent possible we corroborated the valuation to norms and benchmarks in the Georgian market, although we noted that there is limited availability of transaction information against which to make such comparisons; • We considered whether the presentation and disclosure of property and equipment in the financial statements is in accordance with IAS 16.	Based on the results of our audit procedures, we concluded that certain of the assumptions underlying the valuation of hospitals and clinics, land and buildings, and consequently the valuation as a whole were towards the less conservative end of, but within a reasonable range as at 31 December 2017.
Business combinations **(Net assets of acquired subsidiaries, GEL 43m, 2016: GEL 13m)** *Refer to the Audit Committee Report (page 82); Accounting policies (pages 125 and 126); and Note 5 of the Consolidated Financial Statements* In 2017, the Group acquired JSC ABC Pharmacia ("ABC"), as well as a number of hospitals and polyclinics. The acquisition of ABC was structured such that two key shareholder/managers of ABC retained a 33% interest in the enlarged pharma business (GEPHA) created from merging ABC with the Group's existing pharma company, GPC. The Group will pay deferred consideration in respect of ABC over a period of 3 to 5 years, and there are put and call options between the Group and the two key shareholders in respect of their 33% stake in GEPHA. There is a risk of error in the accounting and financial reporting for acquisitions, including the judgments in respect of the identification and measurement of net assets acquired, consideration, non-controlling interest and resultant goodwill. In addition, there is a risk of incomplete or inaccurate disclosures relating to such transactions. Although the Group has a history of making acquisitions, the structure of the ABC acquisition has increased the risk of misstatement relating to business combinations.	• We obtained an understanding of the terms of each acquisition and considered whether the transactions were accounted for in accordance with the contractual agreements; • For each material acquisition, we: – Validated that the Group had obtained control of the acquired subsidiaries; – Tested the existence of assets and completeness of liabilities acquired, including obtaining evidence of legal title to assets; – Assessed the fair values attributed to acquired assets and liabilities at the acquisition date; – Assessed the completeness and measurement of intangible assets acquired; • We reviewed the terms of the put and call options in respect of JSC ABC Pharmacy to satisfy ourselves that these options had been accounted for in accordance with IFRS and tested that their values had been appropriately calculated at the date of acquisition and year end; • We reviewed the presentation and disclosures in the financial statements, including assessing the compliance of the accounting policies with IFRS 3.	Based on the results of our audit procedures, we concluded that the accounting or business combinations during the year is appropriate and in accordance with the requirements of IFRS. We concluded that the values of the net assets acquired, consideration, non-controlling interests and the put and call options at the date of acquisition and year end, reported in the financial statements are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Goodwill impairment **(Goodwill, GEL 115m, 2016: GEL 57m)** *Refer to the Audit Committee Report (page 82); Accounting policies (page 126); and Note 12 of the Consolidated Financial Statements* The Group performs goodwill impairment testing annually. The goodwill recorded as at 31 December 2017 was tested for impairment by Management by considering the recoverable amount of the goodwill as described in Note 12. In determining the recoverable amount, judgment is applied by Management in deriving: • the forecast cash flows expected to arise from the approved three year plan and the underlying assumptions in setting the three year plan; • the pre-tax discount rates that reflect the market assessment of the time value of money and the risks specific to the cash flow estimates; and • the growth rate used to extrapolate cash flow projections beyond the plan period. The methodologies, judgments and assumptions involved, which are affected by expected future market and economic developments, mean that we consider this to give rise to a significant risk of error in the financial statements. The risk has decreased in the current year as a result of the improvement in the financial performance of the medical insurance business during the year.	• We obtained an understanding of the goodwill impairment assessment performed by management; • We evaluated and challenged this assessment; specifically we: – validated that the goodwill was appropriately allocated to cash-generating units ("CGU"); – validated that the cash flows underpinning the calculation were consistent with the three year strategic plan approved by the Board; – challenged the growth forecasts during the plan period, having regard to historical performance to support the robustness of the forecast process; – independently assessed the following assumptions used in the value in use ("VIU") calculations: – Pre-tax discount rates; and – Long term growth rates – assessed the appropriateness of the valuation methodology used by management to derive the VIU of cash generating units ("CGU") – independently recomputed the VIU using our own assumptions; – 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 concluded that for each CGU, the recoverable amount of goodwill exceeds its carrying amount, with headroom remaining when key assumptions are stressed for what we consider to be reasonable 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 key audit matters included in our auditor's report are consistent with the prior year.

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 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, of the four reporting components of the Group, we selected three components covering entities within the United Kingdom and Georgia, which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics.

The table below illustrates the coverage obtained from the work we performed:

	2017				2016			
	No.	Revenue	Profit[4]	Total Assets	No.	Revenue	Profit[4]	Total Assets
Full scope[1]	3	93%	97%	96%	4	29%	55%	49%
Specific scope[2]	–	–	–	–	6	66%	40%	37%
Full and Specific scope coverage	3	93%	97%	96%	10	95%	95%	86%
Remaining components[3]	1	7%	3%	4%	14	5%	5%	14%
Total reporting components	4	100%	100%	100%	24	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
The total number of components reflects revisions to the internal reporting and consolidation structure within the Group subsequent to the acquisition of ABC Pharmacy. The four components in 2017 comprise of Healthcare Services, Pharma, Medical Insurance and parent company.

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the Healthcare Services and Pharma full scope components, audit procedures were performed directly by component audit teams.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits the principal component of the Group. The Senior Statutory Auditor is based in the United Kingdom, but since Group management and operations reside in Georgia, the Group 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 five times during the current year's audit and there was regular interaction between team members in each jurisdiction.

These visits involved discussing the audit approach with the Georgian primary team and the component teams and any issues arising from their work, 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 2.5 million (2016: GEL 2.0 million), which is 5% (2016: 5%) of profit before tax and non-recurring items. We believe that profit before tax and non-recurring items best represents the 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.

We determined materiality for the Parent Company to be GEL 4.1 million (2016: GEL 4.1 million), which is 1% (2016: 1%) of equity. We believe equity best represents the position of the Parent Company as a holding company. As the materiality for the Parent Company is greater than the Group, we restrict materiality of the Parent Company to GEL 2.5 million for the Group audit.

Starting Basis
- Profit before tax – GEL 46.2m

Adjustments
- Non-recurring items – GEL 4.8m

Materiality
- Totals GEL 51.0m profit before tax and non-recurring items
- Materiality of GEL 2.5m (5% of materaility basis)

We initially set materiality for the Group to be GEL 3.1m based on Q1 profits and management's full year forecast made at the start of the year. Legislative changes during the year led to lower Healthcare Services revenues and profits than originally forecast. We therefore reassessed materiality and reduced it to GEL 2.5 million and extended our audit procedures based on the revised materiality.

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 judgment was that performance materiality was 50% (2016: 50%) of our planning materiality, namely GEL 1.25m (2016: GEL 1.0m). We retained performance materiality at this percentage due to the number and size of acquisitions made by the Group in the last two years, which inherently increases the risk of undetected error.

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 0.3m to GEL 1.1m (2016: GEL 0.4m to GEL 0.5m).

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 0.125m (2016: GEL 0.1m), 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 67;
- Governance section, including Directors' Governance Statement, Shareholder Engagement, Board and Senior Management, Nomination Committee Report, Audit Committee Report, Clinical Quality and Safety Committee Report, Remuneration Committee, Statement of Directors' Responsibilities and Directors' Report, set out on pages 68 to 107; and
- Additional information, including Abbreviations, Glossary and Shareholder information, set out on pages 178 to 180.

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 104 – 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 81 – 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 68 – 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 104, 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; and
- In respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ("direct laws and regulations"), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks in the UK and Georgia that are applicable to the Group and determined that the most relevant are the UK Companies Act 2006, Corporate Governance Code 2016, UK Listing Rules and regulations relating to the provision of healthcare and pharmaceutical services in Georgia;
- We obtained a general understanding of how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, legal, risk and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and Georgian regulatory bodies, reviewed minutes of the Board and gained an understanding of the Group's approach to governance;
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items;

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies;
- 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 the paragraph above. Our procedures involved inquiries with legal, internal audit, risk and focused testing as referred to in the Key Audit Matters section above.

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 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 December 2015 to 31 December 2017.
- 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.

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
6 March 2018

Notes:
1. The maintenance and integrity of the Georgia Healthcare Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Separate statement of financial position

As at 31 December 2017 (thousands of Georgian Lari)

	Notes	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	7	7,619	5,179
Amounts due from credit institutions		–	13,863
Prepayments		305	315
Investments in subsidiaries	1	404,824	404,824
Total assets		412,748	424,181
Liabilities			
Borrowings	18	7,852	13,311
Accounts payable		174	487
Accruals for employee compensation		124	179
Total liabilities		8,150	13,977
Equity			
Share capital	25	4,784	4,784
Retained earnings*		399,814	405,420
Total equity		404,598	410,204
Total equity and liabilities		412,748	424,181

* 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 5,606 (2016: GEL 2,813).

The financial statements on pages 116 to 177 were approved by the Board of Directors of Georgia Healthcare Group PLC on 6 March 2018 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
6 March 2018

Company registration number: 09752452

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Separate statement of changes in equity

For the year ended 31 December 2017 (thousands of Georgian Lari)

		Attributable to the shareholders of the Company			
	Notes	Share capital	Additional paid-in capital	Retained earnings	Total equity
1 January 2016		47,842	366,265	(438)	413,669
Loss for the period		–	–	(2,813)	(2,813)
Total comprehensive income		–	–	(2,813)	(2,813)
Capital reduction	25	(43,058)	(365,613)	408,671	–
Transaction costs recognised directly in equity		–	(652)	–	(652)
31 December 2016		4,784	–	405,420	410,204
Loss for the period		–	–	(5,606)	(5,606)
Total comprehensive income		4,784	–	399,814	404,598
31 December 2017		4,784	–	399,814	404,598

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Separate statement of cash flows

For the year ended 31 December 2017 (thousands of Georgian Lari unless otherwise stated)

	Notes	31 December 2017	31 December 2016
Cash flows used in operating activities			
Salaries and other employee benefits paid		(1,980)	(358)
General and administrative expenses paid		(2,359)	(742)
Other operating expenses paid		(1,235)	–
Net cash flows used in operating activities		(5,574)	(1,100)
Cash flows used in investing activities			
Investments in subsidiaries		–	(72,877)
Placements of amounts due from credit institutions		–	(13,335)
Proceeds from amounts due from credit institutions		13,863	–
Net cash used in investing activities		13,863	(86,212)
Cash flows from financing activities			
Proceeds from borrowings		–	12,871
Repayment of borrowings		(5,689)	–
IPO-related transaction costs		–	(652)
Net cash flows from financing activities		(5,689)	12,219
Effect of exchange rate changes on cash and cash equivalents		(160)	(1,450)
Net increase/(decrease) in cash and cash equivalents		2,440	(76,543)
Cash and cash equivalents, beginning	7	5,179	81,722
Cash and cash equivalents, end	7	7,619	5,179

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2017 (thousands of Georgian Lari)

	Notes	31 December 2017	31 December 2016, as reclassified
Assets			
Cash and cash equivalents	7	48,840	23,239
Amounts due from credit institutions	8	14,768	23,876
Insurance premiums receivable	9	20,233	24,207
Receivables from healthcare services	10	100,944	81,927
Receivables from sales of pharmaceuticals		19,798	4,925
Investment in associate		2,745	2,370
Inventory	14	118,811	54,920
Prepayments	15	30,354	30,803
Property and equipment	11	642,859	574,972
Goodwill and other intangible assets	12	143,674	73,028
Current income tax assets		2,026	2,511
Deferred income tax assets	13	–	309
Other assets	16	22,748	18,270
Total assets		1,167,800	915,357
Liabilities			
Accounts payable	19	92,925	64,367
Accruals for employee compensation		21,944	16,063
Payables for share acquisitions	21	98,258	10,986
Insurance contract liabilities	17	20,953	26,787
Borrowings	18	267,010	187,557
Debt securities issued	20	93,493	36,024
Finance lease liabilities	22	8,834	14,878
Current income tax liabilities		72	258
Other liabilities	23	15,911	16,405
Total liabilities		619,400	373,325
Equity			
Share capital	25	4,784	4,784
Additional paid-in capital		1,708	(200)
Treasury shares	25	(134)	(134)
Other reserves	25	(26,866)	4,822
Retained earnings		504,192	476,616
Total equity attributable to shareholders of the Company		483,684	485,888
Non-controlling interests		64,716	56,144
Total equity		548,400	542,032
Total equity and liabilities		1,167,800	915,357

The financial statements on pages 116 to 177 were approved by the Board of Directors of Georgia Healthcare Group PLC on 6 March 2018 and signed on its behalf by:

Nikoloz Gamkrelidze
Chief Executive Officer
6 March 2018

Company registration number: 09752452

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017 (thousands of Georgian Lari)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016, as reclassified
Healthcare services revenue	26	**253,612**	233,000
Revenue from pharma	27	**438,358**	129,649
Net insurance premiums earned	28	**53,741**	61,104
Revenue		**745,711**	423,753
Cost of healthcare services	29	**(139,726)**	(122,648)
Cost of sales of pharmaceuticals	30	**(339,460)**	(105,472)
Cost of insurance services and agents' commissions	31	**(38,526)**	(49,615)
Costs of services		**(517,712)**	(277,735)
Gross profit		**227,999**	146,018
Other operating income	32	**21,483**	3,009
Salaries and other employee benefits	33	**(75,430)**	(39,750)
General and administrative expenses	34	**(48,618)**	(26,148)
Impairment of healthcare services, insurance premiums and other receivables	35	**(4,175)**	(2,332)
Other operating expenses	36	**(13,111)**	(2,770)
		(141,334)	(71,000)
EBITDA		**108,148**	78,027
Depreciation and amortisation	11, 12	**(25,704)**	(19,577)
Interest income	37	**2,111**	1,841
Interest expense	37	**(27,543)**	(15,577)
Net losses from foreign currencies and cost of currency derivatives	39	**(5,906)**	(5,657)
Net non-recurring (expense)/income	38	**(4,780)**	1,118
Profit before income tax expense		**46,326**	40,175
Income tax expense	13	**(77)**	(2,836)
Non-recurring deferred tax (expense)/benefit	13	**(309)**	23,992
Profit for the year		**45,940**	61,331
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods: revaluation of properties	11	**(4,866)**	20,804
Total comprehensive income for the year		**41,074**	82,135
Profit for the year attributable to:			
– shareholders of the Company		**29,110**	50,203
– non-controlling interests		**16,830**	11,128
Total comprehensive income for the year attributable to:			
– shareholders of the Company		**24,650**	69,848
– non-controlling interests		**16,424**	12,287
Earnings per share (profit for the year):			
– basic earnings per share	25	**0.23**	0.39
– diluted earnings per share	25	**0.22**	0.38
Earnings per share (total comprehensive income):			
– basic earnings per share	25	**0.19**	0.55
– diluted earnings per share	25	**0.19**	0.53

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017 (thousands of Georgian Lari)

	Notes	Attributable to the shareholders of the Company							
	Notes	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2016		47,842	(1,272)	332,180	(15,289)	55,520	418,981	56,000	474,981
Profit for the year		–	–	–	–	50,203	50,203	11,128	61,331
Other comprehensive income		–	–	–	19,645	–	19,645	1,159	20,804
Total comprehensive income		–	–	–	19,645	50,203	69,848	12,287	82,135
Non-controlling interests arising from business combinations		–	–	–	–	–	–	(1,025)	(1,025)
Acquisition of additional interest in existing subsidiaries		–	–	–	467	–	467	(11,118)	(10,651)
Capital reduction	25	(43,058)	1,145	(330,999)	(1)	370,893	(2,020)	–	(2,020)
Purchase of treasury shares		–	(7)	(2,303)	–	–	(2,310)	–	(2,310)
Transaction costs recognised directly in equity	25	–	–	(2,520)	–	–	(2,520)	–	(2,520)
Share-based compensation	33	–	–	3,442	–	–	3,442	–	3,442
31 December 2016		4,784	(134)	(200)	4,822	476,616	485,888	56,144	542,032

	Notes	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		–	(3)	(1,950)	–	–	(1,953)	–	(1,953)
Investment by non-controlling interest shareholder		–	–	–	–	–	–	2,128	2,128
Share-based compensation	33	–	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

The accompanying notes on pages 123 to 177 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017 (thousands of Georgian Lari unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Healthcare services revenue received		229,871	210,099
Cost of healthcare services paid		(138,691)	(136,218)
Revenue from pharma received		426,672	118,671
Cost of sales of pharmaceuticals paid		(342,385)	(99,595)
Net insurance premiums received		50,251	59,963
Net insurance claims paid		(40,035)	(38,042)
Salaries and other employee benefits paid		(75,500)	(40,328)
General and administrative expenses paid		(49,935)	(26,062)
Acquisition costs paid		(3,105)	(3,723)
Other operating income received		7,319	1,413
Other operating expenses paid		(5,891)	(1,219)
Net cash flows from operating activities before income tax		58,571	44,959
Income tax paid		(332)	(2,602)
Net cash flows from operating activities		58,239	42,357
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(46,404)	(50,058)
Acquisition of additional interest in existing subsidiaries		–	(2,472)
Purchase of property and equipment		(78,468)	(111,035)
Purchase of intangible assets		(15,340)	(4,343)
Loans issued		(527)	(1,531)
Interest income received		2,607	918
Withdrawals and redemptions of amounts due from credit institutions		14,940	3,221
Placements of amounts due from credit institutions		(5,997)	(11,812)
Proceeds from sale of property and equipment		441	195
Net cash used in investing activities		(128,748)	(176,917)
Cash flows from financing activities			
IPO-related transaction costs	25	–	(2,520)
Repurchase of debt securities issued		(34,197)	(3,497)
Proceeds from debt securities issued		89,011	–
Proceeds from borrowings		217,121	133,332
Repayment of borrowings		(139,343)	(91,551)
Payment of finance lease liabilities		(3,110)	–
Purchase of treasury shares		(1,950)	(2,333)
Dividends paid to non-controlling interests		(553)	–
Interest expense paid		(30,332)	(19,292)
Net cash flows from financing activities		96,647	14,139
Effect of exchange rate changes on cash and cash equivalents		(537)	(1,493)
Net increase/(decrease) in cash and cash equivalents		25,601	(121,914)
Cash and cash equivalents, beginning	7	23,239	145,153
Cash and cash equivalents, end	7	48,840	23,239

The accompanying notes on pages 123 to 177 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 2017 and 31 December 2016 the ultimate parent of GHG is BGEO Group PLC ("BGEO"), incorporated in London, England. BGEO's registered legal address is 84 Brook Street, London, W1K 5EH, England. Company registration number is 07811410. The remaining c.43% is owned by public shareholders. GHG's results are consolidated as part of BGEO's financial statements.

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. Its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance, and travel insurance policies, to corporate and retail clients. The Group's pharma subsidiary, which was acquired in May 2016 (Note 5) and was expanded with the JSC ABC Pharmacy acquisition in 2017, offers a wide range of medicines as well as para-pharmacy products.

The legal address of GHG is No. 84 Brook Street, London W1K 5EH, United Kingdom. Company registration number is 09752452.

As at 31 December 2017 and 31 December 2016 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 2017	31 December 2016
BGEO Group PLC	**57%**	65%
Wellington Management Company	**7%**	7%
T Rowe LTD	**6%**	5%
Others	**30%**	23%
Total	100%	100%

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

1. **Background** continued

The Group included the following subsidiaries and associates incorporated in Georgia:

Subsidiary	Ownership/Voting 31-Dec-2017	Ownership/Voting 31-Dec-2016	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%**	100%	Healthcare	19-Oct-95	4-May-16	Sanapiro str. 6, Tbilisi, Georgia
LLC ABC Pharmalogistics	**67%**	–	Healthcare	24-Feb-04	6-Jan-17	Sanapiro str. 6, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	**67%**	–	Healthcare	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 Deka	**97%**	95%	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%**	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%**	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
LLC Tskaltubo Regional Hospital	**67%**	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
LLC Unimedi Achara	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Samtskhe	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Kakheti	**100%**	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
NPO Evex Learning Centre	**100%**	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili str. 83a, Tbilisi, Georgia
LLC M. Iashvili Children Central Hospital	**100%**	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%**	–	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%**	–	Healthcare	3-Jan-17	20-Jul-17	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Aliance Med	**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%**	–	Healthcare	22-Nov-13	25-Dec-17	Kiacheli str. 18-20, Tbilisis Georgia

Associate	Ownership/Voting 31-Dec-2017	Ownership/Voting 31-Dec-2016	Industry	Date of incorporation	Date of acquisition	Legal address
LLC Geolab	**25%**	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 subsidiaries (Note 4 and 5)

2. Basis of Preparation

Basis of preparation

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone income statement of 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. These policies have been consistently applied to all the periods presented, apart from IFRS 15, which was early adopted, refer to Note 3.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and office buildings and hospitals and clinics classified as property and equipment and derivative financial instruments that have been measured at fair value.

These consolidated financial statements have been presented in thousands of Georgian lari (GEL), except otherwise stated.

Going concern

GHG's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Reclassifications

During 2017, the Group reconsidered the presentation of its consolidated statement of comprehensive income and consolidated statement of financial position for the purpose of more accurate presentation of certain accounts stated in the table below.

During 2017 the Group reclassified "Property repair and maintenance expense" from "General and administrative expenses" to "Other operating expenses". The management believes that such presentation is more appropriate for the nature of the expenses, which have a somewhat irregular and unpredictable nature. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Consolidated statement of comprehensive income	As previously reported	Reclassification	As reclassified
General and administrative expenses	27,853	(1,705)	26,148
Other operating expense	1,065	1,705	2,770

The net assets recognised in the 31 December 2016 financial statements were based on a provisional assessment of their fair value for JSC GPC and LTD Patgeo. In 2017 provisional amounts for those entities were adjusted to accurate final balances, resulting in change in provisional value of goodwill, refer to Note 12. The presentation of comparative figures was also adjusted correspondingly:

Consolidated statement of financial position	As previously reported	Reclassification	As reclassified
Receivables from sales of pharmaceuticals	5,105	(180)	4,925
Goodwill and other intangible assets	70,339	2,689	73,028
Prepayments	30,518	285	30,803
Accruals for employee compensation	16,001	62	16,063
Payable for share acquisitions	8,407	2,579	10,986
Other liabilities	16,252	153	16,405

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 2016 apart from IFRS 15 as presented below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of GHG and its subsidiaries as at 31 December 2017. 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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

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;
- 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 IAS 39 *Financial Instruments: Recognition and Measurement* is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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. The 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 and 180 calendar days.

Financial assets

Financial assets in the scope of IAS 39 are classified either as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. The Group does not have any financial assets designated as available-for-sale or at fair value through profit or loss.

The classification depends on the purpose for which the investments were acquired or originated.

3. Summary of Significant Accounting Policies continued

Financial assets continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated profit or loss in net gains/(losses) from foreign currencies.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference 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 uncollectable, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

Derecognition of financial instruments

Financial assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the following conditions are met:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset, or retained the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset that is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Borrowings

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires and if its terms are substantially modified.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation. The Group has not offset any of its assets and liabilities or income and expenses.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance premiums receivables

Insurance premiums receivable are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss.

Insurance contract liabilities

The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy. The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in expected claims. The differences between the unearned premium reserves, loss provisions and the expected claims are recognised in the consolidated profit or loss by setting up a provision for premium deficiency.

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight line basis over the life of the contract.

Fair value measurement

At each reporting date, the Group revalues its derivatives, hospitals and clinics, land and office buildings. Fair values of financial instruments measured at amortised cost are disclosed in Note 43.

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. The 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 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) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity in other reserves. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in other reserves in equity.

3. Summary of Significant Accounting Policies continued

Property and equipment continued

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight line basis over the following estimated useful lives:

	Years
Office buildings	100
Hospitals and clinics	100
Leasehold improvements	10
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in 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 incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Leasehold improvements are depreciated over the shorter of ten years or the life of the related leased asset. The asset's residual value and useful life are reviewed, and adjusted as appropriate, at each financial year end.

Hedge accounting

The Group has adopted fair value hedge accounting in accordance with IAS 39 the for foreign exchange component of two of its fixed assets. IAS 39.82 allows hedging of non-financial items either: (a) for foreign currency risks, or (b) in its entirety for all risks. Due to 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 the 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 2017 fair value of financial instruments designated as hedging instruments equalled GEL 15,307 (2016: GEL 15,629). We also considered IFRS 9 requirements below. Refer to Note 3 for discussion of IFRS 9 effect on these instruments.

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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies continued

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.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of such assets of between 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods for intangible assets with finite useful lives are reviewed at least at each financial year end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as an asset but only when it is virtually certain that it will be received.

Share-based compensation transactions

Senior executives of the Group receive share-based compensation, whereby employees render services as consideration for the equity instruments of BGEO or GHG. Share-based compensation plans announced by BGEO and GHG represent equity-settled transactions. Share-based compensation plans are recognised as equity by crediting directly to equity.

3. Summary of Significant Accounting Policies continued

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 before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Income and expense recognition

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as loans and receivables, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

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 relationships with. Sales of services are recognised in the accounting period in which the services are rendered and are calculated according to contractual tariffs.

Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied the to gross amount of invoices that were not approved by the state as at the 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 the loyalty programme offered within the pharma business gives rise to a separate performance obligation. At each reporting date the Group estimates the 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.

For more details please refer to Note 3: Early adoption of IFRS 15 Revenue from Contracts with Customers.

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

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 a monthly pro-rata basis.

Unearned premium reserve

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the unearned premium reserve is taken to the consolidated profit or loss in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

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 the cost of sold medicines calculated using FIFO (first-in first-out method).

Net claims incurred

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

EBITDA

The Group separately presents EBITDA on the face of the 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 the 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 2017 and 31 December 2016 were 2.5922 and 2.6468 Georgian Lari to 1 US Dollar, respectively.

New and amended Standards and Interpretations

Early adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group early adopted the new standard starting 1 January 2017 using the modified retrospective application method.

3. Summary of Significant Accounting Policies continued

New and amended Standards and Interpretations continued

Early adoption of IFRS 15 Revenue from Contracts with Customers continued

In applying IFRS 15, the Group considered the following:

(a) Revenue from sales of pharmaceuticals and revenue from healthcare services

The accounting for pharma contracts with wholesale customers in which medicines sale is the only performance obligation did not change as a result of IFRS 15. Revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. On the other hand, adoption of IFRS 15 affected revenue from healthcare services mainly with regard to recognition of corrections of invoices from the state and timing of recognition of such corrections as discussed in the below paragraph.

(i) Variable consideration

Invoices sent to the state and insurance companies are subject to follow-up from counterparties that have a predetermined period to correct invoices in case of any substantive or technical errors. In prior periods the Group recognised the effect of corrections and rebates when it received corrected invoices. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Due to the provisions of IFRS 15, invoice corrections fall under the definition of variable consideration under IFRS 15, and are required to be estimated at contract inception. Due to the fact that corrected invoices are sometimes received with a three-month lag, estimation is necessary. The impact of early adoption on consolidated retained earnings as at 1 January 2017 was GEL 1,049, with corresponding decrease of receivables from healthcare services. The estimation of potential future corrections and rebates was based the on last twelve-month actual data on correction rates from the state. To estimate the impact, on average correction rate was applied to state invoices that were not approved by the state as at 1 January 2017. The statistical average correction rate was applied to the gross amount of those invoices.

(ii) Loyalty points programme (Zgarbi)

The Group determines that the loyalty programme offered within the pharma business gives rise to a separate performance obligation because it provides a material right to the customer. Thus, it will need to allocate a portion of the transaction price to the loyalty programme based on the relative stand-alone selling price. The Group concluded that the current accounting treatment applied to the customer loyalty programme is substantially in line with IFRS 15 requirements.

(b) Rendering of services

The Group provides healthcare services to clients. The Group has assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group did not have any impact from these service contracts as a result of early adoption of IFRS 15.

(c) Equipment received from customers

When an entity receives, or expects to receive, non-cash consideration, IFRS 15 requires that the fair value of the non-cash consideration is included in the transaction price. An entity would have to measure the fair value of the non-cash consideration in accordance with IFRS 13 Fair Value Measurement. The Group's pharma business sometimes receives medicines in exchange for sale of medicines from other wholesalers (so called "netting"). The consideration received is assessed with reference to its actual wholesale price. This is consistent with the requirements of IFRS 15 and therefore the Group did not have any impact in this area.

(d) Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	31 December 2017	1 January 2017
Deferred revenue	4,138	4,427
Receivables from healthcare services*	100,944	81,927
Receivables from sale of pharmaceuticals**	19,798	4,925

* Receivables from healthcare services mainly increased as a result of increase in revenues and business acquisitions during 2017

** Receivables from sale of pharmaceuticals mainly increased as a result of acquisition of ABC Pharmacy in 2017 as well as organic growth of revenues

Receivables from healthcare services are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group recognised GEL 1,164 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

In 2017, the Group has recognised the following amounts relating to revenue from contracts with customers in the income statement: healthcare services revenue of GEL 253,612; revenue from pharma of GEL 438,358; revenue from sale of medicine of GEL 947; and revenue from realised stationery of GEL 301. The Group applies the 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.

No other new or revised IFRS during 2017 had an impact on the Group's financial position or performance.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies continued

New and amended Standards and Interpretations continued

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period in Note 41.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

This amendment has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12:

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments are not expected to have any impact to the Group as the Group does not have any interest in a subsidiary, a joint venture or an associate that is classified as held for sale.

Standards issued but not yet effective

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. The Group will apply these amendments when they become effective.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

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 amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group did not have material impact from the amendments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will assess the potential effect of IFRS 16 on its consolidated financial statements.

3. Summary of Significant Accounting Policies continued

Standards issued but not yet effective continued

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) which 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.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2018, the Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

Transfers of Investment Property — Amendments to IAS 40

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 use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The improvement does not have any effect on the Group.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include: 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. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

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; and
- if an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity 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. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier plication permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

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 temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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 transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration continued

Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) the beginning of the reporting period in which the entity first applies the interpretation; or
(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of the interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC 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; and
- how an entity considers changes in facts and circumstances.

An entity must 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 apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments,* which replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at amortised cost all financial assets and liabilities currently held at amortised cost. These items include: cash and cash equivalents, amounts due from credit institutions, pharma and healthcare receivables, loans issued, borrowings, debt securities issued and accounts payable.

Loans as well as trade 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 trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables and contract assets.

The Group expects that the primary impact of adopting new impairment methodology will be on the following two accounts: allowance on receivables from healthcare services and allowance on receivables from sales of pharmaceuticals. Insurance premiums receivable were not impacted by adoption of IFRS 9.

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 expected credit losses to be immaterial. Therefore, no impairment will be recognised for Cash and cash equivalents and Amounts due from credit institutions under IFRS 9.

3. Summary of Significant Accounting Policies continued

Standards issued but not yet effective continued

IFRS 9 Financial Instruments continued

(b) Impairment continued

Receivables

In applying the simplified impairment approach under IFRS 9, the Group plans to use four different assessment methods based on type of receivables:

1. individual assessment for Receivables from Government;
2. individual assessment for all other material receivables (with balance above GEL 250 thousand);
3. individual assessment for Barter receivables in the pharma business; and
4. collective assessment for all other receivables. Receivables with shared credit characteristics will be combined in different portfolios for collective assessment. Preliminarily, the Group has identified the following main types of portfolios (with 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 – Universal Health Care ("UHC"). As a result, significant part of receivables from healthcare services (approximately 70%) is due from the Georgian Government and municipal authorities. On the other hand, JSC GEPHA ("GEPHA") participates in UHC's tenders, supplying medicaments to different clinics. In addition, the Georgian government co-pays the price of certain medicines to individuals covered by the UHC. Therefore, a considerable part of receivables from sales of pharmaceuticals (approximately 15%) is 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 the materiality of the 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 plans to use credit ratings published by international agencies, such as Standard & Poor's ("S&P") or Moody's, in order to assess the credit quality of State receivables. Similarly, the probabilities of default to respective category of credit rating assigned to Georgia based on reports by the same international agencies will be 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 plans to reconsider the PD rate used in the impairment calculations at each reporting date.

Individually impaired debtors

For debtors 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:

1. Counterparty's financial position is assessed based on: (a) financial results and ratios (when available); (b) Average receivable overdue days to the Group; and (c) any other non-financial information available to the Group, such as any news relevant to market sector in which particular debtor operates, management inquiries, etc.; and
2. Based on this analysis, the counterparty is then categorised by the Group's management for credit risk assessment on an individual basis. Each credit category is assigned with a corresponding expected credit loss rate, determined based on experience, management's professional judgment and expectations for the future. Assessments are performed on a quarterly basis. Macro-adjustments are incorporated based on regression results and dependency factor on GDP growth.

Financial ratios in this model are updated on an annual basis, after audited financial statements of the counterparty are published, while average overdue days, non-financial information and expectations for the future are updated monthly.

Barter receivables in pharma business

GEPHA participates in barter transactions by supplying goods and services in exchange for receiving other goods and services from the counterparty. Both trade receivables and trade 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. that 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 impaired 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 3 to 6 months was usual among creditworthy counterparties, while more than 6 months period marked the sign for financial trouble. The statistics was 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

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

IFRS 9 Financial Instruments continued

(b) Impairment continued

Collective assessment continued

As for collective impairment assessment of receivables from individuals and other small counterparties, we have four 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 simplified "provision matrices" for calculating expected losses as a practical expedient (e.g., for trade 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 has adopted the simplified approach for trade receivables and directly considers lifetime losses for the entire portfolio i.e. expected lifetime credit losses will be recognised for the entire portfolio regardless of 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 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 pharma businesses are relatively small and mainly consist of individuals or small entities from widely diverse regions from Georgia, the Group believes that a countrywide 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 macroeconomic indicator on two arguments:

1. the GDP growth rate is the single most important economy performance indicator that is closely tied to the actual well-being of the citizens and small entities; and
2. the GDP growth rate is easily obtainable and has both, consistent historical records as well as State forecasts for coming years, enabling us to incorporate it 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 PD assuming 100% LGD) and found statistically significant dependency factor.

IFRS 9 impact

In total, the Group has determined that, due to the unsecured nature of its receivables, the loss allowance will increase by approximately GEL 7 million at the transition date.

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will 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 will not have a significant impact on Group's financial statements.

4. Significant Accounting Judgments and Estimates

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Goodwill impairment test

Significant accounting judgments and estimates related to goodwill impairment testing are presented in Note 12.

Impairment of receivables from healthcare services

The impairment provision for receivables from healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. 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 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.

4. Significant Accounting Judgments and Estimates continued

Impairment of receivables from healthcare services continued

For collective assessment purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. 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 2017 was GEL 17,337 (2016: GEL 11,030). Refer to Note 10.

Adoption of IFRS 9, which is mandatory starting from 1 January 2018, will impact allowance for receivables from healthcare services, as well as allowance for receivables from sale of pharmaceuticals as discussed in Note 3.

Valuation of real estate

The fair value of real estate included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the market and discounted replacement cost (DRC) approaches. The Group performs valuation of its office buildings and hospitals and clinics once in every three years, unless there is a sign of material change in fair values on the market. 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 43. The estimates described above are subject to change as new transaction data and market evidence become available.

Impairment of insurance premiums receivable

The Group regularly reviews its insurance premiums receivable to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on the impaired insurance premiums receivable. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. The model for identification of the impaired amounts and their further provisioning is mostly based on the number of days in arrears and is very similar to the model used for the analysis and impairment of the receivables from healthcare services described above.

For collective assessment purposes management's judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. For specific assessment purposes the management takes into account financial performance including key ratios and the cash position of the counterparty. Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of insurance premiums receivable as at 31 December 2017 was GEL 2,329 (2016: GEL 2,519). Refer to Notes 9 and 35.

Adoption of IFRS 9, which is mandatory starting from 1 January 2018, does not impact allowance for insurance premiums receivable, which is out of the standard's scope.

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 a tax on distributed profits regime, meaning that there is no tax on retained earnings starting from 2017 for the healthcare and pharma segments and 2019 for insurance segment. Further details on taxation are disclosed in Note 13.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the claims incurred but not yet reported as at 31 December 2017 was GEL 2,925 (2016: GEL 1,790). Refer to Note 17.

Consolidation of entities under de-facto control

On 20 May 2016 the Group signed a memorandum of understanding ("MOU") with Emergency. In accordance with the MOU, the Group has option to legally acquire Emergency. The option is exercisable at the discretion of Evex without any consent from current shareholders of Emergency from 1 April 2019 till 30 May 2019. The Group assessed de-facto control criteria for Emergency.

In order to make decisions 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 assess existence of such ability, the Group considered the following factors as outlined in the MOU:

(a) the Group appointed supervisory board to Emergency. Board members were appointed for a four-year period (i.e. inclusive of the option exercise period). In accordance with the MOU, supervisory board members guide all key activities of Emergency 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; and
(d) the CEO of Emergency is appointed by Evex.

Due to the facts outlined above, the Group concluded that it has control over Emergency. The Group fully attributes the profit arising from Emergency (consolidated subsidiary) to non-controlling interest in accordance with IFRS requirements. As at 31 December 2017 Emergency had a net profit of GEL 526 (2016: GEL 481).

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business Combinations

Acquisitions in the 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 the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. 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 balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

5. Business Combinations continued

Acquisitions in the year ended 31 December 2017 continued

JSC Policlinic Vere

On 25 December 2017 JSC Medical Corporation Evex ("Acquirer"), a wholly owned subsidiary of the Group, acquired 97.8% of JSC Policlinic Vere ("Vere") shares from individual investors. JSC Policlinic 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. 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 balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business Combinations continued

Acquisitions in the 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 payments 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. 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 balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

5. Business Combinations continued

Acquisitions in the 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[1]	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 the 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 the 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. 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 balance sheet of a company only subsequent to the legal merger of the relevant cash-generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of the goodwill is recognised as an intangible asset per tax code and is subsequently amortised applying the algorithm provided by tax code. Such amortisation is fully deductible for tax purposes.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business Combinations continued

Acquisitions in the 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[3]	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 a 33% share of JSC GPC, GEL 32,501 has been already paid and the remaining amount is due in tranches within 5 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 group of specified customers to third party without customer consent is prohibited. Sharing of such information would be in 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 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 Note 16, Note 25 and Note 43.

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 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.

5. **Business Combinations** continued

Acquisitions in period ended 31 December 2016

LTD Patgeo

On 1 August 2016, JSC Medical Corporation Evex ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of LTD Patgeo ("Patgeo"), a healthcare company operating in Georgia, from individual investors. The fair values of identifiable assets and liabilities of Patgeo as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	43
Receivables from healthcare services[1]	119
Inventory	36
Property and equipment	28
Other assets	2
Total assets	**228**
Liabilities	
Accounts payable	33
Accruals for employee compensation	30
Current income tax liabilities	25
Other liabilities	34
Total liabilities	**122**
Total identifiable net assets	**106**
Non-controlling interests	–
Goodwill arising on acquisition	1,450
Consideration[2]	**1,556**

1 The fair value of the receivables from healthcare services amounted to GEL 119. The gross amount of receivables is GEL 263. GEL 144 of the receivables has been impaired
2 Consideration comprised GEL 1,556, which consists of cash payment of GEL 800 and a holdback amount with a fair value of GEL 756

Net cash outflow for the acquisition was as follows:

Cash paid	800
Cash acquired with the subsidiary	(43)
Net cash outflow	**757**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Patgeo. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Patgeo has recorded GEL 718 and GEL 114 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,716 and GEL 262 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,751 and GEL 61,479 of revenue and profit respectively in the year ended 31 December 2016.

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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business Combinations continued

Acquisitions in period ended 31 December 2016 continued

JSC Pediatry

On 6 July 2016, JSC Medical Corporation Evex ("Acquirer"), a wholly owned subsidiary of the Group, acquired 76% of JSC Pediatry ("Pediatry") shares from individual investors and signed a contract which mandates the purchase of the remaining 24% of the shares. Pediatry is a healthcare company operating in Georgia. The fair values of identifiable assets and liabilities of Pediatry as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	14
Receivables from healthcare services[1]	303
Inventory	4
Property and equipment	402
Intangible assets	15
Total assets	**738**
Liabilities	
Accounts payable	62
Accruals for employee compensation	101
Current income tax liabilities	67
Other liabilities	24
Total liabilities	**254**
Total identifiable net assets	**484**
Non-controlling interests	–
Goodwill arising on acquisition	963
Consideration[2]	**1,447**

1 The fair value of the receivables from healthcare services amounted to GEL 303. The gross amount of receivables is GEL 541. GEL 238 of the receivables has been impaired
2 Consideration comprised GEL 1,447, which consists of cash payment of GEL 1,100 and a holdback amount with a fair value of GEL 347

Net cash outflow for the acquisition was as follows:

Cash paid	1,100
Cash acquired with the subsidiary	(14)
Net cash outflow	**1,086**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Pediatry. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Pediatry has recorded GEL 886 and GEL 121 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,764 and GEL 237 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,631 and GEL 61,447 of revenue and profit respectively in the year ended 31 December 2016.

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.

5. Business Combinations continued

Acquisitions in period ended 31 December 2016 continued

JSC Poti Central Clinical Hospital

On 1 January 2016 JSC Medical Corporation Evex ("Acquirer"), a wholly owned subsidiary of the Group, obtained de-facto control of JSC Poti Central Clinical Hospital ("Poti"), a healthcare company operating in Georgia from local companies. The fair values of identifiable assets and liabilities of Poti as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	11
Receivables from healthcare services[1]	595
Inventory	71
Property and equipment	14,539
Intangible assets	3
Prepayments	3
Other assets	91
Total assets	**15,313**
Liabilities	
Accounts payable	3,647
Accruals for employee compensation	183
Deferred income tax liabilities	1,385
Total liabilities	**5,215**
Total identifiable net assets	**10,098**
Non-controlling interests	–
Goodwill arising on acquisition[2]	–
Consideration[3]	**6,892**

1. The fair value of the receivables from healthcare services amounted to GEL 595. The gross amount of receivables is GEL 647. GEL 52 of the receivables has been impaired
2. Prior to acquisition, the owners of Poti encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase of GEL 3,206. The gain is included in net non-recurring income (Note 38)
3. Consideration comprises of pre-existing loans to Poti and LLC Block Georgia

Net cash outflow for the acquisition was as follows:

Cash paid	–
Cash acquired with the subsidiary	11
Net cash inflow	**11**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Poti. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Poti has recorded GEL 2,582 and GEL 3,135 of revenue and profit respectively. The profit includes a non-recurring gain of GEL 1,657 resulting from a change in Georgian tax code.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

5. Business Combinations continued

Acquisitions in period ended 31 December 2016 continued

LLC Emergency Service

On 20 May 2016, JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, obtained de-facto control of LLC Emergency Service ("ES"), a healthcare company operating in Georgia, from individual investors.

The fair values of identifiable assets and liabilities of the ES as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	6
Receivables from healthcare services[1]	418
Inventory	1
Property and equipment	637
Total assets	**1,062**
Liabilities	
Borrowings	137
Accounts payable	344
Accruals for employee compensation	199
Total liabilities	**680**
Total identifiable net assets	**382**
Non-controlling interests	382
Goodwill arising on acquisition	2,850
Consideration[2]	**2,850**

1 The fair value of the receivables from healthcare services amounted to GEL 418. The gross amount of receivables is GEL 555. GEL 137 of the receivables has been impaired
2 Consideration comprised holdback with a fair value of GEL 2,850

Net cash outflow for the acquisition was as follows:

Cash paid	–
Cash acquired with the subsidiary	(6)
Net cash outflow	(6)

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring ES. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, ES has recorded GEL 2,588 and GEL 481 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 4,077 and GEL 654 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 425,242 and GEL 61,504 of revenue and profit respectively in the year ended 31 December 2016.

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.

5. **Business Combinations** continued

Acquisitions in period ended 31 December 2016 continued

JSC GPC

On 4 May 2016, JSC GHG ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of JSC GPC ("GPC"), a pharmaceuticals company operating in Georgia, from individual investors.

The fair values of identifiable assets and liabilities of the GPC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	1,455
Receivables from sales of pharmaceuticals[1]	6,461
Inventory	30,329
Investment in associate	2,116
Property and equipment	8,105
Intangible assets	861
Current income tax assets	352
Deferred income tax assets	200
Prepayments	2,264
Other assets	2,593
Total assets	**54,736**
Liabilities	
Borrowings	15,198
Accounts payable	31,523
Accruals for employee compensation	1,555
Other liabilities	4,714
Total liabilities	**52,990**
Total identifiable net assets	**1,746**
Non-controlling interests	–
Goodwill arising on acquisition	30,959
Consideration[2]	**32,705**

1 The fair value of the receivables from sales of pharmaceuticals amounted to GEL 6,461. The gross amount of receivables is GEL 10,884. GEL 4,423 of the receivables has been impaired

2 Consideration comprised GEL 32,705, which consists of cash payment of GEL 26,686 and a holdback amount with a fair value of GEL 6,019

Net cash outflow for the acquisition was as follows:

Cash paid	26,686
Cash acquired with the subsidiary	(1,455)
Net cash outflow	**25,231**

The Group decided to increase its presence and investment in the healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GPC has recorded GEL 133,002 and GEL 1,924 of revenue and profit respectively in 2016. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 199,916 and GEL 1,705 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 490,667 and GEL 61,112 of revenue and profit respectively in the year ended 31 December 2016.

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.

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6. Segment Information

For management purposes, the Group is organised into three operating segments based on the products and services – Healthcare services, Pharma and Medical insurance. All revenues, expenses, assets and liabilities of the Group arise in Georgia.

Healthcare services are the inpatient and outpatient medical services delivered by the referral hospitals, community hospitals and polyclinics owned by the Group throughout the whole Georgia.

Medical insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Group's wholly owned subsidiary Imedi L.

Pharma comprises a wide range of medicines and para-pharmacy products which are offered through a chain of well-developed pharmacies by the Group's subsidiary JSC GEPHA.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the consolidated financial statements. Corporate centre costs are allocated to segments.

Transactions between operating segments are on an arm's length basis as with transactions with third parties.

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 year ended 31 December 2017 or 31 December 2016.

6. **Segment Information** continued

Statement of comprehensive income and selected items from the statement of financial position by segments are presented below:

	Year ended 31 December 2017				
	Healthcare services	Pharma	Medical insurance	Intersegment transactions and consolidation	Total
Healthcare services 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'	–	–	(48,583)	10,057	(38,526)
Cost 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 cost of currency derivatives	(3,875)	(2,065)	34	–	(5,906)
Net non-recurring (expense)/income	(3,425)	(1,496)	(200)	341	(4,780)
Profit before income tax expense	27,371	21,247	(2,292)	–	46,326
Income tax expense, current	(11)	(65)	(1)	–	(77)
Income tax expense, deferred	–	–	(309)	–	(309)
Profit for the year	27,360	21,182	(2,602)	–	45,940
Other comprehensive income 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
Assets and liabilities					
Total assets	904,443	249,165	53,176	(38,984)	1,167,800
Total liabilities	450,610	128,833	42,525	(2,568)	619,400
Other segment information					
Property and equipment	610,810	26,212	5,837	–	642,859
Intangible assets	23,628	3,003	2,259	–	28,890

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(thousands of Georgian Lari unless otherwise stated)

6. Segment Information continued

	Year ended 31 December 2016				
	Healthcare services	Pharma	Medical insurance	Intersegment transactions and consolidation	Total
Healthcare services revenue	243,453	–	–	(10,453)	233,000
Revenue from pharma	–	133,002	–	(3,353)	129,649
Net insurance premiums earned	–	–	61,494	(390)	61,104
Revenue	243,453	133,002	61,494	(14,196)	423,753
Cost of healthcare services	(130,369)	–	–	7,721	(122,648)
Cost of sales of pharmaceuticals	–	(105,472)	–	–	(105,472)
Cost of insurance services and agents'	–	–	(55,772)	6,157	(49,615)
Cost of services	(130,369)	(105,472)	(55,772)	13,878	(277,735)
Gross profit	113,084	27,530	5,722	(318)	146,018
Other operating income	2,059	925	87	(62)	3,009
Salaries and other employee benefits	(24,048)	(11,357)	(4,663)	318	(39,750)
General and administrative expenses	(12,617)	(11,103)	(2,428)	–	(26,148)
Impairment of healthcare services, insurance premiums and other receivables	(1,881)	–	(451)	–	(2,332)
Other operating expenses	(2,277)	(259)	(296)	62	(2,770)
	(40,823)	(22,719)	(7,838)	380	(71,000)
EBITDA	74,320	5,736	(2,029)	–	78,027
Depreciation and amortisation	(18,287)	(447)	(843)	–	(19,577)
Interest income	1,301	–	1,114	(574)	1,841
Interest expense	(13,499)	(1,602)	(882)	406	(15,577)
Net losses from foreign currencies	(4,270)	(1,277)	(110)	–	(5,657)
Net non-recurring income/(expense)	2,883	(88)	(1,677)	–	1,118
Profit before income tax expense	42,448	2,322	(4,427)	(168)	40,175
Income tax benefit (expense)/income	(2,936)	(198)	298	–	(2,836)
Non-recurring income tax benefit/(expense)	24,990	(200)	(798)	–	23,992
Profit for the year	64,502	1,924	(4,927)	(168)	61,331
Other comprehensive income not to be reclassified to profit or loss in subsequent periods: revaluation of properties	20,804	–	–	–	20,804
Total comprehensive income for the year	85,306	1,924	(4,927)	(168)	82,135
Assets and liabilities					
Total assets	768,004	65,518	61,667	20,168	915,357
Total liabilities	271,897	62,011	48,274	(8,857)	373,325
Other segment information					
Property and equipment	560,407	9,003	5,562	–	574,972
Intangible assets	12,289	782	2,552	–	15,623

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2017	31 December 2016
Current and on-demand accounts with banks	**46,068**	22,604
Cash on hand	**2,772**	635
Total cash and cash equivalents	**48,840**	23,239

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 1,513 (2016: GEL 4,362). The requirement of the Insurance State Supervision Service of Georgia ("ISSSG") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to mandatory reserve requirements as defined by the ISSSG regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 579 (2016: GEL 701). 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 7,619 (2016: GEL 5,179).

8. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	31 December 2017	31 December 2016
Time deposits with banks, foreign currency	12,748	22,832
Time deposits with banks, local currency	2,020	1,044
Total amounts due from credit institutions	14,768	23,876

As at 31 December 2017 amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 0% to 12.75% (2016: 1.45% to 8.5%). As at 31 December 2017 amounts due from credit institutions include restricted cash of GEL 7,190 (2016: GEL 2,357), of which GEL 2,268 (2016: GEL 2,357) is pledged under the export facility agreement with ING Bank N.V, GEL 2,581 (2016: nil) is pledged under currency forward contracts and the remaining GEL 2,341 (2016: nil) is pledged under credit facilities.

9. Insurance Premiums Receivable

Insurance premiums receivable comprises:

	31 December 2017	31 December 2016
Insurance premiums receivable from policyholders	22,562	26,726
Less – Allowance for impairment (Note 35)	(2,329)	(2,519)
Total insurance premiums receivables, net	20,233	24,207

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2017 and 31 December 2016.

10. Receivables from Healthcare Services

Receivables from healthcare services comprise:

	31 December 2017	31 December 2016
Receivables from State	83,202	71,343
Receivables from individuals and others	29,343	20,824
Receivables from insurance companies	5,736	790
	118,281	92,957
Less – Allowance for impairment	(17,337)	(11,030)
Total receivables from healthcare services, net	100,944	81,927

The carrying amounts disclosed above reasonably approximate their fair values as at 31 December 2017 and 31 December 2016.

The UHC reimbursement scheme for the selected services in Georgia is as follows:

Service	Reimbursement from the State
Scheduled ambulatory service	70%
Service of a family doctor and basic laboratory tests	100%
Emergency inpatient services	70/100% with a limit for a single accident of 15,000 GEL
Scheduled surgeries and associated tests	70%; annual limit – 15,000 GEL
Treatment of oncology diseases	80%; annual limit – 12,000 GEL
Childbirth	500 GEL; Caesarean section – 800 GEL

Transition to IFRS 15 resulted in decrease of balance of receivables from healthcare services by GEL 1,049 on 1 January 2017. As at 31 December 2017 impact of IFRS 15 comprised GEL 755. The difference of GEL 294 between transition date and reporting date balances was credited to profit or loss, healthcare services revenue account.

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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 2016	3,588	312,490	9,825	8,313	115,636	4,714	7,169	12,477	474,212
Acquisition through business combinations (Note 5)	4,640	13,296	1,088	1,323	1,282	1,019	1,063	–	23,711
Revaluation (Note 25)	–	12,846	–	–	–	–	–	–	12,846
Additions	–	52,444	4,046	3,339	44,803	163	1,316	5,134	111,245
Disposals	–	(6,276)	(188)	(500)	(298)	(917)	(149)	–	(8,328)
Transfers and corrections	(46)	16,859	(1,948)	(1,836)	(15,884)	(635)	(137)	(16,859)	(20,486)
31 December 2016	8,182	401,659	12,823	10,639	145,539	4,344	9,262	752	593,200
Acquisition through business combinations (Note 5)	6,829	1,805	1,546	1,051	1,064	1,129	598	–	14,022
Revaluation (Note 25)	–	(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**

	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 2016	153	6,326	2,552	3,019	16,492	719	233	–	29,494
Depreciation charge	39	1,965	1,433	1,545	11,307	832	781	–	17,902
Disposals	–	(297)	(155)	(141)	(237)	(29)	(8)	–	(867)
Revaluation	–	(7,814)	–	–	–	–	–	–	(7,814)
Transfers and corrections	–	–	(1,963)	(1,836)	(15,884)	(635)	(169)	–	(20,487)
31 December 2016	192	180	1,867	2,587	11,678	887	837	–	18,228
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**
Net book value:									
1 January 2016	3,435	306,164	7,273	5,294	99,144	3,995	6,936	12,477	444,718
31 December 2016	7,990	401,479	10,956	8,052	133,861	3,457	8,425	752	574,972
31 December 2017	**17,979**	**423,549**	**17,091**	**11,490**	**158,169**	**3,796**	**10,458**	**327**	**642,859**

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 2017 was GEL 397,436 (2016: GEL 410,221). 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. As a result, the Group posted a devaluation of GEL 4,866 (2016: revaluation surplus GEL 20,804) which was debited (2016: credited) to other reserves in order to reduce previous surplus. Of the total amount, GEL 4,460 was attributable to shareholders of the Company and GEL 406 was attributable to non-controlling interest. The devaluation was mainly caused by depreciation of US$ against GEL, since real estate price in Georgia is correlated with the US$-GEL exchange rate. 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 of the buildings as at 31 December 2017 and 31 December 2016 would be as follows:

	31 December 2017	31 December 2016
Cost	**437,890**	397,062
Accumulated depreciation and impairment	**(12,148)**	(8,245)
Net carrying amount	**425,742**	388,817

12. Goodwill and Other Intangible Assets

The movements in goodwill were as follows:

	Goodwill
1 January 2016	20,713
Acquisition through business combinations	33,149
Change in provisional value of goodwill of GPC (Note 2)	1,933
Change in GNCo Goodwill	854
Change in provisional value of goodwill of Patgeo (Note 2)	756
31 December 2016	57,405
Acquisition through business combinations (Note 5)	57,287
Change in provisional value of goodwill of Emergency Service	383
Change in provisional value of goodwill of GNCo	(291)
31 December 2017	**114,784**

The breakdown of the Group's goodwill is as follows:

	Effective annual growth rate in three-year financial budgets	Pre-tax WACC applied for impairment*	31 December 2017	31 December 2016, as reclassified	Segment
JSC Insurance Company Aldagi	26.33%	16.12%	**3,260**	3,260	Medical Insurance
JSC My Family Clinic	16.53%	15.06%	**508**	508	Healthcare Services
JSC Insurance Company Partner	26,33%	16.12%	**103**	103	Medical Insurance
JSC Insurance Company Imedi L International	26,33%	16.12%	**99**	99	Medical Insurance
Caraps Medline	16.53%	15.06%	**3,534**	3,534	Healthcare Services
Traumatology	16.53%	15.06%	**911**	911	Healthcare Services
GNCo	16.53%	15.06%	**11,991**	12,282	Healthcare Services
LLC Catastrophe Medicine Pediatric Centre	16.53%	15.06%	**869**	869	Healthcare Services
JSC GPC	4.97%	15.19%	**30,959**	30,959	Pharma
LLC Emergency Service	16.53%	15.06%	**2,850**	2,467	Healthcare Services
JSC Pediatry	16.53%	15.06%	**963**	963	Healthcare Services
LTD Patgeo	16.53%	15.06%	**1,450**	1,450	Healthcare Services
JSC ABC Pharmacy	4.97%	15.19%	**46,796**	–	Pharma
LLC New Clinic	16.53%	15.06%	**4,781**	–	Healthcare Services
LLC Aliance Med	16.53%	15.06%	**2,548**	–	Healthcare Services
LLC Medical Center Almedi	16.53%	15.06%	**951**	–	Healthcare Services
JSC Vere	16.53%	15.06%	**2,211**	–	Healthcare Services
Total			**114,784**	57,405	

* Post-tax WACC comprised approximately 13%

In performing goodwill impairment testing the following key assumptions were made:

- Pre-tax WACC was used as a discount rate for the forecasted cash flows. Pre-tax WACC was estimated using a capital assets pricing model based on the Group's shares market beta.
- 2018, 2019 and 2020 years' cash flow projections were modelled applying 4%-27% growth.
- Moderate, stable 4.9% real GDP growth was assumed based on the external statistical forecasts for 2021 and beyond.

For the Healthcare CGU, 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;
- 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 2017. The Group did not identify any impairment of goodwill as at 31 December 2017. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering periods from one to three-years.

Other intangible assets comprise licences and computer software with carrying value as at 31 December 2017 of GEL 28,890 (2016: GEL 15,623). As at 31 December 2017 the cost of other intangible assets equalled GEL 33,272 (31 December 2016: GEL 17,606) and accumulated amortisation equalled GEL 4,382 (31 December 2016: GEL 1,983). The Group performed impairment tests and identified impairment of intangible assets of GEL 606 as at 31 December 2017, which was charged to profit or loss.

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13. Taxation

The corporate income tax (expense)/benefit comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax (expense)/benefit*	(77)	1,152
Deferred tax (charge)/benefit – origination and reversal of temporary differences*	(309)	20,004
Income tax (expense)/benefit	(386)	21,156

* 2016 figures include non-recurring income tax portion

Georgian legal entities must file individual tax declarations. As at 31 December 2017 the statutory corporate tax rate was zero rate (2016: 15%) on retained earnings and 15% (2016: 15%) tax rate on distributed earnings.

In May 2016, the Parliament of Georgia issued a decree approving a change in the current corporate taxation model which is applicable starting from 1 January 2017 for all entities apart from financial institutions, including insurance business and is applicable starting from 1 January 2019 to financial institutions, including our medical insurance subsidiary – Imedi L. The new model implies zero rate on retained earnings and 15% tax rate on distributed earnings. In case dividends are paid, shareholders will be entitled to 85% of the gross paid amount, with 15% income tax paid to the Georgian tax authorities. The Group considered the new regime as substantively enacted effective June 2016 and thus re-measured its deferred tax assets and liabilities. The change had an immediate impact on deferred tax asset and deferred tax liability balances. The whole amount of deferred tax assets and liabilities was written off.

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 2017	Year ended 31 December 2016
IFRS income before tax	46,326	40,175
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	(6,949)	(6,026)
Georgian tax code change effect	(309)	19,379
Correction of prior year declaration	–	4,613
Non-taxable income	6,949	3,195
Other non-deductible expenses	(77)	(5)
Income tax (expense)/benefit	(386)	21,156

Deferred tax assets and liabilities as at 31 December and their movements for the year then ended comprise:

	1 January 2016	In the income statement	Acquired through business combination	31 December 2016	In the income statement	31 December 2017
Tax effect of deductible temporary differences						
Tax loss carried forward	4,147	(4,147)	–	–	–	–
Insurance premiums receivable	1,120	(607)	–	513	(513)	–
Receivable from healthcare services	1,530	(1,530)	–	–	–	–
Receivable from sale of pharmaceuticals	–	(214)	214	–	–	–
Accruals for employee compensation	1,854	(2,054)	200	–	–	–
Borrowings	23	64	–	87	(87)	–
Accounts payable	–	(63)	63	–	–	–
Other assets	314	(251)	–	63	(63)	–
Deferred tax assets	8,988	(8,802)	477	663	(663)	–
Tax effect of taxable temporary differences:						
Property and equipment	26,974	(28,860)	1,915	29	(29)	–
Investment in associate	–	(289)	289	–	–	–
Debt securities issued	117	(117)	–	–	–	–
Insurance contract liabilities	43	(78)	–	(35)	35	–
Intangible assets	355	5	–	360	(360)	–
Other liabilities	9	533	(542)	–	–	–
Deferred tax liabilities	27,498	(28,806)	1,662	354	(354)	–
Net deferred tax (liability) asset	(18,510)	20,004	(1,185)	309	(309)	–
Deferred income tax assets	796	(964)	477	309	(309)	–
Deferred income tax liabilities	(19,306)	20,968	(1,662)	–	–	–

13. Taxation continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Georgia currently has a number of laws related to various taxes imposed by State governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and a turnover-based tax, amongst others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia that are substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations.

14. Inventory

	Year ended 31 December 2017	Year ended 31 December 2016
Inventory held by pharma business (FIFO)	**98,938**	40,004
Inventory held by healthcare business (weighted average cost)	**19,873**	14,916
Total	**118,811**	54,920

Increase in pharma business inventory year over year is mainly caused by the acquisition of ABC (Note 5). The Group performed inventory net realisable value test and identified impairment of inventory of GEL 323 as at 31 December 2017, which was charged to profit or loss.

15. Prepayments

Prepayments comprise:

	31 December 2017	31 December 2016, as reclassified
Prepayments for property and equipment	**13,906**	23,652
Prepayments for inventory	**7,935**	3,012
Prepayments for claims expense	**3,209**	3,854
Other prepayments	**5,304**	285
Total prepayments	**30,354**	30,803

The prepayments for property and equipment mainly comprise advances for construction activities.

16. Other Assets

Other assets comprise:

	31 December 2017	31 December 2016
Call option (Note 32, Note 43)	**10,106**	–
Receivable from non-controlling interest shareholder	**2,128**	–
Lease deposit	**1,774**	1,853
Non-medical receivables	**1,626**	5,599
Loans issued	**1,425**	2,963
Deferred acquisition costs	**1,293**	1,341
Investment property	**395**	–
Prepaid operating taxes	**756**	237
Derivative financial assets	**130**	6,277
Other receivables	**5,588**	3,201
Total other assets, gross	**25,221**	21,471
Less – allowance for impairment	**(2,473)**	(3,201)
Total other assets, net	**22,748**	18,270

As part of the ABC acquisition contract the Group has a call option 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. In accordance with IFRS requirements the Group recognised a GEL 10,106 asset as at 31 December 2017.

As at 31 December 2017 non-medical receivables comprise receivables of pharma business.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

16. Other Assets continued

Loans issued as at 31 December 2017 mainly comprise debt securities issued by JSC m2 Real Estate and JSC Crystal. JSC m2 represents related party entities of the Group. Lease deposit comprises advances paid to a lease contractor on the rent of an ambulatory clinic as at 31 December 2017. 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 2017	31 December 2016
Insurance contracts liabilities		
– Unearned premiums reserve ("UPR")	17,851	22,372
– Reserves for claims incurred but not reported ("IBNR")	2,925	1,790
– Reserves for claims reported but not settled ("RBNS")	177	2,625
Total insurance contracts liabilities	20,953	26,787

Movement in the insurance contract liabilities during the year can be analysed as follows:

	31 December 2017	31 December 2016
At 1 January	26,787	21,351
Premiums written during the year	49,220	65,491
Premiums earned during the year	(53,741)	(61,104)
Claims incurred during the year	35,153	45,544
Claims paid during the year	(36,466)	(44,495)
At 31 December	20,953	26,787

18. Borrowings

The Group's borrowings comprise:

	31 December 2017	31 December 2016
Borrowings from foreign financial institutions	159,683	99,541
Borrowings from local financial institutions	100,537	79,417
Borrowings from non-controlling interest shareholders	6,790	5,756
Overdrafts from local commercial banks	–	2,843
Total borrowings	267,010	187,557

In the year ended 31 December 2017 borrowings from local financial institutions had an average interest rate of 10.81% per annum (2016: 10.66%), maturing on average in 1,081 days (2016: 1,299 days). Borrowings from international financial institutions had an average interest rate of 8.76% (2016: 6.31%), maturing in 2,168 days (2016: 2,213 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 2017 and 31 December 2016 the Group complied with all these lender covenants. The Company's borrowings are GEL 7,852 (2016: GEL 13,311), which entirely represents loans from Medical Corporation Evex.

19. Accounts Payable

Accounts payable comprise:

	31 December 2017	31 December 2016
Accounts payable for healthcare materials and supplies	73,803	39,424
Accounts payable for office supplies	5,577	7,646
Accounts payable for healthcare services	4,563	3,902
Payable for purchase of property and equipment	4,242	9,744
Other accounts payable	4,740	3,651
Total accounts payable	92,925	64,367

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 10.75% 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 2017 equalled GEL 93,493 (2016: GEL 36,024). In 2017, the Group early redeemed GEL 34,197 (2016: GEL 3,497) of the debt securities and incurred an insignificant loss on the transaction.

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; (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 in fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

As at 31 December 2017, payable for share acquisitions comprised a holdback for the acquisition of ABC of GEL 92,409, for acquisition of LLC Emergency Service of GEL 2,850, for JSC Policlinic Vere GEL 1,581, for LLC Patgeo of GEL 756, for JSC Pediatry of GEL 347, for LLC Medical Center Almedi GEL 200 and for acquisition of LLC New Clinic of GEL 115.

From the JSC ABC holdback of GEL 92,409, GEL 61,512 represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% share based on a predetermined EBITDA multiple (4.5 times EBITDA). The redemption liability is measured at amortised cost using initial effective interest rate on US$ denominated borrowings.

As at 31 December 2016, payable for share acquisitions comprised a holdback for the acquisition of JSC GPC of GEL 7,033, a holdback for acquisition of LLC Emergency Service of GEL 2,850, a holdback for acquisition of LLC Patgeo of GEL 756 and a holdback for acquisition of JSC Pediatry of GEL 347.

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 of them in Tbilisi and one in Batumi, western Georgia. As at 31 December 2017, the net carrying value of properties held under finance lease equalled GEL 8,854 (2016: GEL 13,418). The undiscounted value of future minimum lease payments and repurchase option equalled GEL 9,048 (2016: GEL 15,089) while present value of these amounts equalled GEL 8,834 (2016: GEL 14,878). At the option expiration, the embedded purchase option in finance lease agreements is renewed automatically unless the counterparty comes up with a new repurchase price within a few days from the option expiration. All payments under finance lease contracts are due no later than one year.

23. Other Liabilities

Other liabilities comprise:

	31 December 2017	31 December 2016, as reclassified
Operating taxes payable	**4,767**	5,648
Deferred revenues	**4,138**	4,427
Insurance claims payable	**2,615**	2,283
Provision for ongoing litigations	**1,657**	2,141
Commissions payable	**1,293**	1,341
Derivative financial liability	**1,091**	–
Other	**350**	565
Total other liabilities	**15,911**	16,405

Provisions for ongoing litigations comprise the Group's internal legal department's estimate of probable losses from litigations with various third parties. Those litigations that have more likely negative than positive outcome are fully provisioned.

Provisions for ongoing litigations comprise the Group's internal legal department's estimate of probable losses from litigations with various third parties. Those litigations that have more likely negative than positive outcome are fully provisioned. Assumptions used to calculate the provision for warranties were based on current information available about the court proceedings. The litigations are subject to legal arbitration and are expected to be finalised in late 2018. All additional provisions during 2017 arose from business combinations.

24. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and the Company are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group and the Company.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

24. Commitments and Contingencies continued

Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Capital commitments	**5,550**	12,914
Operating lease commitments		
– Leases due not later than 1 year	**18,298**	14,200
– Leases due later than 1 year but not later than 5 years	**71,004**	61,824
Total financial commitments	**94,852**	88,938

In the year ended 31 December 2017 as well as in the year ended 31 December 2016 capital commitments comprised of contracts related to construction of ambulatory clinics in Georgia. The commitments fully result from subsidiaries. The Company does not have any commitments or contingencies. The Group did not have contingent rents or sublease payments. The Company does not have any lease commitments. Rent expense recognised during the year equalled GEL 19,083 (2016: GEL 9,382).

As at 31 December 2017, the Group had litigation with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 6,631 (2016: GEL 3,765) and litigation with its associate company Geolab in relation to an amount of GEL 2,042 (2016: 2,042). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process, while the litigation with Geolab related to the provision of laboratory services by Geolab which were invoiced with procedural violations and therefore not paid by the Group. The litigation with Geolab was subsequently resolved at aggregate amount of GEL 800 in January 2018. The Group's legal department identified the related risks as possible but not probable.

25. Equity

Share capital

The share capital of the Company was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the IPO. After the establishment of GHG PLC (Note 1) the Company share capital was denominated in GBP and shareholders were entitled to dividends in GBP. No dividends were announced or distributed in the period ended 31 December 2017 or 2016 year.

In the year ended 31 December 2017 and in the year ended 31 December 2016 the following changes occurred in the amount of issued shares:

	Number of ordinary shares	Amount of ordinary shares
1 January 2016	131,681,820	47,842
Capital reduction	–	(43,058)
31 December 2016	131,681,820	4,784
	–	–
31 December 2017	**131,681,820**	**4,784**

Treasury shares

The number of treasury shares held by the Company as at 31 December 2017 was 3,379,629 (31 December 2016: 3,727,835). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation.

Capital reduction

In January 2016, the Group undertook a reduction of capital in order to create distributable reserves for the Company. The difference between the par value of the Company's shares (GBP 0.01) and the aggregate carrying value of the Group's share capital, additional paid-in capital and treasury shares was credited to the merger reserve created in connection with the capital reduction. It was the intention of the Group that the maximum amount of distributable reserves be created. The Group implemented a court-approved reduction of capital which reduced the original nominal value of GHG shares thereby creating distributable reserves.

25. Equity continued

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and hospitals and clinics and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity. As at 31 December 2017 the revaluation reserve for property and equipment equalled GEL 15,646 (2016: 20,104). In 2017 GEL 4,866 was recognised in other comprehensive income as a devaluation of hospitals and clinics. From the total amount, GEL 4,460 was attributable to shareholders of the Company and GEL 406 was attributable to non-controlling interests.

Gains (losses) from sale/acquisition of shares in existing subsidiaries

In March 2016, the Group acquired the remaining 33.3% minority shareholding of its largest pediatric hospital, Iashvili Referral Hospital. The Group has held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding in Iashvili, GHG paid cash consideration of US$ 1.0 million and transferred non-cash consideration – all of its fixed assets in Tbilisi Maternity Hospital "New Life" – to the seller of the minority stake. The resulting loss from the acquisition as at 31 December 2017 was GEL 488.

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 pharma 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 pharma 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 GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. The redemption liability is carried at amortised cost and interest is unwound on each reporting date. The difference between the unwound interest and the share of profit attributable to the non-controlling interest is debited or credited to other reserves (to "Acquisition of additional interest in existing subsidiaries" line). Current year change in the balance is attributable to the above contract. The debit to other reserves during 2017 comprised GEL 26,740. As a result, total "Acquisition of additional interest in existing subsidiaries" amounted to GEL 62,026, of which GEL 34,798 was attributable to non-controlling interest shareholders.

As at 31 December 2017 losses from sale/acquisition of shares in existing subsidiaries equalled GEL 42,512 (2016: GEL 15,282).

Retained earnings

The impact of early adoption of IFRS 15, GEL 1,049 was debited to retained earnings in accordance with the modified retrospective application method.

Regulatory capital requirements

Regulatory capital requirements in Georgia are set by the ISSSG and are applied to Imedi L solely on a stand-alone basis. The ISSSG requirement is to maintain a minimum capital of GEL 1,500, of which 80% should be kept in current accounts. A bank confirmation letter is submitted to ISSSG on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSG regulatory capital requirement.

Earnings per share

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 29,110 (2016: GEL 50,203) and GEL 24,650 (2016: GEL 69,848) respectively as a numerator and the weighted average number of shares outstanding during the period ended 31 December 2017 of 128,128,088 (31 December 2016: 128,067, 903) 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 2017 of 131,681,820 (2016: 131,681,820) as a denominator.

26. Healthcare Services Revenue

Healthcare services revenue comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Healthcare services revenue from State	**178,818**	179,354
Healthcare services revenue from out-of-pocket and other	**64,878**	48,991
Healthcare services revenue from insurance companies	**11,955**	7,341
Less: Corrections & rebates	**(2,039)**	(2,686)
Total healthcare services revenue	**253,612**	233,000

Healthcare services revenue from State represents the revenue through UHC. A full description of the programme is provided in Note 10 above.

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(thousands of Georgian Lari unless otherwise stated)

27. Revenue from Pharma

Revenue from pharma comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Retail	329,733	96,092
Wholesale	108,625	33,557
Total revenue from pharma	438,358	129,649

Significant increase in the revenues from pharma is due to acquisition of ABC in January 2017 and GPC in May 2016. Refer to Note 5.

28. Net Insurance Premiums Earned

Net insurance premium earned comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Gross premiums written	49,220	65,491
Change in unearned premiums reserve	4,521	(4,387)
Total net insurance premiums earned	53,741	61,104

29. Cost of Healthcare Services

Cost of healthcare services comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Cost of salaries and other employee benefits	(92,744)	(75,635)
Cost materials and supplies	(34,015)	(35,805)
Cost of utilities and other	(11,113)	(9,475)
Cost of providers	(1,854)	(1,733)
Total cost of healthcare services	(139,726)	(122,648)

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 2017 to GEL 75,430 (2016: GEL 39,750) 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 2017 amounted to GEL 168,174 (2016: GEL 115,385).

30. Cost of sales of pharmaceuticals

Cost of sales of pharmaceuticals comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Retail	(246,310)	(75,140)
Wholesale	(93,150)	(30,332)
Total cost of sales of pharmaceuticals	(339,460)	(105,472)

Significant increase in the cost of sales of pharmaceuticals is due to acquisition of ABC in January 2017 and GPC in May 2016. Refer to Note 5.

31. Cost of Insurance Services and Agents' Commissions

Cost of insurance services and agents' commissions comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Insurance claims paid	(36,466)	(44,495)
Change in insurance contract liabilities	1,313	(1,049)
Net insurance claims incurred	(35,153)	(45,544)
Agents, brokers and employee commissions	(3,373)	(4,071)
Cost of insurance services and agents' commissions	(38,526)	(49,615)

32. Other Operating Income

Other operating income comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Gain from call option (Note 16; Note 43)	10,106	–
Gain from lease derecognition	2,702	106
Revenue from sale of medicine	947	342
Rental income	731	1,316
Gain from PPE sold	563	256
Gain from rent liability derecognition	514	–
Gain from IP revaluation	395	–
Share of profit of associate	375	254
Revenue from realised stationery	301	120
Other	4,849	615
Total other operating income	21,483	3,009

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 pharma business during the period from 1 January 2023 to 31 December 2023. In accordance with IFRS requirements the Group recognised a GEL 10,106 asset.

The Group recognised a gain from de-recognition of one of its finance leases arising from the option price of leased property and the actual acquisition.

33. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and other benefits	(68,134)	(35,149)
Cash bonuses	(4,337)	(2,222)
Share-based compensation	(2,959)	(2,379)
Total salaries and other employee benefits	(75,430)	(39,750)

The average number of full-time employees, including those whose salaries are included in cost of healthcare services, in 2017 equalled 13,894 (2016: 11,260). In 2017 the total amount of management share based compensation prior to capitalization of eligible costs equaled GEL 3,858 (2016: GEL 3,442). A portion of share-based compensation costs was capitalised on development projects.

Directors’ remuneration information is disclosed in the Remuneration report in the front end of the annual report.

34. General and Administrative Expenses

General and administrative expenses comprise:

	Year ended 31 December 2017	Year ended 31 December 2016, as reclassified
Occupancy and rent expense	(19,083)	(9,382)
Marketing and advertising	(5,539)	(3,590)
Office supplies and utility expenses	(4,189)	(3,503)
Professional services	(3,874)	(2,807)
Communication	(1,691)	(1,251)
Bank fees and commissions	(1,401)	(406)
Travel	(1,259)	(804)
Representative expense	(1,239)	(780)
Security	(797)	(313)
Other	(9,546)	(3,312)
Total general and administrative expenses	(48,618)	(26,148)

In the years ended 31 December 2017 and 31 December 2016 other general and administrative expenses mainly comprised of training, property tax, property insurance and other operating tax expenses.

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(thousands of Georgian Lari unless otherwise stated)

34. General and Administrative Expenses continued

The below table presents auditors' remuneration:

	Year ended 31 December 2017	Year ended 31 December 2016
Fees payable for the audit of the Company's current year annual report	**979**	900
Fees payable for other services:		
Audit of the Company's subsidiaries	**138**	349
Total audit fees	**1,117**	1,249
Audit-related assurance services		
Review of the Company's and subsidiaries' interim accounts	**361**	384
Total audit related fees	**361**	384
Total fees	**1,478**	1,633

35. Impairment of Healthcare Services, Insurance Premiums and Other Receivables

The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance and reinsurance receivables	Receivables from healthcare services and other	Total
1 January 2016	2,692	9,412	12,104
Impairment charge	451	1,881	2,332
Recovery/reclassification	(624)	2,938	2,314
31 December 2016	2,519	14,231	16,750
Impairment charge	**479**	**3,696**	**4,175**
Impairment of receivables due to litigations	**–**	**1,883**	**1,883**
Write-off	**(669)**	**–**	**(669)**
31 December 2017	**2,329**	**19,810**	**22,139**

36. Other Operating Expenses

	Year ended 31 December 2017	Year ended 31 December 2016, as reclassified
Penalties and impairment of tax assets	**(3,314)**	–
Impairment of receivables due to litigations	**(1,883)**	–
Repair and maintenance expense	**(1,756)**	(1,705)
Cost of realised medicine	**(697)**	(63)
Impairment of intangible assets	**(606)**	–
Loss from PPE sold	**(515)**	(75)
Impairment expense on inventory	**(323)**	–
Loss from litigations	**(289)**	–
Impairment of prepayments	**(225)**	–
Cost of realised stationery	**(197)**	(110)
Expense on corporate event	**(168)**	–
Loss from receivables write-off	**(141)**	–
Other	**(2,997)**	(817)
Total other operating expense	**(13,111)**	(2,770)

As at 31 December 2017 penalty expenses mainly related to procedural violations in medical documentation as well as billing and invoicing process.

37. Interest Income and Interest Expense

Interest income and interest expense comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income		
Interest income from loans issued	404	453
Interest income from amounts due from credit institutions	1,707	1,388
Total interest income	2,111	1,841
Interest expense		
Interest expense on borrowings and payables for share acquisition	(22,240)	(11,781)
Interest expense on debt securities issued	(4,257)	(3,246)
Interest expense on finance lease	(1,046)	(550)
Total interest expense	(27,543)	(15,577)

As at 31 December 2017 the amount of borrowing costs capitalised in relation to qualifying items of property and equipment was GEL 7,936 (2016: GEL 2,484). The rate needed to determine the amount of borrowing costs eligible for capitalisation was 12.2% (2016: 13.5%), which is the effective interest rate of specific borrowings.

38. Net Non-Recurring (Expense)/Income

Net non-recurring expense for the year ended 31 December 2017 comprised:

- GEL 1,253 loss from one-off write-off of a loan related to DKC acquisition;
- GEL 1,577 loss from one-off dismissal compensations to employees;
- 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;
- GEL 314 loss from other individually insignificant transactions;

Net non-recurring expense for the year ended 31 December 2016 comprised:

- GEL 2,348 gain from disposal of New Life clinic;
- GEL 2,938 loss from one-off write-off of old receivables;
- GEL 1,670 gain from write-off of waived payables;
- GEL 1,288 loss on contract terms which are expected to be improved in 2017 year;
- GEL 441 loss from one-off compensation to employees;
- GEL 358 one-off currency conversion loss from settlement of consideration paid for acquisition of JSC GPC;
- GEL 3,500 gain on reversal of impairment of property and equipment of GNCo;
- GEL 2,714 loss from write-off of overdue loans;
- GEL 3,206 gain from a bargain purchase of JSC Poti Central Clinical Hospital;
- GEL 433 penalties from the Social Service Agency inspections;
- GEL 300 penalties from various tax inspections;
- GEL 449 other penalties from counterparties;
- GEL 270 loss from correction of acquisition costs;
- GEL 269 loss from correction of payables as a result of reconciliation with counterparties;
- GEL 134 one-off loss from litigations;
- GEL 144 net loss from revaluation of hospitals and clinics;
- GEL 132 net gain from other individually insignificant transactions.

39. Net Losses from Foreign Currencies and Cost of Currency Derivatives

	Year ended 31 December 2017	Year ended 31 December 2016
Net losses from foreign currencies	(1,348)	(4,396)
Cost of currency derivatives	(4,558)	(1,261)
Total interest income	(5,906)	(5,657)

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

40. Share-based Compensation

Sanne Fiduciary Services (the "Trustee") acts as the trustee of the Group's Employee Benefit Trust ("EBT"), which was founded in 2015. The EBT was established for the purposes of satisfying deferred share compensation awarded to Executive Directors and other members of executive and senior management.

GHG Senior Executive Plans

In February 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 2017 no shares have been vested.

In February 2016, the Board of Directors of GHG resolved to award 237,500 ordinary shares of GHG to the CEO of the Group. In February 2016, the Board of Directors of GHG resolved to award 281,000 ordinary shares of GHG to 3 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, one third 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 a 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 2017, 4% of the shares have been vested.

BGEO Senior Executive Plans

In March 2015, the Board of Directors of BGEO resolved to award 24,576 ordinary shares of BGEO to four executives of the Group. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for the awards. The Group considers 19 March 2015 as the grant date for the awards. The Group estimates that the fair value of the shares awarded on 19 March 2015 was GEL 57.41 per share. The fair value was identified based on market prices on grant date. As at 31 December 2017, two-thirds of the discretionary shares have been vested.

41. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, revaluation and other reserves and non-controlling interests. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:
- To maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the year ended 31 December 2017 and year ended 31 December 2016 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSG. Regulations of ISSSG require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued, investment property and other financial assets, as defined by ISSSG. The amount of such minimal liquid assets is called "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2017 equals the minimal amount of liquid assets of GEL 5,890 (2016: GEL 7,007). The insurance company is fully compliant with the requirement by holding GEL 6,687 (2016: GEL 9,693) of total eligible liquid assets.

41. Capital Management continued

Changes in liabilities arising from financing activities:

	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

42. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Board of directors

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)

42. 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 2017	31 December 2016
Loss ratio	84.2%	84.1%
Combined ratio	102.5%	104.7%

The Group issues the following types of insurance contracts: health, term life bundled with health, personal accident and travel insurance. The table below sets out concentration of insurance contract liabilities by type of contract:

	Year ended 31 December 2017	Year ended 31 December 2016
Healthcare	2,177	3,556
Term life	660	667
Travel	202	144
Personal accident	62	48
Total	3,101	4,415

For these insurance contracts the most significant risks arise from lifestyle changes and epidemics 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 on-going 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 2017	31 December 2016	31 December 2015
At the end of accident year	38,255	49,959	46,247
One year later	–	19	5
Two years later	–	–	–
Three years later	–	–	–
Current estimation of cumulative claims incurred	38,255	49,978	46,252
At the end of accident year	(35,153)	(45,544)	(42,881)
One year later	–	(4,357)	(3,361)
Two years later	–	–	–
Three years later	–	–	–
Cumulative payments to date	(35,153)	(49,901)	(46,242)
Outstanding claims provision per balance sheet	3,102	77	10
Current estimation of surplus		58	5
% of surplus to initial gross reserve		0.12%	0.01%

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.

42. Risk Management continued

Credit risk continued

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 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		136,538	25,520	22,139	184,196

	Notes	Neither past due nor impaired 31 December 2016	Past due but not impaired 31 December 2016	Impaired 31 December 2016	Total 31 December 2016
Amounts due from credit institutions	8	23,876	–	–	23,876
Insurance premiums receivable	9	23,420	–	3,306	26,726
Receivables from sales of pharmaceuticals		2,108	152	2,665	4,925
Receivables from healthcare services	10	52,324	16,419	24,214	92,957
Other assets: derivative financial assets	16	6,277	–	–	6,277
Other assets: loans issued and lease deposit	16	4,816	–	–	4,816
Other assets: other receivables	16	1,428	1,010	3,235	5,673
Total		114,249	17,581	33,420	165,250

Included in the past due but not impaired category are the receivables and financial assets that are overdue by not more than 30 days or are overdue by more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue by more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet all its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

42. Risk 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
Investment in associate	–	2,745	2,745
Inventory	118,811	–	118,811
Prepayments	16,448	13,906	30,354
Property and equipment	–	642,859	642,859
Goodwill and other intangible assets	–	143,674	143,674
Current income tax assets	2,026	–	2,026
Other assets	10,309	12,439	22,748
Total assets	352,177	815,623	1,167,800
Liabilities			
Accounts payable	92,925	–	92,925
Accruals for employee compensation	21,944	–	21,944
Payable for share acquisitions	15,946	82,312	98,258
Insurance contract liabilities	20,953	–	20,953
Borrowings	60,696	206,314	267,010
Debt securities issued	4,483	89,010	93,493
Finance lease liabilities	8,834	–	8,834
Current income tax liabilities	72	–	72
Other liabilities	15,911	–	15,911
Total liabilities	241,763	377,637	619,400
Net position	110,414	437,986	548,400
Accumulated gap	110,414	548,400	

31 December 2016	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	23,239	–	23,239
Amounts due from credit institutions	23,876	–	23,876
Insurance premiums receivables	24,207	–	24,207
Receivables from healthcare services	81,927	–	81,927
Receivables from sales of pharmaceuticals	4,925	–	4,925
Investment in associate	–	2,370	2,370
Inventory	54,920	–	54,920
Prepayments	5,604	25,199	30,803
Property and equipment	–	574,972	574,972
Goodwill and other intangible assets	–	73,028	73,028
Current income tax assets	2,511	–	2,511
Deferred income tax assets	–	309	309
Other assets	18,270	–	18,270
Total assets	239,479	675,878	915,357
Liabilities			
Accounts payable	64,367	–	64,367
Accruals for employee compensation	16,063	–	16,063
Payable for share acquisitions	7,789	3,197	10,986
Insurance contract liabilities	26,787	–	26,787
Borrowings	42,414	145,143	187,557
Debt securities issued	36,024	–	36,024
Finance lease liabilities	14,878	–	14,878
Current income tax liabilities	258	–	258
Other liabilities	16,405	–	16,405
Total liabilities	224,985	148,340	373,325
Net position	14,494	527,538	542,032
Accumulated gap	14,494	542,032	

42. Risk Management continued

Liquidity risk and funding management continued

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet all its present obligations and settle liabilities in timely manner.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	92,925	–	–	–	92,925
Accruals for employee compensation	21,944	–	–	–	21,944
Debt securities issued	4,816	4,771	128,727	–	138,313
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	171,081	56,473	410,899	108,405	746,857

31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	64,367	–	–	–	64,367
Accruals for employee compensation	16,063	–	–	–	16,063
Debt securities issued	–	38,364	–	–	38,364
Borrowings	18,639	36,887	130,784	30,872	217,182
Finance lease liabilities	9,436	5,653	–	–	15,089
Other financial liabilities	23,104	–	–	–	23,104
Total undiscounted financial liabilities	131,609	80,904	130,784	30,872	374,169

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 2017			31 December 2016		
	GEL	US$	EUR	GEL	US$	EUR
Amounts due from credit institutions	5.00%	3.16%	–	7.59%	4.90%	–
Borrowings	11.38%	5.02%	11.20%	10.76%	6.03%	12.00%

Sensitivity of the consolidated profit or loss is the effect of the assumed changes in interest rates on the interest expense for the year. During the year ended 31 December 2017 and 2016 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:

Notes to consolidated financial statements continued

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42. Risk Management continued

Market risk continued

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	Increase in basis points 31 December 2016	Sensitivity of interest expense 31 December 2016
US$	+0.48%	449
GEL	+4.00%	3,183

Currency	Increase in basis points 31 December 2016	Sensitivity of interest expense 31 December 2016
US$	-0.48%	(449)
GEL	-4.00%	(3,183)

Currency 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 the 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$ 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 the 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 2017. The gross value of foreign exchange fluctuation hedged equalled 2017: GEL 322 loss (2016: GEL 1,986 gain) on both hedged items and hedging instrument.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 and 31 December 2016 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.

42. Risk Management continued

Currency risk continued

	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	54,049	15,006	23,870	92,925
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	352,376	128,927	28,621	509,924
Net monetary position, before	(290,386)	(106,875)	(26,058)	(423,319)
Derivative financial instruments	(50,780)	49,819	–	(961)
Hedge accounting position	–	15,307	–	15,307
Net monetary position including	(341,167)	(41,749)	(26,058)	(408,974)
% increase in currency exchange rate		11.45%	17.19%	
Effect on profit before income tax expense		(4,782)	(4,480)	
% decrease in currency exchange rate		-11.45%	-17.19%	
Effect on profit before income tax expense		4,782	4,480	

	31 December 2016			
	GEL	US$	EUR	Total
Assets				
Cash and cash equivalents	13,052	10,020	167	23,239
Amounts due from credit institutions	1,044	22,832	–	23,876
Receivables from sales of pharmaceuticals	1,976	637	2,312	4,925
Receivables from healthcare services	81,927	–	–	81,927
Other assets: loans issued and lease deposit	979	3,837	–	4,816
Total monetary assets	98,978	37,326	2,479	138,783
Liabilities				
Accounts payable	48,122	6,499	9,746	64,367
Accruals for employee compensation	15,591	472	–	16,063
Payable for share acquisitions	3,113	7,873	–	10,986
Insurance contract liabilities	26,623	50	114	26,787
Debt securities issued	–	36,024	–	36,024
Borrowings	89,996	93,475	4,086	187,557
Finance lease liabilities	–	14,878	–	14,878
Other liabilities	15,962	444	–	16,406
Total monetary liabilities	199,407	159,715	13,946	373,068
Net monetary position, before	(100,428)	(122,389)	(11,467)	(234,285)
Derivative financial instruments	(99,595)	105,872	–	6,277
Hedge accounting position	–	15,629	–	15,629
Net monetary position including	(200,023)	(888)	(11,467)	(212,379)
% increase in currency exchange rate		13.40%	10.40%	
Effect on profit before income tax expense		227	(1,193)	
% decrease in currency exchange rate		-13.40%	-10.40%	
Effect on profit before income tax expense		(227)	1,193	

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 2017 the Group had US$20.3 million (2016: US$40 million) notional value foreign exchange forward contracts.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

42. 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.

43. 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.

	Level 1	Level 2	Level 3	Total fair value 31-Dec-17	Carrying value 31-Dec-17	Unrecognised gain (loss) 31-Dec-17
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	–
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	–	–	8,735	8,735	8,834	(99)
Other liabilities: derivative financial liabilities	–	1,091	–	1,091	1,091	–

43. Fair Value Measurements continued

Fair value hierarchy continued

	Level 1	Level 2	Level 3	Total fair value 31-Dec-16	Carrying value 31-Dec-16	Unrecognised gain (loss) 31-Dec-16
Assets measured at fair value						
Property and equipment	–	–	409,469	409,469	409,469	–
Other assets: derivative financial assets	–	6,277	–	6,277	6,277	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	23,239	–	23,239	23,239	–
Amounts due from credit institutions	–	–	23,876	23,876	23,876	–
Insurance premiums receivables	–	–	24,207	24,207	24,207	–
Receivables from healthcare services	–	–	81,927	81,927	81,927	–
Receivables from sales of pharmaceuticals	–	–	4,925	4,925	4,925	–
Other assets: loans issued and lease deposit	–	–	4,816	4,816	4,816	–
Other assets: non-medical receivables	–	–	5,599	5,599	5,599	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	170,075	170,075	187,557	17,482
Debt securities issued	–	–	37,546	37,546	36,024	(1,522)
Finance lease liabilities	–	–	14,878	14,878	14,878	–

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 the 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 an option on acquisition of the remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on predetermined EBITDA multiple (6.0 times EBITDA of JSC GEPHA). The Group has applied the 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 the actual volatility of the parent company's market capitalisation from 1 January 2013 to 31 December 2017, which equalled 34.7%. If the volatility was 10% higher, the fair value of the call option would increase by GEL 1,989; if volatility was 10% lower, the call option value would decrease by GEL 1,940. The Group recognised GEL 10,106 unrealised gains on the call option during the year ended 31 December 2017.

Impact of changes in key assumptions on fair value of level 3 assets measured at fair value
Level 3 property at fair value

	31 December 2017	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment							
Land and office buildings	**17,979**	Market and DRC approaches	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	**423,549**	Market and DRC approaches	Price per square metre, land, building	51-1,282	Square metres, building	58-30,700	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.

Notes to consolidated financial statements continued

(thousands of Georgian Lari unless otherwise stated)

43. Fair Value Measurements continued

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.

44. Related Party Transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2017	31 December 2016	
	Entities under common control*	Entities under common control*	Other**
Assets			
Cash and cash equivalents	**23,720**	14,428	–
Amounts due from credit institutions	**6,218**	8,017	–
Insurance premiums receivable	**2,511**	1,727	–
Other assets: non-medical receivables	**–**	1,010	–
Other assets: derivative financial assets	**130**	6,277	–
Other assets: loans issued and lease deposit	**–**	1,999	2,547
Prepayments and other assets	**219**	17	–
	32,798	33,475	2,547
Liabilities			
Borrowings	**50,975**	37,495	–
Insurance contract liabilities	**–**	1,904	–
Accounts payable	**650**	1,949	–
Other liabilities: derivative financial liability	**1,091**	–	–
Other liabilities: other	**195**	–	–
	52,911	41,348	–

	Year ended 31 December 2017	Year ended 31 December 2016	
	Entities under common control*	Entities under common control*	Other**
Income and expenses			
Net insurance premiums earned	**4,214**	3,127	–
General and administrative expenses	**(2,542)**	(1,294)	–
Interest income	**1,355**	340	–
Interest expense	**(6,463)**	(4,933)	–
Net gains from foreign currencies	**(6,093)**	6,277	–
Other operating expenses	**(882)**	–	–
Cost of healthcare services and medical trials	**(1,059)**	–	–
	(11,470)	3,517	–

* Entities under common control include BGEO Group PLC subsidiaries

** Other related parties in 2016 comprise minority shareholder in GNCo, an associate company Geolab and ABC Pharmacy, an entity acquired during the subsequent period

44. Related Party Transactions continued

Compensation of key management personnel comprised the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and cash bonuses	5,773	4,596
Share-based compensation	3,652	3,117
Total key management compensation*	9,425	7,713

* Key management personnel represent board of directors and executive management.

45. Events after the Reporting Period

In January 2018 JSC Insurance Company Imedi L acquired a significant new client, the Georgian Ministry of Internal Affairs, by winning a recent tender process. The Ministry of Internal Affairs is the country's largest insurance client by number of insured clients.

In January 2018, 67% owned subsidiary of the Group, JSC GEPHA, declared dividend of GEL 28.0 million, of which GEL 18.8 million is attributable to JSC Georgia Healthcare Group and GEL 9.2 million to non-controlling interest shareholders. Out of the declared amount, GEL 2.5 million was paid to non-controlling interest shareholders during subsequent period.

Abbreviations

ABC	ABC Pharmacy
AGM	Annual General Meeting
AM	Aliance Med
BGEO	BGEO Group PLC
CAGR	Compounded annual growth rate
CAPEX	Capital Expenditure (CapEx)
CDC	Centres for Disease Control and Prevention
CPD	Continuing Professional Development Programmes
CEO	Chief Executive Officer
CME	Continuous Medical Education
CNF	Caucasus Nature Fund
DAC	Deferred acquisition costs
Deka	Deka Referral Hospital
DSO	Day's sales outstanding
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMA	European Medicines Agency
EPS	Earnings per share
ER	Emergency
ES	Emergency Service
ESOP	Employee Stock Ownership Plan
EU	European Union
EY	Ernst & Young LLP
FDA	Food and Drug Administration
FTSE	Financial Times Stock Exchange
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
GHG	Georgia Healthcare Group
GPR	Gross Premium Revenues
GPC	JSC GPC
HRMS	Human Resources Management System
HTMC	High Technology Medical Centre University Clinic
IC	Infection Control
ICU	Intensive Unit Care
IAD	Internal Audit Department
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
ISSSG	Insurance State Supervision Service of Georgia
IVF	In Vitro Fertilisation
JCI	Joint Commission International
KBO	Key Business Objectives
KPI	Key Performance Indicator
LTIP	long-term incentive plan
MCA	Medical Center Almedi
MOH	Georgian Ministry of Labour, Health and Social Affairs
MoU	Memorandum of Understanding
NBG	National Bank of Georgia
NCDC	National Centre for Disease Control and Public Health
NICU	Neonatal Intensive Care Unit
OBGYN	Obstetrics and Gynaecology
OOP	Out of Pocket
OTC	Over the Counter
PICU	Paediatric Intensive Care Unit
ROIC	Return on invested capital
SG&A	Selling, general and administrative expenses
SIP	State Insurance Programme
SOP	Standard operating procedures
SSA	Social Service Agency
S&P	Standard & Poor's
THUAS	Hague University of Applied Sciences
ToT	Trainers of Trainers
UHC	Universal Healthcare Programme
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

Administrative salary rate	Administrative salaries and other employee benefits divided by gross revenue excluding corrections and rebates
Average length of stay	Number of inpatient days divided by number of patients. This calculation excludes data for the emergency department.
Bed occupancy	Number of total inpatient nights divided by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year.
Combined ratio	Sum of loss ratio and expense ratio.
Commission ratio	Agents, brokers and employee commissions divided by net insurance premiums earned.
Corrections and rebates	Corrections of invoices by third parties due to errors or faults.
Day's sales outstanding ratio	Equals receivables from sales of pharmaceuticals divided by cost of pharma.
Direct salary rate	Cost of salaries and other employee benefits divided by gross revenue excluding corrections and rebates.
Earnings per share	Profit for the period attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period (unless otherwise noted).
EBITDA	The Group's Profit before income tax expense excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.
EBITDA cash conversion cycle	Equals Net cash flows from/(used in) operating activities before income tax divided by EBITDA
EBITDA margin	EBITDA divided by gross revenue excluding corrections and rebates.
Eliminations	Intercompany transactions between medical insurance and healthcare services.
Expense 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	Longer-term expenditures including acquisition of properties with long-term useful lives.
Group's maintenance capital expenditure	Short-term expenditures (up to one year).
Group's rent expense	Expenses on operating lease contracts.
Loss ratio	Net insurance claims divided by net insurance revenue.
Materials rate	Cost of materials and supplies divided by gross revenue excluding corrections and rebates.
Net Debt to EBITDA	Borrowings less cash and cash equivalents and amounts due from credit institutions divided by EBITDA.
Normalised EPS	Normalised profit for the period attributable to shareholders divided by the weighted average number of shares outstanding during the same period.
Normalised profit 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.
Selling, general and administrative expenses rate	General and administrative expenses divided by gross revenue excluding corrections and rebates.

Shareholder information

Annual General Meeting
The Annual General Meeting will be held at the offices of Baker & McKenzie, 100 New Bridge Street, London, EC4V 6JA, United Kingdom. Details of the date, time and 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, and will be available on the Company's website www.ghg.com.ge

Shareholder enquiries
GHG PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website www.investorcentre.co.uk or by calling the Shareholder Helpline on +44 (0)330 303 1186.

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Forward-looking statements
Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 55 to 61. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

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