This document comprises a prospectus relating to Georgia Healthcare Group PLC (the **Company**, **we** or **us**) and has been prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the **FCA**) made under Section 73A of the Financial Services and Markets Act 2000 (as amended) (the **FSMA**), has been filed with and approved by the FCA and will be made available to the public as required by the Prospectus Rules.

Application has been made to the FCA in its capacity as competent authority under the FSMA (the **UKLA**) for the ordinary shares in the capital of the Company (the **Shares** or the **Securities**), issued and to be issued in connection with the Offering (as defined below), to be admitted to the premium listing segment of the Official List of the FCA (the **Official List**) and to the London Stock Exchange and for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, the **Admission**). Admission to trading on the London Stock Exchange's main market for listed securities constitutes admission to trading on a regulated market. In the offering, 38,681,820 Shares are being issued by the Company (assuming no exercise of the Over-allotment Option (as defined below)) to certain institutional, professional and other investors (the **Offering**). Conditional dealings in the Shares are expected to commence on the London Stock Exchange on 9 November 2015. It is expected that Admission will become effective, and that unconditional dealings will commence in the Shares on the London Stock Exchange, at 8.00 a.m. (London time) on 12 November 2015. All dealings in the Shares prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. **No application has been or will be made, or is currently contemplated, for the Shares to be admitted to listing or trading on any other recognised investment exchange.**

The Company and its directors (whose names appear on page 33) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company and its directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

GEORGIA HEALTHCARE GROUP

Georgia Healthcare Group PLC

*(incorporated and registered in England and Wales under the Companies Act 2006 with registered number **09752452**)*

Offering of 38,681,820 Shares at an Offering Price of £1.70 per Share and admission to the premium listing segment of the Official List and to trading on the London Stock Exchange

Joint Sponsors, Joint Financial Advisers and Joint Global Coordinators

Citigroup **Jefferies**

Co-Lead Managers

Galt & Taggart **Numis** **Renaissance Capital**

Investing in the Securities involves risks. Persons receiving a copy of this document should read the document in its entirety and, in particular, the section headed "*Risk Factors*" on pages 15 to 25, for a discussion of certain factors that should be considered in relation to the Offering.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended. Prospective purchasers that are qualified institutional buyers are hereby notified that the sellers of the Securities may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Outside the United States, the Offering is being made in reliance on Regulation S under the Securities Act.

Citigroup Global Markets Limited and Jefferies International Limited (together, the **Joint Global Coordinators**) have been appointed as Joint Global Coordinators, sponsors (together, the **Joint Sponsors** and each a **Sponsor**) and financial advisers (together, the **Joint Financial Advisers** and each a **Financial Adviser**); and JSC Galt & Taggart, Numis Securities Limited and Renaissance Securities (Cyprus) Limited (together, the **Co-Lead Managers** and, together with the Joint Global Coordinators, the **Managers**) have been appointed as Co-Lead Managers. Citigroup Global Markets Limited is authorised by the Prudential Regulation Authority (**PRA**) and regulated in the United Kingdom by the PRA and the FCA and Jefferies International Limited is authorised and regulated by the FCA in the United Kingdom, and are acting exclusively for the Company and no one else in connection with Admission or the Offering, will not regard any other person (whether or not a recipient of this document) as a client in relation to Admission or the Offering, and will not be responsible to anyone other than the Company for providing the protections afforded to its clients nor for providing advice in relation to Admission, the Offering or any transaction or arrangement referred to in this document.

9 November 2015

Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Sponsors, Joint Financial Advisers, Joint Global Coordinators or Co-Lead Managers by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Sponsors, Financial Advisers, Joint Global Coordinators or Co-Lead Managers accept any responsibility whatsoever, nor make any representation or warranty express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, Admission or the Offering. Each of the Sponsors, Financial Advisers, Joint Global Coordinators and Co-Lead Managers accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) that it might otherwise have in respect of this Prospectus or any such statement.

None of the Company, the Sponsors, the Financial Advisers, the Joint Global Coordinators or the Co-Lead Managers nor any of their respective representatives, is making any representation to any prospective investor of the Shares regarding the legality of an investment in the Shares by such prospective investor under the laws applicable to such prospective investor. The contents of the document should not be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal, financial or tax adviser for legal, financial or tax advice.

NOTICE TO OVERSEAS HOLDERS

The distribution of this document and the offer and sale of Shares in certain jurisdictions may be restricted by law and regulation. Other than in the United Kingdom, no action has been taken or will be taken by the Company or the Joint Global Coordinators that would permit a public offering of the Shares, or possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required or doing so is restricted by law. Accordingly, neither this document, nor any advertisement, nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions

NOTICE TO PROSPECTIVE INVESTORS IN GEORGIA

This document does not constitute a public offer or advertisement of the Shares in Georgia and the Offering will not be capable of acceptance by any person from and within Georgia other than by a "sophisticated investor" as defined by the Law of Georgia on the Securities Market. Accordingly, copies of this document are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in (including by way of facsimile transmission), and the Offering is not being made to any person in the jurisdiction of Georgia other than sophisticated investors.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This document and any other materials in relation to the Shares described herein are only being distributed to, and are only directed at, persons in the United Kingdom who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive who are also: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**) or (ii) high net worth entities or other persons falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as **relevant persons**). The Shares are only available to, and any invitation, offer or agreement to subscribe or otherwise acquire such Shares will be engaged in only with, relevant persons. This document and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or its contents.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or under any securities laws of any state or other jurisdiction of the United States. The Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission (the **SEC**), any other federal or state securities commission in the United States or any other U.S. regulatory authority, nor have any such authorities passed upon or endorsed the merits of the Offering or confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this document entitled *Part XVII: "Information on the Offering—Underwriting Arrangements"* and *Part XVII: "Information on the Offering—Transfer Restrictions"*.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (RSA) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO NORTH CAROLINA RESIDENTS ONLY

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), an offer to the public of any Shares (including by means of a resale or other transfer) may not be made in that Relevant Member State, other than the offer in the United Kingdom contemplated in this document (this document having been approved by the FCA (being the competent authority in the United Kingdom) and which will be published in the United Kingdom in accordance with the Prospectus Directive as implemented in the United Kingdom), except that an offer to the public in that Relevant Member State of the Shares may be made at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- by the Company to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Sponsors for any such offers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

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PART I
SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A to E (A.1 to E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of "not applicable".

Section A—Introduction and Warnings		
Annexes and Element		**Disclosure requirement**
A.1	Warning	This summary should be read as an introduction to this prospectus (the **Prospectus**). Any decision by you to invest in the Shares should be based on consideration of the Prospectus as a whole. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Economic Area, be required to bear the costs of translating the Prospectus before legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Shares.
A.2	Subsequent resale of securities or final placement of securities through financial intermediaries	Not applicable. No consent has been given by the Company or any person responsible for drawing up this Prospectus to the use of this Prospectus for subsequent resale or final placement of securities by financial intermediaries.

Section B—Issuer and any guarantor		
Annexes and Element		**Disclosure requirement**
B.1	Legal and commercial name	Georgia Healthcare Group PLC
B.2	Domicile and legal form	The Company is a public limited company, incorporated in England and Wales on 27 August 2015 with registered number 09752452. The Company's registered office is situated in England. The Company operates under the Companies Act 2006.
B.3	Operations and principal activities	The Group is the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. Our leadership position is underpinned by offering the most comprehensive range of inpatient and outpatient services targeting the mass market segment through our vertically integrated network of 34 hospitals and six ambulatory clinics, as at 30 June 2015.

Section B—Issuer and any guarantor		
Annexes and Element		**Disclosure requirement**
		Our operations are organised in specific geographic clusters in order to provide services to the broadest range of patients with (i) ambulatory clinics providing basic outpatient services, (ii) community hospitals offering broader outpatient and a range of multi-profile inpatient healthcare services, and (iii) referral hospitals offering a comprehensive range of complex and specialist services. The referral hierarchy within each geographic cluster provides patients with a complete treatment pathway, from local physicians via ambulatory clinics and community hospitals to larger general referral hospitals where more specialised treatments are provided. Our dedicated ambulance services help facilitate the movement of patients between hospitals. Our healthcare services business had a 22.1% market share by number of beds (2,220 as at 30 June 2015), more than four times larger than our nearest competitor, and a 14.0% market share by hospital revenue. The Group also has the widest geographic coverage network relative to our competitors, with facilities currently located in six regions covering three quarters of the 4.5 million population of Georgia. The Group is also the largest provider of medical insurance in Georgia with a 38.1% market share based on gross premiums written, as at 30 June 2015, over 12% larger than our nearest competitor. The Group offers a wide range of comprehensive private medical insurance policies and products that "top up" or supplement healthcare coverage provided under the government-funded universal healthcare programme (the **UHC**) and other state-funded healthcare programmes. Our products are offered as corporate packages to large employers and standalone policies for self-paying individuals. The Group had approximately 250,000 insurance customers as at 30 June 2015. Our business was established in 1990, and has operated as a subsidiary of Bank of Georgia since 2004. The Group has 25 years of experience in the medical insurance market and has been providing healthcare services to patients since 2006. Our business has grown rapidly in recent years, driven by significant organic expansion of our existing facilities and by selectively acquiring and integrating a number of complementary businesses and assets. Our total revenue has increased from GEL 119.4 million in 2012 to GEL 196.3 million in 2014, our EBITDA from GEL 23.3 million to GEL 36.9 million and our number of beds from 1,041 to 2,140. In the first half of 2015, we had total revenue of GEL 108.8 million and EBITDA of GEL 23.6 million, of which our healthcare services business comprised 75.9% and 94.7%, respectively, with the balance generated by our medical insurance business.

Section B—Issuer and any guarantor		
Annexes and Element		**Disclosure requirement**
B.4a	Significant recent trends	The Group operates in both the healthcare services and medical insurance markets in Georgia. Between 2000 and 2012, the Georgian healthcare services market had an average annual growth of 17%, and is forecast to reach GEL 3.1 billion by 2018. The main growth drivers for healthcare services in Georgia include the following: • *Improving infrastructure to support demand*. Continued investment in healthcare infrastructure, mainly by private healthcare providers that are expanding their businesses to address the growing demand for quality medical care from the population, has included modernising Soviet-era hospitals, upgrading medical technologies, facilitating easier access to healthcare and the addition of over 150 new hospitals between 2007 and 2013 (with approximately 60% under private ownership). These developments also reflect an inflow of investments from strategic financial investors into the market given its high-growth potential. An increase in demand and hospitalisation rates is also expected as a result of the growing availability of affordable quality healthcare services, improving diagnostic services and increasing healthcare awareness in Georgia. By way of an example, according to analysis by Frost & Sullivan, the hospitalisation rate in Georgia for cardiovascular diseases was 2.5 times lower than in EU countries, indicating a large number of undiagnosed or untreated conditions. The resulting growth in hospitalisation rates could drive efficiency in inpatient facilities. Utilisation of beds in Georgia, as measured by bed occupancy rates, has the potential to increase by between 20 to 30%. • *Supportive government healthcare policies.* Since its introduction in March 2013, the UHC has provided the entire population with access to quality healthcare and is expected to help increase demand for medical care. In particular, the UHC will drive the ambulatory market, where current penetration levels (in terms of the number of visits) are low in comparison to developed countries. In addition, it is expected that there will be a 12% increase in the government's budget for and expenditure on healthcare in 2015 (*Source: Georgian Ministry of Finance*). Until September 2014, the majority of drugs in Georgia were sold without a prescription. Since then, the government has introduced prescription requirements for over 6,000 types of medicines, including antibiotics, cardiovascular, hormonal, endocrine and oncology products that account for more than 50% of medicines registered in Georgia. This initiative should increase demand for outpatient visits and should reduce the widespread practice of self-treatment.

Section B—Issuer and any guarantor		
Annexes and Element		**Disclosure requirement**
		• *Double digit growth in healthcare expenditure.* Total healthcare expenditure in Georgia increased by almost seven times over the period from 2000 to 2012. However, on a per capita basis, healthcare spending remains low compared to certain emerging market peers, pointing to further growth potential. At the same time, economic growth and rising disposable incomes of Georgian citizens, including in the regions outside Tbilisi, will also lead to higher spending on healthcare services, particularly in consideration of the potential growth of "top up" medical insurance to supplement basic UHC coverage and the increase of corporate medical insurance plans for employees. Improving facilities and standards have the potential to develop health tourism by attracting citizens of neighbouring countries and, conversely, retaining Georgians currently seeking treatment overseas. • *Rapidly growing healthcare services market.* Historically high growth in the Georgian healthcare services market is expected to continue, supported by both the hospital and ambulatory clinic segments. Increasing health awareness and quality of services will lead to growth in demand for diagnostics. Between 2010 and 2013, the number of laboratory tests increased by 45%, from 5.5 million to 8 million. The number of advanced diagnostic tests such as medical imaging is also increasing. In the same period, the number of computer tomography (CT) examinations has grown by 38% to almost 40,000. There has also been a growing demand for surgery and, in particular, advanced procedures—the overall number of surgeries performed is increasing by 9% annually in Georgia, which illustrates the growing demand for (and greater ability to deliver) such surgeries. In 2013 alone, the number of hip and knee replacements increased by 46% and the number of heart surgeries by 29% (*Source: NCDC*). • *Favourable demographics*. The country has an ageing population, with an increasing proportion of its citizens aged over 60 who will require more frequent, better and prolonged healthcare treatments. Increasing incidence of certain lifestyle-related diseases (in particular, hypertension, ischemic heart diseases, cerebrovascular diseases and diabetes) will also boost demand for medical care. In addition, healthy fertility rates will drive demand for obstetric and child care services. Over the past decade, the Georgian medical insurance market has evolved significantly. From 2007 to 2013, the private insurance market in Georgia expanded significantly with total enrolment increasing to 491,885. This stands in contrast to 2006 when only 40,000 Georgian citizens (or less than 1% of the total population) had a voluntary medical insurance package, most of which were provided as part of a corporate benefits programme. As of 30 June 2015, 482,381 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia. Growing awareness of the benefits of medical insurance among the population in Georgia may lead to greater demand for private medical insurance from employers and self-paying customers who seek better quality of services, quicker treatment, or more advanced procedures than are covered within the UHC framework.

Section B—Issuer and any guarantor		
Annexes and Element		**Disclosure requirement**
B.5	Group description	As at the date of this document, the terms **Group**, **we, our** or **us** refer to Georgia Healthcare Group PLC, a Company registered in England, and its consolidated subsidiaries and subsidiary undertakings from time to time, which include JSC Georgia Healthcare Group, a company registered in Georgia, and its operating subsidiaries, Evex Medical Corporation and Insurance Company Imedi L. Prior to 2 September 2015, when the Group completed a reorganisation in preparation for the Offering and Admission, the terms **Group**, **we, our** or **us** refer to JSC Georgia Healthcare Group and its consolidated subsidiaries from time to time.
B.6	Major Shareholders	Immediately prior to Admission, BGH will indirectly hold 96.24% of the Company's issued share capital through its wholly-owned intermediate holding company, JSC BGEO Investments (the **Selling Shareholder**), with the remaining 3.76% being held by Sanne Fiduciary Services Limited as trustee of the Group's employee benefit trust. Following Admission, BGH will indirectly own approximately 68% of the Company's issued share capital through the Selling Shareholder, assuming no exercise of the option granted by the Selling Shareholder to the Stabilising Manager, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Shares up to a maximum of 10% of the total number of shares comprised in the Offering at the Offering Price (the **Over-allotment Option**), and 65% assuming the Over-allotment Option is exercised in full. The Company has entered into a relationship agreement with the Selling Shareholder and BGH on 23 October 2015, which is intended to allow the Company to operate its business independently from BGH and to ensure that transactions and relationships between the Company and BGH are on arm's length terms and on a normal commercial basis.
B.7	Key Financial Information	The tables below set out summary financial information for the Group for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, which has been extracted without material adjustment from the Historical Financial Information.

Section B—Issuer and any guarantor

Annexes and Element	Disclosure requirement

Consolidated Income Statement

	For the six months ended 30 June			For the year ended 31 December				
	2015	2015-2014	2014	2014	2014-2013	2013	2013-2012	2012
	(audited)		(unaudited)	(audited)		(audited)		(audited)
	(000s of GEL)	Change (%)	(000s of GEL)	(000s of GEL)	Change (%)	(000s of GEL)	Change (%)	(000s of GEL)
Healthcare services revenue	82,553	57.4	52,437	126,884	102.6	62,638	26.7	49,450
Net insurance premiums earned	26,202	(38.2)	42,428	69,448	(32.6)	102,963	47.3	69,914
Revenue	**108,755**	**14.6**	**94,865**	**196,332**	**18.6**	**165,601**	**38.7**	**119,364**
Cost of healthcare services	(46,209)	55.1	(29,802)	(71,803)	117.2	(33,062)	10.1	(30,041)
Net insurance claims incurred	(20,101)	(39.4)	(33,154)	(54,263)	(28.1)	(75,513)	65.6	(45,596)
Costs of services	**(66,310)**	**5.3**	**(62,956)**	**(126,066)**	**16.1**	**(108,575)**	**43.5**	**(75,637)**
Gross profit	**42,445**	**33.0**	**31,909**	**70,266**	**23.2**	**57,026**	**30.4**	**43,727**
Other operating income	1,696	27.3	1,332	2,875	(1.3)	2,912	(6.0)	3,099
Salaries and other employee benefits . . .	(12,602)	27.3	(9,901)	(19,804)	45.5	(13,613)	(0.8)	(13,729)
General and administrative expenses	(4,950)	17.5	(4,212)	(9,449)	45.8	(6,480)	19.2	(5,434)
Impairment of healthcare services, insurance premiums and other receivables .	(1,846)	68.6	(1,095)	(5,134)	48.0	(3,470)	32.8	(2,613)
Other operating expenses	(1,155)	(37.5)	(1,848)	(1,892)	42.1	(1,331)	(23.5)	(1,740)
	(20,553)	20.5	(17,056)	(36,279)	45.7	(24,894)	5.9	(23,516)
EBITDA	**23,588**	**45.7**	**16,185**	**36,862**	**5.2**	**35,044**	**50.3**	**23,310**
Depreciation and amortisation	(4,889)	31.9	(3,707)	(7,630)	29.3	(5,901)	54.3	(3,824)
Interest income	1,223	48.6	823	1,532	5.0	1,459	(38.5)	2,372
Interest expense	(11,341)	69.6	(6,685)	(14,338)	31.2	(10,928)	47.7	(7,397)
Net gains/(losses) from foreign currencies . . .	5,449	(405.6)	(1,783)	(2,494)	(38.3)	(4,045)	697.8	(507)
Net non-recurring (expense)/income . . .	(767)	(157.5)	1,333	578	—	—	—	—
Profit before income tax expense	**13,263**	**115.1**	**6,166**	**14,510**	**(7.2)**	**15,629**	**12.0**	**13,954**
Income tax benefit (expense)	53	(107.6)	(695)	(1,246)	(44.7)	(2,255)	26.8	(1,779)
Profit for the period . .	**13,316**	**143.4**	**5,471**	**13,264**	**(0.8)**	**13,374**	**9.8**	**12,175**
Attributable to:								
shareholders of the Group	11,854	164.7	4,478	10,207	8.3	9,422	4.9	8,985
non-controlling interests	1,462	47.2	993	3,057	(22.6)	3,952	23.9	3,190

Section B—Issuer and any guarantor

Annexes and Element	Disclosure requirement

Consolidated Statement of Financial Position

	As at 30 June 2015	As at 30 June 2015-As at 31 December 2014	As at 31 December 2014	2014-2013	2013	2013-2012	2012
	(audited) (000s of GEL)	Change (%)	(audited) (000s of GEL)	Change (%)	(audited) (000s of GEL)	Change (%)	(audited) (000s of GEL)
ASSETS							
Total assets	**504,092**	**23.2**	**409,277**	**46.4**	**279,532**	**8.3**	**258,089**
Total liabilities	**290,367**	**22.5**	**236,966**	**31.1**	**180,806**	**2.6**	**176,218**
Share capital	89,446	215.7	28,335	107.0	13,686	0.0	13,686
Additional paid-in capital	66,648	(32.8)	99,138	188.9	34,317	1.6	33,765
Other reserves	(15,289)	(7.6)	(16,543)	(3876.9)	438	23.0	356
Retained earnings	47,723	33.0	35,869	39.8	25,662	58.0	16,240
Total equity attributable to shareholders of the Group	**188,528**	**28.4**	**146,799**	**98.1**	**74,103**	**15.7**	**64,047**
Non-controlling interests	25,197	(1.2)	25,512	3.6	24,623	38.1	17,824
Total equity	**213,725**	**24.0**	**172,311**	**74.5**	**98,726**	**20.6**	**81,871**
Total equity and liabilities	**504,092**	**23.2**	**409,277**	**46.4**	**279,532**	**8.3**	**258,089**

Consolidated Statement of Cash Flows

	For the six months ended 30 June 2015	2015-2014	2014	For the year ended 31 December 2014	2014-2013	2013	2013-2012	2012
	(audited) (000s of GEL)	Change (%)	(unaudited) (000s of GEL)	(audited) (000s of GEL)	Change (%)	(audited) (000s of GEL)	Change (%)	(audited) (000s of GEL)
Net cash flows from operating activities	19,044	153.9	7,500	8,446	(47.3)	16,020	112.0	7,558
Net cash flows used in investing activities	(54,515)	1.4	(53,773)	(86,018)	522.2	(13,824)	(78.7)	(64,799)
Net cash flows from (used in) financing activities	26,897	(44.2)	48,166	105,924	(1824.9)	(6,141)	(109.6)	64,131
Net increase (decrease) in cash and cash equivalents	(7,300)	(400.4)	2,430	28,313	(821.0)	(3,927)	(157.4)	6,847
Cash and cash equivalents, beginning	32,784	633.3	4,471	4,471	(46.8)	8,398	441.5	1,551
Cash and cash equivalents, end	25,484	269.3	6,901	32,784	633.3	4,471	(46.8)	8,398

Avante—Key Financial Information

	For the two months ended 28 February: 28 February 2014	28 February 2013	For the year ended 31 December: 2013	2012
	(audited) (000s of GEL)	(audited) (000s of GEL)	(audited) (000s of GEL)	(audited) (000s of GEL)
Total revenue	6,170	5,332	34,991	22,040
Net profit	501	(319)	2,560	1,169
Total assets (at end of period date)	35,278	32,223	33,912	29,725

Section B—Issuer and any guarantor

Annexes and Element		Disclosure requirement

Traumatology—Key financial information

	For the year ended 31 December		
	2014	2013	2012
	(audited)	(audited)	(audited)
	(000s of GEL)	(000s of GEL)	(000s of GEL)
Total revenue	8,030	7,522	5,620
Net profit	348	17	400
Total assets (at end of period date)	4,555	3,741	3,645

Our business has grown rapidly in recent years, driven by significant organic expansion of our existing facilities and by selectively acquiring and integrating a number of complementary businesses and assets. Our total revenue has increased from GEL 119.4 million in 2012 to GEL 196.3 million in 2014, our EBITDA from GEL 23.3 million to GEL 36.9 million and our number of beds from 1,041 to 2,140. In the first half of 2015, we had total revenue of GEL 108.8 million and EBITDA of GEL 23.6 million, of which our healthcare services business comprised 75.9% and 94.7% respectively with the balance generated by our medical insurance business.

Profit for the period increased by GEL 7,845 thousand, or 143.4%, from GEL 5,471 thousand for the six months ended 30 June 2014, to GEL 13,316 thousand for the six months ended 30 June 2015. Profit for the year decreased by GEL 110 thousand or 0.8%, from GEL 13,374 thousand in 2013 to GEL 13,264 thousand in 2014. Profit for the year increased by GEL 1,199 thousand, or 9.8%, from GEL 12,175 thousand in 2012 to GEL 13,374 thousand in 2013.

There has been no significant change in the financial position or results of operations of the Group during the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 or the period subsequent to 30 June 2015, the date to which the last historical financial information of the Group was prepared.

B.8	Key Pro Forma Financial Information	Not applicable. There is no pro forma financial information.
B.9	Profit Forecast	Not applicable. There is no profit forecast or estimate.
B.10	Description of the nature of any qualification in the audit report on the historical financial information	Not applicable. There are no qualifications in the audit report on the historical financial information.
B.11	Explanation if there is insufficient working capital	Not applicable. In the opinion of the Company, taking into account the net proceeds of the Offering receivable by the Company, the working capital available to the Group is sufficient for present requirements, that is, for at least the next 12 months following the date of this document.

Section C—Securities		
Annexes and Element		**Disclosure requirement**
C.1	Type and class of securities	The Company intends to issue 36,681,820 Shares, which are to be issued by the Company on Admission. The Shares to be issued and sold in the Offering represent approximately 29% of the Company's issued share capital immediately following Admission of the Shares to trading on the London Stock Exchange's main market for listed securities and their admission to the premium segment of the FCA's Official List. In addition, a further 3,868,180 Shares (**Over-allotment Shares**) (representing approximately 10% of the total number of Shares comprised in the Offering) are being made available by the Selling Shareholder pursuant to the Over-allotment Option. When admitted to trading, the Shares will be registered with ISIN number GB00BYSS4K11 and SEDOL number BYSS4K1, and will trade under the symbol "GHG".
C.2	Currency of the securities issue	The currency of the issue is United Kingdom pounds sterling.
C.3	Issued share capital	As at the date of this document, the issued share capital of the Company is £9,300,000, comprising 93,000,000 Shares, all of which are fully paid or credited as fully paid. The aggregate nominal value of the Company's issued ordinary share capital immediately following Admission will be £13,168,182 divided into 131,681,820 Shares, which will be issued and fully paid.
C.4	Description of the rights attaching to the securities	The Shares being sold pursuant to the Offering will, on Admission, rank pari passu in all respects with Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on our share capital.
C.5	Restrictions on the free transferability of the securities	The Shares are freely transferable and there are no general restrictions on transfer except as described in the paragraphs below: *Transfer restrictions under the Companies Act* The Company may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its Shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void. *Transfer restrictions under the Articles* The Directors may, in their absolute discretion, refuse to register the transfer of a certificated Share unless all of the following conditions are satisfied: it is in respect of only one class of Shares; it is in favour of (as the case may be) a single transferee or not more than four joint transferees; it is duly stamped (if required); and it is delivered for registration to the office or such other place as the Directors may decide, accompanied by the certificate for the Shares to which it relates and such other evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer.

Section C—Securities		
Annexes and Element		**Disclosure requirement**
		In accordance with and subject to the provisions of the Uncertificated Securities Regulations 2001, a transfer of title to any uncertificated Share shall be registered unless the Regulations permit a transfer to be refused. Where notice is served by the Company under section 793 of the Companies Act (a section 793 notice) on a Shareholder, or another person appearing to be interested in the Shares held by that Shareholder, and such Shareholder or other person has failed in relation to any Shares (the default share), to give the Company the information required within 14 days from the date of service of the section 793 notice, then, unless the Directors otherwise decide, where the default shares represent at least 0.25% in nominal value of the issued the Shares of their class (excluding any Share of their class held as treasury shares), no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer, or such Shareholder is not himself or herself in default in supplying the information required and such Shareholder proves to the satisfaction of the Directors that no person in default in supplying the information required is interested in any the Shares the subject of the transfer.
C.6	Admission	Application has been made to the FCA for all of the Shares, issued and to be issued, to be admitted to the premium listing segment of the Official List of the FCA and to the London Stock Exchange for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.
C.7	Dividends and dividend policy	The Company was incorporated on 27 August 2015 and no dividends have been paid up to the date of this document. The Company does not intend to pay any dividends for the first two years following the Admission of the Shares.

Section D—Risks		
Annexes and Element		**Disclosure requirement**
D.1	Key information on the key risks that are specific to the issuer or its industry	We might not be able to expand our business in line with our strategy, realise our revenue and growth targets or achieve the intended benefits or operating synergies from these projects. According to our strategy, we plan to more than double our 2015 revenue by 2018, capture one-third of the Georgian hospital market and increase our market share in the outpatient market. Achieving this will place significant demands on our management and operational resources. We operate in an evolving regulatory environment. We cannot predict what additional regulatory changes will be introduced in the future or their effect. We might not be able to predict in full the effects of Georgia's recently implemented Universal Healthcare Programme. Our strategy assumes that the limited cover available under the programme will help increase demand for private medical insurance. However, these opportunities may not materialise.

Section D—Risks		
Annexes and Element		**Disclosure requirement**
		We compete with other state and private providers of healthcare services across Georgia. In some cases, competing healthcare providers in certain regions are more established than we are, and may have greater experience, infrastructure and brand loyalty than we do. Our competitors may consolidate, develop alliances or adopt predatory pricing policies to capture market share. Our healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers. We expect that this concentration of revenue sources will continue. Accordingly, our future success and ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and may be impacted by any changes to state-funded healthcare programmes. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia. These disputes have led to sporadic violence and breaches of peace-keeping operations. Regional tensions could have an adverse effect on the local economy and our business. Political and governmental instability in Georgia could have a material adverse effect on the local economy and our business, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of the Georgian Dream coalition government or as a result of a rejection of reform policies by the president, the parliament or others.
D.2	Key information on the key risks that are specific to the issuer	Not applicable.
D.3	Key information on the key risks that are specific to the securities	Prior to the Offering, there has been no public trading market for the Shares. The Offering may not result in an active or liquid market for the Shares. The market price of the Shares may fluctuate widely in response to different factors including stock market fluctuations and general economic conditions or changes in political sentiment that may adversely affect the market price of the Shares, regardless of our actual performance or conditions in our key markets. A substantial number of Shares might be sold in the open market following the termination of the lock-up arrangements to which the Selling Shareholder has agreed. Substantial sales of Shares by significant shareholders could depress the price of the Shares. Holders of the Shares in certain jurisdictions, including the United States, may not be able to exercise their pre-emptive rights if we increase our share capital.

Section E—Offering		
Annexes and Element		**Disclosure requirement**
E.1	Net proceeds and costs of the Offering	It is expected that the gross proceeds from the Offering will be approximately U.S.$100 million, or approximately U.S.$110 million if the Stabilising Manager exercises its Over-allotment Option in full. The Company estimates that the net proceeds from the Offering will be approximately U.S.$95 million, or approximately U.S.$105 million if the Stabilising Manager exercises its Over-allotment Option in full, after deducting the underwriting commissions and expenses payable by the Company. The Company estimates that the costs of the Offering will be approximately U.S.$5 million. The Company expects to receive net proceeds of approximately U.S.$95 million through the issue of new Shares pursuant to the Offering. The Company will not receive any portion of the proceeds from the sale of the Over-allotment Shares on behalf of the Selling Shareholder.
E.2a	Reasons for the Offering and use of proceeds	The Company believes that the Offering will: • enable access to capital markets if necessary for future growth; • enhance the Group's profile with investors, business partners and customers; • further enhance the ability of the Group to attract and retain consultants, key management and employees; • diversify the shareholder base of the Group; • enable the Group to reduce its outstanding debt; and • enable the Selling Shareholder to partially monetise its holding, and establish a liquid market for the shares it holds in the Company going forward. The Company will use the net proceeds from the Offering as follows: *Renovation and development of recently acquired healthcare facilities* The Company intends to allocate U.S.$26.8 million to the renovation and development of two healthcare facilities in Tbilisi, which the Group recently obtained as part of the acquisitions of Deka and Sunstone Medical. *Finance current expansion plans* The Company intends to allocate U.S.$38.0 million to enlarge the Group's network of ambulatory clinics and to undertake other projects in pursuit of organic growth. *Payment of the purchase price for the Group's acquisition of GNCo* The Company intends to allocate U.S.$15.0 million to fund the remaining purchase price for the Group's acquisition of a 50% interest in GNCo, which owns HTMC Hospital.

Section E—Offering		
Annexes and Element		**Disclosure requirement**
		Repay existing debt The Company intends to allocate U.S.$15.2 million to reduce indebtedness. Of this amount, the Company intends to allocate approximately U.S.$13.9 million to repay indebtedness of the Group to Bank of Georgia. The Company also intends to allocate approximately U.S.$1.3 million to repay indebtedness of the Group to VTB. This is expected to give the Group greater financial flexibility to drive the future growth of the business and improve the Group's overall leverage and its debt to EBITDA ratio. Following Admission the Directors also intend to undertake a court approved reduction of capital to reduce the nominal value of the Shares and cancel any share premium account in existence (the **Reduction of Capital**) in order to create distributable reserves in the Company. The Directors do not anticipate that the Reduction of Capital will affect the Group's commercial operations in any way.
E.3	Terms and conditions of the Offering	Pursuant to the Offering, the Company intends to issue 38,681,820 Shares, which will be sold at the Offering Price. Shares will be offered to (a) certain institutional investors in the United Kingdom and elsewhere and (b) in the United States only to persons reasonably believed to be qualified institutional buyers as defined in Rule 144A under the Securities Act of 1933, as amended. It is expected that Admission will take place and unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 12 November 2015. Prior to Admission, it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange on 9 November 2015. The earliest date for such settlement of such dealings will be 12 November 2015. All dealings in the Shares prior to the commencement of unconditional dealings will be on a "conditional basis", will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed without further notice. The Offering is fully underwritten by the Joint Global Coordinators and is subject to satisfaction of the conditions set out in the Underwriting Agreement, including Admission occurring and becoming effective by no later than 8.00 a.m. (London time) on 12 November 2015 or such later time and/or date as the Company and Joint Global Coordinators may agree, and to the Underwriting Agreement not having been terminated in accordance with its terms. No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction.

Section E—Offering		
Annexes and Element		**Disclosure requirement**
		Investors agreeing to purchase the Shares pursuant to the Offering agree with each of the Company, the Selling Shareholder and the Managers to be bound by certain terms and conditions upon which Shares will be sold under the Offering. Upon being allocated shares in accordance with the Offering, each investor agrees to become a member of the Company, to acquire the Shares allocated to it at the Offering Price and to pay the Offering Price for the Shares allocated to it. Where an investor fails to pay as directed, the relevant investor shall remain liable to pay such amount and shall be deemed to have appointed the Joint Global Coordinators to sell any or all of the Shares allocated to it at such price as the Joint Global Coordinators may be able to achieve at such time.
E.4	Material interests	None.
E.5	Selling shareholder / Lock-up arrangements	3,868,180 Shares are being made available by the Selling Shareholder pursuant to the Over-allotment Option. The Company has entered into lock-up arrangements pursuant to the terms of the underwriting agreement, whereby the Company has agreed that it will not, without the prior written consent of the Joint Global Coordinators, issue, offer, sell, contract to sell, pledge or otherwise dispose of any Shares for a period commencing on the date of the underwriting agreement and ending 180 days after Admission. Each of the Selling Shareholder, Nikoloz Gamkrelidze and Irakli Gilauri have entered into lock-up arrangements, either pursuant to the terms of the underwriting agreement or otherwise pursuant to separate lock-up deeds, whereby they have agreed that they will not, without the prior written consent of the Joint Global Coordinators, offer, sell, contract to sell, pledge or otherwise dispose of any Shares that they hold, directly or indirectly, for a period commencing on the date of the underwriting agreement and ending 180 days after Admission.
E.6	Dilution	The Shares issued and sold pursuant to the Offering will represent approximately 29% of the expected issued share capital of the Company immediately following Admission.
E.7	Expenses charged to the investor	Not applicable. No expenses will be charged by the Company or the Selling Shareholder to any investor who subscribes for or purchases Shares pursuant to the Offering. The Group intends to pay for the expenses of, or incidental to, Admission and the Offering to be borne by it out of cash resources

PART II
RISK FACTORS

Investing in and holding the Shares involves financial risk. Investors should carefully review all of the information contained in this Prospectus and should pay particular attention to the following risks associated with an investment in the Company and the Shares. These risks should be considered together with all other information contained in this Prospectus.

If one or more of the events described below were to occur, our business, financial condition, results of operations, prospects and our Share price could be materially and adversely affected. In addition, investors could lose all or part of their investment. The risks set out below may not be exhaustive and do not necessarily comprise all of the risks associated with an investment in the Company and the Shares. Additional risks and uncertainties not currently known to the Company or which we currently deem immaterial may arise or become material in the future.

The risks identified in the "Summary" section are those that we believe to be the most important. However, as the risks we face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on key risks summarised in the "Summary" but also, among other things, the risks and uncertainties described below.

Risks Relating to Our Business

We might not be able to expand our business in line with our strategy or realise our revenue and growth targets.

As a key part of our growth strategy, we plan to more than double our 2015 revenue by 2018, capture one-third of the Georgian hospital market measured by hospital beds through organic growth and increase our market share in the outpatient market through the launch of 20-30 ambulatory clinics. We might not be able to expand our healthcare services business in accordance with our plans and our expansion strategy might not generate the benefits we expect.

We intend to continue to expand our healthcare services business in Georgia by increasing capacity and occupancy rates at our existing healthcare facilities as well as by opening new healthcare facilities. This will place significant demands on our management and operational resources. A number of these projects will require substantial capital expenditure over a period of time, may incur significant cost overruns and may not be completed on time or at all. These projects may also divert management's attention from the day-to-day operation of our business. Although we assess each organic growth project individually, each is subject to a number of assumptions concerning valuations, profitability, growth, demand for services and interest rates. These projects are also subject to assumptions about anticipated cost savings, synergies and revenue enhancements. Our assessments might not prove to be correct because other factors, not accounted for in our analyses, may cause actual developments to differ from our expectations. We may not achieve the operating levels that we expect from future projects and we may not be able to achieve our targeted return on investment, intended benefits or operating synergies from these projects.

In addition, in order to manage organic growth effectively, we must expand and continue to improve our operational systems and procedures on a timely basis. If we fail to do so, we may not be able to service our patients' needs, hire and retain new employees, pursue new business, effectively manage new hospital construction, properly budget costs, accurately estimate operational costs or otherwise operate our business effectively.

In view of the nature of the industries in which we operate, we may have to revise our management estimates from time to time and, consequently, our funding requirements may also change over the longer term. This may result in the rescheduling of project expenditures and an increase or decrease in our anticipated cash flows. Any unanticipated increase in the cost of expansion could adversely affect our estimates of the cost and ability to implement our organic growth plans as proposed.

We operate in an evolving regulatory environment.

Since 2007, there have been a number of reforms and profound transformations in the Georgian healthcare services market aimed at achieving higher standards of care, modernisation of equipment and facilities, wider access to healthcare and lower healthcare costs. We cannot predict what additional regulatory changes will be introduced in the future or their effect. We expect that the regulatory environment will continue to evolve in the advancement of these goals. For example, starting from 28 February 2013, the government of Georgia introduced the Universal Healthcare Programme (the **UHC**) to provide coverage of the basic healthcare needs of Georgian citizens. The UHC may be amended as its effect becomes more apparent. The government may enhance the coverage it provides through the UHC; and it may introduce new licensing or accreditation requirements or quality standards for healthcare providers.

Regulation may also change as Georgia harmonises its laws with the European Union (**EU**) in implementing an Association Agreement to introduce a "Deep and Comprehensive Free Trade Area" (**DCFTA**) with the potential goal of full integration into the EU market. As part of this harmonisation, our management anticipates that Georgia will adopt equivalent EU insurance regulations at some point in the future. It is not possible to predict the timeframe for such adoption or the extent of such changes.

We might not be able to predict in full the effects of Georgia's Universal Healthcare Programme.

Although we believe that the recently implemented UHC will be beneficial, it may have unanticipated negative effects on our business. The UHC provides basic healthcare coverage for the entire population of Georgia. Our strategy assumes that, by making healthcare more accessible to a significant portion of the population, the UHC will increase demand for, and the total amount spent on, healthcare services in Georgia.

Reimbursement under the UHC programme is capped at GEL 15,000 per person per annum for planned procedures and GEL 15,000 per incident for emergency inpatient treatment, with certain limited exceptions. Private medical insurance can be used to supplement or "top up" the basic state healthcare coverage. Our strategy assumes that the limited cover available under the UHC programme will help raise awareness of the benefits of medical insurance and will increase demand for private medical insurance, particularly as an employee benefit in the corporate insurance market. However, these opportunities may not materialise.

We compete with other state and private providers of healthcare services across Georgia.

We face competition in the healthcare services industry in Georgia from a large and mainly fragmented group of competitors, in both the hospital and ambulatory clinic sectors, including Vienna Insurance Group, Gudushauri-Chachava, Aversi and New Hospitals. Competition is based on factors such as reputation, clinical excellence, patient satisfaction and price. Competition is strongest in Tbilisi, although we face competition in all of the regions in which we operate. In some cases, competing healthcare providers in certain regions are more established than we are, and may have greater experience, infrastructure and brand loyalty than we do. We also face competition from other healthcare service providers, such as stand-alone specialty centres and laboratories, for areas such as cardiology, oncology, urology and diagnostics. Although fewer in number and more limited in reach, we also compete with state-owned hospitals and ambulatory clinics. Over time, we may also face competition from international healthcare companies with resources substantially greater than ours, which may begin providing services in Georgia in the future or attracting patients from Georgia as part of medical tourism. Our competitors may consolidate, develop alliances or adopt predatory pricing policies to capture market share.

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

We depend on revenue from a limited number of payors, including the Georgian government. In the first half of 2015, we received 4.7% of our total healthcare services revenue from our own medical insurance provider (Imedi L), 1.7% from other private medical insurance providers, 73.9% from the government under the UHC and 19.7% from out-of-pocket payments by patients. We expect that we will continue to depend on revenues from the government and a small number of private medical insurance providers in the future. Accordingly, our future success, and 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.

We expect revenue from the government will be an even higher proportion of our total revenue in 2015 following the full implementation of the UHC, which was completed in 2014. As a result of this increasing reliance on revenue from the government, our future success will depend, in part, on the effect of any regulatory reform measures adopted by the Georgian government, as well as on the government's ability to maintain efficient administrative procedures, provide effective payment authorisations and maintain adequate budgetary funding. A change in the process by which the government reimburses healthcare providers including us could increase our administrative costs or result in delays in obtaining payment for our services.

We are also exposed to the risk that insurance companies may reject, delay or fail to make payments for claims we submit for healthcare services that we have provided to patients claiming coverage under their medical insurance policies. This risk may arise from human or computer error or from gaps in system and process compatibility between us and other insurance companies.

Our payor mix includes competitors of our medical insurance business. As a result, our vertically integrated model may create incentives for these other private medical insurance providers to direct patients to other healthcare providers or to provide less favourable terms or service to our healthcare services business. These other private insurance companies may experience financial and other difficulties, liquidity constraints or insolvency, which could delay or prevent them from making payments to our healthcare services business.

Our success depends to a significant degree on our senior management and our ability to attract and retain qualified personnel.

Our success depends to a significant degree on the skills, experience and efforts of our senior management team and key members of our management staff. Our success also depends on our ability to recruit, train and retain an appropriate number of experienced physicians, nurses, technicians and other healthcare professionals at our healthcare facilities, as well as sales managers and underwriters at our insurance business. The factors that physicians may consider important in deciding where they will work include their compensation package, the reputation of the hospital, the quality of equipment and facilities and the quality and number of supporting staff. In some cases, physician recruitment and retention is affected by a shortage of physicians in certain specialties and the limited number of physicians proficient in the Georgian language. We compete with other healthcare providers located in Georgia, in neighbouring countries, and (to a certain extent) elsewhere in Europe and Asia to recruit and retain highly-qualified physicians and other healthcare professionals. With respect to our insurance business, individuals with industry-specific experience in Georgia are scarce, and the market for such individuals is highly competitive.

As a result of these factors, we may not be able to find adequate replacements for our senior management or other key employees. The loss of services of one or more members of our senior management or other key employees could significantly weaken our ability to implement our strategy and to operate our business effectively. In addition, competition for qualified managers and staff may create increasing upward pressure on the wages we must pay. If we are unable to transfer any increase in our costs to our customers effectively through the prices for our services and products or otherwise, then such increased costs could impose downward pressure on our margins.

We depend on the strength of our reputation and brands.

Our success depends in part upon the strength of our reputation for quality healthcare services and insurance products and the strength of our Evex and Imedi L brands. Future events that weaken or damage our reputation or brands could significantly affect our business. For example, declines in actual or perceived service quality in our hospitals and insurance operations or publicity of negative events, such as incidents of malpractice, outbreaks of infection among patients or wrongful denial of insurance claims, could significantly harm our standing in the Georgian healthcare and medical insurance industry.

The reputation of our healthcare services business depends to a great extent on our ability to provide the latest treatments and equipment. The medical field continues to evolve rapidly with frequent technological advances. In order to compete with other healthcare providers for physicians and patients, we must continually assess our equipment needs at our facilities. Investments in medical equipment will be significant. If we are unable to implement new technologies, we may lose patients to competing facilities and our medical practitioners may choose to leave our hospitals for those of better equipped competitors. Rapid technological advances could also, at times, lead to earlier-than-planned redundancy of equipment and result in asset impairment charges, which may materially adversely affect our results of operations.

Healthcare services providers such as the Company can be the subject of litigation by patients, and it is possible that some of these cases will be adversely determined against us.

Compared with Western countries, Georgia has historically experienced a very low incidence of medical malpractice claims, and the awards for successful claims have been modest. Claims have generally been made against the treating physician, or against both the physician and the physician's employer. Although we do not believe that the risk of litigation is significant, this may change in the future. As part of the overall development of the Georgian healthcare services market, and increasing expectations as to the standards of medical care, medical malpractice claims and awards may increase. Consequently, these matters could require us to pay increased premiums for medical malpractice insurance, or risk incurring substantial damages or amounts in judgments or settlements, harm our reputation and the goodwill associated with our brand, require significant time and attention from our management and require us to incur debt to finance any judgment or settlement.

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

Our operations involve the treatment of patients with a variety of infectious diseases. Previously healthy or uninfected people may contract, during their stay at or visits to our facilities, serious communicable diseases, for example, diseases associated with clostridium difficile, methicillin-resistant staphylococcus aureus (**MRSA**), hepatitis or influenza.

There are relatively scarce statistical data available regarding the epidemiology of nosocomial infections or the prevalence or incidents of multidrug resistant organisms (**MDROs**) in the Caucasus region due to the lack of formal infection control systems in hospitals and insufficient knowledge about identification, surveillance and management of hospital acquired infections (**HAI**). Although we commenced the implementation of infection control procedures in July 2014 in accordance with the emphasis we place on occupational health and safety issues as well as quality management, risk management and corporate social responsibility, these controls and procedures may not be adequate to counter an increasing trend of MDROs and the prevalence of HAI in Georgia may pose risks to our healthcare facilities. HAI could infect our patients and employees and significantly reduce the treatment and care capacity of our medical facilities in the short-, medium- and long-term. In addition to claims for damages, any of these events may lead to limitations on the activities of our healthcare facilities as a result of regulatory restrictions, loss of reputation and reduced utilisation of our hospitals.

We compete with other private medical insurance providers.

The Georgian private medical insurance market is highly competitive and providers compete on factors such as insurance policy terms (including coverage, exclusions and price), ease of the reimbursement process and the list and range of preferred/covered healthcare providers. In some cases, competing medical insurance providers are more established than we are and may have greater overall resources. Competition may increase among private medical insurance providers, including as a result of consolidation, alliances or new entrants, which could result in competitors having greater resources than we do or other competitive advantages. In addition, competitors may adopt predatory pricing policies to capture market share.

We are subject to the risks inherent in the medical insurance industry.

We are subject to the risks applicable to the medical insurance industry as a whole as well as risks specific to the Georgian medical insurance industry. In accordance with general industry practices and accounting regulatory requirements, we establish reserves for reported but not settled claims (known as **RBNS**), incurred but not reported claims (known as **IBNR**) and unearned premiums. We seek to reduce losses from these claims through effective administrative processes and the terms of our policies, which provide that claims may not be made beyond the term of the policies unless we are notified of the claim before the expiration date. Our IBNRs were GEL 1,536 as at 30 June 2015, GEL 1,603 as at 31 December 2014, GEL 3,263 as at 31 December 2013 and GEL 1,671 as at 31 December 2012.

Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity, frequency of claims, legal theories of liability and other factors. Actual claims may materially exceed our claims reserves and have a material adverse effect on our business.

We might not be able to price our insurance products correctly.

We need to make assumptions about a number of factors in determining the pricing of our medical insurance products and setting our insurance reserves. These assumptions include estimates of the incidence and amount of healthcare claims, policy renewals, long-term interest rate trends, returns on investment, mortality and morbidity rates and future costs. If these assumptions are incorrect or do not reflect actual market changes then we may under-price our insurance products and may need to increase insurance reserves for our medical insurance business. This could negatively affect the results of our insurance business and may lead to losses.

Our controlling shareholder may have interests that differ from those of our other shareholders.

We are controlled by Bank of Georgia Holdings PLC (**BGH**), which, immediately prior to Admission, indirectly holds 96.24% of the Company's issued share capital through its wholly-owned intermediate holding company, JSC BGEO Investments (the **Selling Shareholder**). Following the Offering, BGH will indirectly, through the Selling Shareholder, own approximately 68% of the Company's issued share capital, assuming no exercise of the Over-allotment Option, and 65% assuming it is exercised in full. BGH will continue to be able to exercise significant influence over the Company's legal and capital structure, such as in the election of members of the Company's board of directors, and the approval of significant capital increases, transactions and dividends, if any. As a result of its ability to exercise voting rights as a shareholder with ownership of a substantial percentage of the Company's share capital, BGH may prevent the Company from making certain decisions or taking certain actions that would require the approval of a majority of the shareholders. The Company has entered into a relationship agreement (the **Relationship Agreement**) with the Selling Shareholder and BGH on 23 October 2015, which is intended to allow the Company to operate its business independently from BGH and to ensure that transactions and relationships between the Company and BGH are on an arm's length basis and on a normal commercial basis. In addition, under the Relationship Agreement BGH has the right to appoint one person to be a non-executive director of the Company, such right to continue for so long as BGH (together with its associates) holds at least 20% of the voting share capital of the Company.

Our operations could be impaired by a failure of our information systems.

Our information systems are essential to a number of critical areas of our business operations, and customer information is subject to data protection laws. Any system failure that causes an interruption in service or availability of our systems could materially adversely affect operations or delay the collection of revenue. Although we have implemented network security measures and daily back-up measures, our servers are potentially vulnerable to computer viruses, break-ins and similar disruptions from unauthorised tampering. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, or cessations in the availability of systems. In addition, we may be subject to liability as a result of any theft or misuse of personal information stored in our systems.

We are currently in the process of centralising our information systems. The centralisation of our information systems requires migration of certain data from our existing systems. We may encounter data migration or other errors, which could result in the loss of important data, interruptions, delays or cessations in the availability of our systems.

Our ability to provide the services we offer or manage our margins is in part dependent on the availability of supplies.

Because we often rely on third-party providers for pharmaceuticals, surgical supplies and medical equipment, supplier bottlenecks, quality problems or the disruption of our business relationships with these providers could lead to disruptions or deterioration in the care provided at our facilities. If we are not able to access high-quality products on a cost-effective basis or if suppliers are not able to fulfil our requirements for such products, we could face a decline in patient volumes or disruption in our relationships with physicians. In addition, we may face increases in the cost of supplies that we are unable to pass through fully by way of increases in our tariffs, and we may be unable to obtain adequate quantities or manage the costs of our supplies.

We might not be able to realise the anticipated benefits of recent acquisitions or execute further opportunistic acquisitions.

We have recently made a number of acquisitions in our healthcare services business, and the realisation of the expected benefits of those acquisitions remains subject to many of the risks and uncertainties associated with not yet completed acquisitions, including the following:

- our valuation of acquisitions or assessment of their benefits may not be correct;
- we may have difficulty assimilating different corporate cultures, practices and methodologies of acquired companies;
- we may incur difficulties and unanticipated expenses in conforming and integrating the accounting, human resources, information technology and other internal controls, procedures and policies of the acquired companies to ours;
- our due diligence may not uncover undisclosed or potential liabilities which we may face in connection with acquisitions; and
- we may not be able to retain key personnel of acquired hospitals and clinics.

Furthermore, we may not be able to realise the anticipated cost savings, synergies and revenue enhancements from any such acquisitions. The costs of achieving synergies and other benefits may be higher than we expect due to greater than expected expenditure on integration and implementation activities; our inability to eliminate duplicative functions; our inability to avoid labour disruptions in connection with any integration; and our inability to make headcount reductions due to labour laws or other obstacles.

Although our growth strategy to 2018 does not depend on any further acquisitions, we will continue to evaluate acquisition opportunities. We may not be able to identify suitable acquisition opportunities, obtain the required financing in the longer term, effectively compete with other potential acquirers of suitable facilities or negotiate attractive terms for such acquisitions. There may be a limited number of attractive acquisition opportunities and certain acquisition opportunities may command high valuations.

Macroeconomic risks and political risks related to Georgia

Regional tensions could have an adverse effect on the local economy and our business.

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia, since Georgian independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war. Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russia recognised the independence of the breakaway regions and tensions persist as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia. For example, in summer 2013 Russian border guards erected fences along portions of the demarcation line between Georgia and South Ossetia and similar future actions could further increase tensions. Russia is also opposed to the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia. The Georgian government has taken certain steps towards improving relations with Russia, but these have not currently resulted in any formal or legal changes in the relationship between the two countries.

Relations between Azerbaijan and Armenia remain tense, and there are sporadic instances of violence between these two countries.

Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy. The crisis in Ukraine began in late 2013 and is still ongoing. The United States and EU have imposed trade sanctions on various Russian and Crimean officials and against Russia, including several Russian banks and companies. The ongoing political instability, civil disturbances and military conflict in Ukraine, any prolongation or further escalation of the geopolitical conflict between Russia and Ukraine, any further decline in the Russian economy due to the impact of the trade sanctions, falling oil prices or currency depreciation, increasing levels of uncertainty, increasing levels of regional, political and economic instability and any future deterioration of Georgia's relationship with Russia, may have a negative effect on the political or economic stability of Georgia.

Accordingly, the political and economic stability of Georgia may be affected by any of the following:

- deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes;
- changes in Georgia's importance as a transit country for energy supplies;
- changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets; or
- significant deterioration in relations between Azerbaijan and Armenia.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and our business.

Since its independence from the former USSR in 1991, Georgia has experienced an ongoing and substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of the Georgian Dream coalition government or as a result of a rejection of reform policies by the president, the parliament or others.

In October 2010, the parliament of Georgia approved certain amendments to the constitution of Georgia that were intended to enhance the primary governing authority of the parliament, to increase the powers of the prime minister of Georgia and to limit the scope of functions of the president of Georgia. Although the parliament unanimously adopted certain constitutional amendments further limiting the powers of the president of Georgia in March 2013, any further changes to Georgian parliamentary, presidential or prime ministerial powers might create political disruption or political instability or otherwise negatively affect the political climate in Georgia.

Because we operate solely within Georgia, we will be affected by changes in Georgian economic conditions.

Our operations are located in, and all of our revenue is sourced from, Georgia. Our results of operations are, and are expected to continue to be, significantly affected by financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia. Factors such as gross domestic product (**GDP**), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand for our products and services.

Although the Georgian economy has shown signs of improvement in recent years, with real GDP growth of 6.4% in 2012, 3.3% in 2013 and 4.7% in 2014, similar growth might not continue. According to Geostat, the country's real GDP grew by 5.9% in the first nine months of 2014, but a significant deterioration in the external environment adversely affected economic activity in the fourth quarter of 2014 as exports and remittances decreased. The Georgian lari (**GEL**) depreciated by 7.3% against the U.S. dollar in 2014. Weaker external demand may place further strains on Georgia's economy.

Georgia faces significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of our customers in Georgia.

There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the DCFTA.

On 27 June 2014, Georgia signed an Association Agreement and established a Deep and Comprehensive Free Trade Area with the EU, which envisages bilateral trade liberalisation with the EU. The implementation of the Association Agreement is expected to create new business opportunities, but may pose challenges for businesses, households and the state. The implementation of the Association Agreement and the DCFTA may require Georgia to conform to EU trade-related and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and safety information, among others.

Georgia has been gradually conforming its trade legislation to EU norms and practices since it became a member of the WTO in 2000. Some of the recent changes in regulation include the 2013 amendments to the labour code to bring Georgian labour regulations closer to commitments under the Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (to one to two months' salary), strengthened workers' rights to challenge employers' decisions in courts, prohibited firing without clear reasons for dismissal, and guaranteed basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict our ability to make further acquisitions in line with our growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow their efficiency.

As a result of expected regulatory amendments to achieve harmonisation with EU legislation, we may be required to adjust our policies and procedures to comply with any resulting changes in laws and regulations. For example, we have made changes to our labour contracts to reflect changes to the labour code described above. We expect that there will be further changes, although we cannot predict the extent to which we might be affected by, or able to comply with, any such changes.

Our business may be materially adversely affected by any depreciation of the Georgian lari against the U.S. dollar and euro.

We are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our functional currency is the Georgian lari and our principal transactions are carried out in GEL. Our exposure to foreign exchange risk arises primarily with respect to U.S. dollars and euro. While all of our revenues and expenses are in GEL, a significant part of the medicines and medical disposables that we purchase are imported and the prices are pegged to foreign currency (mostly U.S. dollars and/or euro). Furthermore, the prices of almost all of the medical equipment that we purchase are also set in foreign currency (mostly U.S. dollars and/or euro). A significant portion of our borrowings (primarily loans to fund our expansion plans) are denominated in U.S. dollars. As of 30 June 2015, we had GEL 195.5 million in total borrowings and debt securities issued, of which 39.0% were U.S. dollar-denominated and 61.0% were GEL-denominated. In the first half of 2015, all of our revenues were GEL-denominated, whereas GEL 3,887 thousand representing 3.7% of our total expenses were U.S. dollar-denominated and/or euro-denominated (such as for medicines and other consumables). For the six months ended 30 June 2015, we incurred GEL 25.6 million in capital expenditures.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against us and there may be changes in current tax laws and policies.

Within Georgia, healthcare services business activities are exempt from VAT, property taxes, and corporate income tax to the extent of amounts reinvested.

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with the laws, to the extent that the tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities.

Moreover, such tax laws are subject to changes and amendments, which can result in unusual complexities for us and our business. A new tax code came into effect on 1 January 2011. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas at conflict. However, the tax code does provide for the Georgian tax authorities to give advance tax rulings on tax issues raised by taxpayers. While we believe that we are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that we could face fines or penalties as a result of regular tax audits.

In addition, tax laws and government tax policies may be subject to change in the future, including changes resulting from a change of government (see —"*Political and governmental instability in Georgia* *could have a material adverse effect on the local economy and us*”). Such changes could include the introduction of new taxes or an increase in the tax rates applicable to us or our customers, and this may have a material adverse effect on our business.

There are additional risks associated with investing in emerging markets such as Georgia.

Emerging markets may have higher volatility, more limited liquidity and a narrower export base than more mature markets and are subject to more frequent changes in the political, economic, social, legal and regulatory environment. They are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors may react to events, disfavouring an entire region or class of investment, a phenomenon known as the "contagion effect". If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis and the more recent global financial crisis and may be affected by similar events in the future.

Financial or political instability in emerging markets also tends to have a material adverse effect on capital markets and the wider economy as investors generally move their money to more developed markets, which they may consider to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, which may include information in this document.

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on our business.

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental civil, criminal, tax, administrative and commercial laws have only recently become effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have given rise to doubts as to the quality and the enforceability of laws, and have resulted in ambiguities and inconsistencies in their application. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in Europe and the United States. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Offering and to the Shares

The Offering may not result in an active or liquid market for the Shares.

Prior to the Offering, there has been no public trading market for the Shares. The Offering Price has been agreed among the Company, the Joint Global Coordinators and BGH and may not be indicative of the market price for the Shares following Admission. An active trading market might not develop or be sustained following the completion of the Offering, and the market price of the Shares might decline thereafter below the Offering Price.

The market price of the Shares may fluctuate widely in response to different factors.

The trading price of the Shares may be subject to wide fluctuations in response to many factors as well as stock market fluctuations and general economic conditions or changes in political sentiment that may adversely affect the market price of the Shares, regardless of our actual performance or conditions in our key markets.

The market price of the Shares may be subject to wide fluctuations in response to many factors. Stock markets have from time to time experienced extreme price and volume volatility. The market price of the Shares may fluctuate significantly in response to a number of factors, many of which are beyond our control, including the following:

- variations in our operating results from period to period;
- divergence in our financial results from stock market expectations;

- changes in financial estimates by securities analysts;
- changes in market valuation of similar companies;
- a perception that other market sectors may have higher growth prospects;
- announcements of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; legislative changes in our industries;
- future issues or sales of Shares; and
- general stock market price and volume fluctuations.

Any of these events could result in a material decline in the price of the Shares.

Substantial sales of Shares by significant shareholders could depress the price of the Shares.

Subsequent sales by BGH (or any other substantial shareholders) of a substantial number of Shares may significantly reduce the price of the Shares. The Selling Shareholder has agreed in the Underwriting Agreement to certain restrictions on its ability to sell, transfer and otherwise deal in their Shares for a period of 180 days from the closing of the Offering, unless otherwise consented to by the Joint Global Coordinators. Nevertheless, a substantial amount of Shares might be sold in the open market following the termination of the lock-up arrangements. Any sales of a substantial amount of Shares, or the perception that such sales might occur, could materially and adversely affect the market price of the Shares.

Holders of the Shares in certain jurisdictions, including the United States, may not be able to exercise their pre-emptive rights if we increase our share capital.

Under the Articles, shareholders generally have the right to subscribe and pay for a sufficient number of ordinary shares to maintain their relative ownership percentages prior to the issuance of any new ordinary shares in exchange for cash consideration. U.S. shareholders may not be able to exercise their pre-emptive rights unless a registration statement under the Securities Act is effective with respect to such rights and the related ordinary shares or an exemption from the registration requirements of the Securities Act is available. Similar restrictions exist in certain other jurisdictions. We currently do not intend to register the Shares under the Securities Act or the laws of any other jurisdiction, and an exemption from such registration requirements might not be available to U.S. or other shareholders. To the extent that U.S. or other shareholders are not able to exercise their pre-emptive rights, these rights would lapse and the proportional interests of such holders would be reduced.

The Reduction of Capital may not be implemented on a timely basis or at all.

Following Admission, the Directors intend to undertake a reduction of capital in order to create distributable reserves in the Company. Implementation of the reduction of capital is conditional upon, among other things, approval by the English Court. There are risks that approval will not be given or not given on acceptable terms and that the reduction of capital will not occur on a timely basis or at all. If any of these events happen, the reduction of capital will not be implemented and the benefits expected to result from the reduction of capital will not be achieved.

The Company may not be able to pay dividends or make distributions due to contractual or legal constraints.

Following Admission, the Company (as a holding company whose principal assets are the shares of its subsidiaries) will rely primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries to generate reserves necessary to meet its obligations and to pay dividends to shareholders. Future payment of dividends by the Company will also depend, among other things, on our future profits, financial position, distributable reserves, holding capital requirements, general economic conditions and other factors that the Board deems significant from time to time. The regulatory systems under which the Group operates and certain contractual arrangements to which the Company's subsidiaries are party restrict, to a certain extent, their ability to pay dividends and/or to otherwise provide cash to the Company. Such restrictions could potentially reduce the pool of cash available to the Company for distribution to holders of Shares.

Changes in UK tax laws or their application could have a material adverse effect on the Group.

The Company is incorporated in the UK and we intend to conduct the business of the Company so that it is resident for tax purposes solely in the UK. Accordingly, it is expected to be subject to UK corporation tax on its taxable profits and chargeable gains wherever arising, subject to available exemptions or other reliefs. However, we intend that the business of the Company will be limited to acting as a holding company and on this basis do not anticipate (on the basis of current law) that the Company will be subject to a material level of taxation in the UK, including under the UK controlled foreign companies (**CFC**) rules with respect to the income profits of the Company's subsidiaries or affiliates which are resident for tax purposes solely in Georgia.

Tax regimes can be subject to differing interpretations and are often subject to legislative change and changes in administrative interpretation. Our interpretation of relevant UK tax law may not coincide with that of HM Revenue and Customs (**HMRC**). Significant changes in UK taxation rules, law or administrative interpretation could result in increased UK tax charges, including penalties, which have a material impact in the Group. For example, on 19 July 2013, the Organisation for Economic Co-operation and Development (**OECD**), of which the UK is a member, published an action plan (the **Plan**) on Base Erosion and Profit Shifting (**BEPS**), endorsed by the Group of Twenty (**G20**). The Plan proposed 15 actions covering areas such as CFC rules, deductibility of interest, limiting the availability of double tax treaty benefits, avoiding double non-taxation in financing structures, transfer pricing and disclosure of worldwide tax information. OECD final reports on BEPS have been published and endorsed by the G20. Changes of UK tax laws based on such recommendations could have a material impact on the Group's tax charges.

PART III
IMPORTANT NOTICE

This document has been prepared by the Company solely for use in connection with the proposed offering of the securities described in this document. This document is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. You are authorised to use this document solely for the purpose of considering the purchase of our Shares. Distribution of this document to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this document, agrees to the foregoing and not to make photocopies of this document.

Prior to making any decision as to whether to invest in the Shares, prospective investors should read this document in its entirety. In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Company and the terms of the Offering, including the merits and risks involved. Investors also acknowledge that: (i) they have not relied on the Joint Global Coordinators or the Joint Financial Advisers or any person affiliated with the Joint Global Coordinators or the Joint Financial Advisers in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied only on the information contained in this document.

In making an investment decision, you must rely on your own examination of our company and the terms of the offering, including the merits and risks involved. You should not construe anything in this document as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

You acknowledge and agree that the Joint Global Coordinators make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by the Joint Global Coordinators.

The Company has prepared the information contained in this document. Neither the Company nor any of the Joint Global Coordinators has authorised anyone to provide you with any other information and neither the Company nor any of the Joint Global Coordinators takes any responsibility for other information others may give you.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been so authorised. Neither the delivery of this document nor any subscription or sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in it is correct as of any subsequent time.

The distribution of this document and the offering and sale of the Shares in certain jurisdictions may be restricted by law. The Company and the Joint Global Coordinators require persons into whose possession this document comes to inform themselves about and to observe any such restrictions. This document does not constitute an offer of, or an invitation to purchase, any of the Shares in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to occur in any jurisdiction other than the United Kingdom.

ENFORCEABILITY OF CIVIL LIABILITIES IN ENGLAND AND WALES

The Company is a public limited company organised under the laws of England and Wales. Most of our directors and officers are citizens of non-U.S. jurisdictions and/or reside in Georgia or other non-U.S. jurisdictions, and all or a significant portion of the assets of the directors and officers and substantially all of our assets are located in Georgia. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against the Company in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in England, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

ENFORCEABILITY OF CIVIL LIABILITIES IN GEORGIA

Subject to the satisfaction of certain conditions, foreign court judgments (including judgments of the courts of England and Wales) are capable of being recognised and enforceable in Georgia under Articles 68 and 70 of the Law of Georgia on International Private Law. In general, foreign court judgments will be recognised and enforceable in Georgia unless: (a) the matter is within the exclusive competence of Georgia; (b) there has been a violation of procedure relating to the service of process or other procedural irregularities under the law of the country of the court which rendered the judgment; (c) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court judgment and the relevant court judgment has been recognised in Georgia; (d) the court rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation; (e) the country whose court has rendered the judgment does not recognise judgments of Georgian courts; (f) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or (g) the judgment of the foreign court contradicts fundamental legal principles of Georgia. However, no treaty exists between the United Kingdom and Georgia or the United States and Georgia for the reciprocal enforcement of foreign court judgments and Georgian courts have limited experience enforcing foreign court judgments. As a result, investors may not be able to, or may experience significant delays in trying to, enforce judgments obtained in the English courts or any other foreign courts against us, our management and/or our executive directors.

Georgia is a party to the New York Convention. Therefore, an arbitral award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be recognised and enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by the Georgian legislation. However, it may be difficult to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions and certain procedural ambiguities, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

COMPANY'S WEBSITE

Information contained in the Company's website is not incorporated into, and does not form part of, this document.

PART IV
PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical Financial Information for the Group

The Group's audited historical financial information as of and for the years ended 31 December 2012, 2013 and 2014 and the first half of 2015 (the **Historical Financial Information for the Group**) has been prepared in accordance with International Financial Reporting Standards as adopted by the EU (**IFRS**), and in a form consistent with that which will be adopted in the Group's next published annual financial statements. EY Georgia LLC have issued an unqualified accountant's report on the Historical Financial Information for the Group.

Unless otherwise stated, the financial information relating to the Group has been extracted from its historical financial information for the relevant financial year (presented in accordance with IFRS). Unless otherwise stated, all unaudited financial information in this document has been extracted without material adjustment from the Group's unaudited management accounts.

In addition, this document contains audited annual financial statements relating to two businesses that the Group acquired in 2014, which were prepared (following completion of those acquisitions) in accordance with BGH group policy and interim accounts for one such business, as described below.

Avante Historical Financial Information

Avante audited consolidated financial statements as of and for the years ended 31 December 2013 and 2012 (the **Avante Financial Statements**) have been prepared on a consistent basis with the Historical Financial Information for the Group. The Avante Financial Statements were audited by the Group's independent auditors, EY Georgia LLC, in accordance with ISA.

Avante audited historical financial information as of and for the two months ended 28 February 2014 (the **Avante Historical Financial Information**) has been prepared on a consistent basis with the Historical Financial Information for the Group. EY Georgia LLC have issued an unqualified accountant's report on the Avante Historical Financial Information.

The Group acquired Avante Hospital Management Group LLC in February 2014 and its business was merged with the Group in April 2015. The Avante Financial Statements and the Avante Historical Financial Information are not subject to a modified report.

Traumatology Historical Financial Information

Traumatology audited financial statements as of and for the years ended 31 December 2014 2013 and 2012 (the **Traumatology Financial Statements**) have been prepared on a consistent basis with the Historical Financial Information for the Group. The Traumatology Financial Statements were audited by the Group's independent auditors, EY Georgia LLC, in accordance with ISA. The Group acquired Traumatology in September 2014 and its business was merged with the Group in April 2015. The Traumatolgy Financial Statements are not subject to a modified report.

HTMC Hospital Selected Unaudited Historical Financial Information

The Group acquired a 50% equity interest (with effective management and operational control) for GEL 39.0 million (U.S.$17.0 million) in GNCo on 5 August 2015. GNCo owns the entire issued share capital of High Technology Medical Centre, which owns HTMC Hospital. GNCo will be consolidated in the Group's financial statements in future periods. This document contains total revenue and EBITDA for HTMC Hospital for the year ended 31 December 2014 and the six months ended 30 June 2015 (see "*Part XI—Selected Historical Financial Information—HTMC Hospital Statement of Comprehensive Income*"). This information has not been audited.

Non-IFRS Information

This document contains certain measures that are not defined by IFRS, namely, EBITDA, EBITDA Margin and foreign exchange loss (or gain) related to non-operating cash flow items.

Earnings before interest, taxes, depreciation and amortisation (**EBITDA**) is a financial measure that has been derived from the Historical Financial Information for the Group, with EBITDA Margin calculated by dividing EBITDA by revenue, gross of corrections andrebates (**EBITDA Margin**).

The Group has presented these figures in this document because the Group's management uses EBITDA and EBITDA Margin as tools to measure the Group's operational performance and the profitability of its operations. Prospective investors should use caution when reviewing EBITDA and EBITDA Margin calculations and should not consider EBITDA and EBITDA Margin as absolute measures of the Group's financial performance or liquidity, as alternatives to operating profit, net income or any other performance measures derived in accordance with IFRS, or as alternatives to cash flow from operating activities as a measure of the Group's performance, or consider it to be comparable to other companies' EBITDA or EBITDA Margin calculations. In addition, these measures should not be used instead of, or considered as an alternative to, the Historical Financial Information for the Group under IFRS.

EBITDA Margin is not an uniformly or legally defined measure and is not recognised under IFRS or any other generally accepted accounting principles. The Group is not presenting EBITDA Margin as a measure of its financial performance. EBITDA Margin has important limitations as an analytical tool and prospective investors should not consider it in isolation or as a substitute for analysis of the Group's results of operations. The Group considers EBITDA Margin to be an important indicator of its representative recurring operations.

The Group has presented figures detailing foreign exchange loss (or gain) related to non-operating cash flow items in this document because the Group's management uses this measure to reconcile cash flow using the indirect method. This can be calculated by determining the foreign currency loss (or gain) principally attributable to borrowings, debt securities issued, derivative financial instruments and amounts due from credit institutions.

Market, Industry and Economic Information

All statistical and market information provided by Frost & Sullivan Limited (**Frost & Sullivan**) presented in this Prospectus under the headings "*Summary*", "*Industry Overview*" "*Our Business*" and "*Operating and Financial Review*" has been reproduced from a report dated 7 May 2015 prepared by Frost & Sullivan at our request (the **Frost & Sullivan Report**).

We obtained Georgian macroeconomic data principally from Geostat, NCDC, the Georgian Ministry of Labour, Health and Social Affairs and the Georgian Ministry of Finance. We obtained further macroeconomic and industry data from the World Bank, Heritage Foundation, Transparency International, the International Monetary Fund and the World Health Organisation. We accept responsibility for having accurately reproduced information obtained from third parties, and, so far as we are aware and have been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

We include in this document certain information on healthcare services market share by number of beds. This is based on the total number of beds at all hospitals and clinics in Georgia.

Information Regarding Forward-Looking Statements

Certain statements in this document may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, future costs, performance or growth, 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, business strategy and the trends we anticipate in the Georgian economy and in the industries and the political and legal environment in which we operate and other information that is not historical information. Forward-looking statements appear in various sections of this document, including, without limitation, under the headings "Summary", "Risk Factors", "Operating and Financial Review", and "Our Business".

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors", as well as those included elsewhere in this document. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Accordingly, you should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. The forward-looking statements in this document speak only as of the date of this document. Accordingly we do not undertake any obligation to update or revise any of them (whether as a result of new information, future events or otherwise) other than as required by applicable laws, the Listing Rules, the Disclosure and Transparency Rules or the Prospectus Rules of the UK Listing Authority. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on our behalf and any projections made by third parties included in this document.

Available Information

For so long as any of the securities are in issue and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are not subject to section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of our shares, or to any prospective purchaser of our shares designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

PART V
EXCHANGE RATES

Solely for the convenience of the reader, this document contains translations of certain GEL amounts into U.S. dollars at exchange rates as reported by the National Bank of Georgia and effective as of the dates specified herein. These exchange rates may differ from the actual rates used in the preparation of the Historical Financial Information for the Group and other financial information appearing in this document. The inclusion of these exchange rates is not meant to suggest that the GEL amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all. References to "billions" are to thousands of millions.

The official exchange rate as reported by the National Bank of Georgia for the purchase of GEL on 9 November 2015 was GEL 2.3998 = U.S.$1.00.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

GEL to U.S. dollar	High	Low	Average	Period End
2010	1.8875	1.6929	1.7826	1.7728
2011	1.8111	1.6388	1.6860	1.6703
2012	1.6751	1.6193	1.6513	1.6567
2013	1.7376	1.6348	1.6634	1.7363
2014	1.9527	1.7241	1.7659	1.8636

The following table sets forth, for the months indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

GEL to U.S. dollar	High	Low	Average	Period End
May 2015	2.3637	2.2545	2.3227	2.3112
June 2015	2.3112	2.2376	2.2629	2.2483
July 2015	2.2792	2.2457	2.2564	2.2792
August 2015	2.4161	2.2711	2.3199	2.3465
September 2015	2.4499	2.3493	2.3985	2.3816
October 2015	2.4067	2.3906	2.3928	2.3980

Solely for the convenience of the reader, this document contains translations of certain amounts in pounds sterling into U.S. dollars at the exchange rate prevailing on 6 November 2015 (the latest practicable date prior to printing this document) as reported by Bloomberg, being U.S.$1.514=GBP1.00.

PART VI
EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

Expected Timetable of Principal Events

Event	Time and Date
Announcement of Offering Price and allocation	9 November 2015
Commencement of conditional dealings on the London Stock Exchange	8.00 a.m. (London time) on 9 November 2015
Admission and commencement of unconditional dealings in the Shares on the London Stock Exchange	8.00 a.m. (London time) on 12 November 2015
CREST Euroclear and Clearstream accounts credited	8.00 a.m. (London time) on 12 November 2015
Reduction of Capital	As soon as reasonably practicable following Admission

Unless otherwise stated, all references to times in this document are to London time. The times and dates falling after the date of publication of this document given above and throughout this document are based on our current expectations and may be subject to change, in which event, details of the new times and dates will be notified to the UKLA and the London Stock Exchange and we will make an appropriate announcement to a Regulatory Information Service. These times and dates are indicative only and assume that the Offering is declared wholly unconditional on the earliest possible date.

If Admission does not occur, all conditional dealings will be of no effect, and any such dealings will be at the sole risk of the parties concerned.

Offering Statistics

Offering Price (per Share)	£1.70
Number of Shares in the Offering	38,681,820
to be issued by the Company	38,681,820
to be sold by the Selling Shareholder	nil
Percentage of the enlarged issued Share capital in the Offering(1)	29%
Number of Shares subject to the Over-allotment Option	3,868,180
Number of Shares in issue following the Offering(2)	128,181,820
Number of issued Shares admitted to listing and trading following the Offering(1)	131,681,820
Estimated net proceeds of the Offering receivable by the Company(3)	U.S.$95 million
Our market capitalisation at the Offering Price at Admission(2)	£218 million

Note:

(1) Includes Shares held by Sanne Fiduciary Services as trustee of the Group's employee benefit trust.

(2) Excluding Shares held by Sanne Fiduciary Services Limited as trustee of the Group's employee benefit trust.

(3) The estimated net proceeds of the Offering are stated after deduction of the estimated underwriting commissions and other fees and expenses of the Offering (including VAT) payable by the Company, which are currently expected to be, in the aggregate, approximately U.S.$5 million.

PART VII
DIRECTORS, SECRETARY, REGISTERED OFFICE, HEAD OFFICE AND ADVISERS

Directors	Irakli Gilauri (Non-Executive Chairman) Nikoloz Gamkrelidze (Chief Executive Officer) David Morrison (Senior Independent Non-Executive Director) Allan Hirst (Independent Non-Executive Director) Neil Janin (Independent Non-Executive Director) Ingeborg Oie (Independent Non-Executive Director) Tim Elsigood (Independent Non-Executive Director) Mike Anderson (Independent Non-Executive Director) Jacques Richier (Independent Non-Executive Director)
Company Secretary	Gurbinder Kaur Hodges
Registered Office	84 Brook Street, London, W1K 5EH
Head Office in Georgia	No. 40, Vazha-Pshavela Ave., 0177, Tbilisi, Georgia
Joint Sponsors, Joint Financial Advisers and Global Coordinators	Citigroup Global Markets Limited Citigroup Centre Canada Square London E14 5LB United Kingdom
	Jefferies International Limited Vintners Place 68 Upper Thames Street London EC4V 3BJ United Kingdom
Co-Lead Managers	JSC Galt & Taggart 79 D. Aghmashenebeli Avenue 0102, Tbilisi Georgia
	Numis Securities 10 Paternoster Square London EC4M 7LT United Kingdom
	Renaissance Securities (Cyprus) Limited Arch. Makariou III, 2-4, Capital Center, 9th Floor, Nicosia, 1065, Republic of Cyprus
Legal Adviser to the Company as to English and U.S. Law	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA United Kingdom
Legal Adviser to the Company as to Georgian Law	BLC Law Office 4, Gudiashvili square Tbilisi 0114 Georgia
Legal Adviser to the Joint Global Coordinators as to English Law	Pinsent Masons LLP 30 Crown Place London EC2A 4ES United Kingdom
Legal Adviser to the Joint Global Coordinators as to U.S. Law	Proskauer Rose LLP 110 Bishopsgate London EC2N 4AY United Kingdom

Legal Adviser to the Joint Global Coordinators as to Georgian Law	BGI Legal BGI Advisory Services Georgia 18, Rustaveli Avenue Tbilisi 0108 Georgia
Reporting Accountant and Independent Auditors	EY Georgia LLC 44 Kote Abkhazi Street Tbilisi 0105 Georgia
Registrar	Computershare Investor Services PLC The Pavilions, Bridgwater Road Bristol BS99 6ZZ United Kingdom

PART VIII
INDUSTRY OVERVIEW

Macroeconomic Overview

Georgia is located in the South Caucasus at the crossroads of Western Asia and Eastern Europe, and is bordered to the south by Turkey and Armenia, to the west by the Black Sea, to the southeast by Azerbaijan and to the north by Russia. The population of Georgia was estimated at 4.5 million, with Tbilisi accounting for more than a quarter of the population, or 1.1 million people, in 2014.

Georgia, one of the fastest growing countries in Eastern Europe, with real GDP growth averaging 5.8% during 2005 to 2014 (according to Geostat), is considered to be an open market in which to do business. Growth-oriented reforms and ongoing economic liberalisation since becoming a WTO member in 2000 have transformed Georgia into a country that is ranked by the World Bank as more business friendly than both Switzerland and France (and has a lower incidence of corruption than both the United States and the United Kingdom).

GDP, Georgia

	Nominal GDP, U.S.$ billion	Real GDP growth, %
2009	10.767	−3.7
2010	11.638	6.2
2011	14.435	7.2
2012	15.847	6.4
2013	16.141	3.3
2014E	16.535	4.7
2015E	13.758	2.0
2016E	14.595	3.0
2017E	15.964	4.5
2018E	17.448	5.0
2019E	19.061	5.0
2020E	20.811	5.0

Source: International Monetary Fund.

Georgia's key economic drivers

Liberal economic policy. Georgia was ranked 15th out of 189 economies in the "Ease of Doing Business" ranking in 2015 and the #1 reformer between 2005 and 2012 by the World Bank; 22nd out of 178 countries by the Index of Economic Freedom measured by the Heritage Foundation in 2015; and only 4% of people (fewer than in the United Kingdom and the United States) admitted to having paid a bribe during 2012, according to the 2013 Global Corruption Barometer study by Transparency International. The Liberty Act, effective from 31 December 2013, aims to facilitate the continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated government expenditures at 30% of GDP, the fiscal deficit at 3% of GDP and public debt at 60% of GDP. Additionally, the Liberty Act requires the approval of the electorate in a nationwide referendum before the government can introduce new forms of taxation or raise existing tax rates, subject to certain exceptions. Estimates from Galt & Taggart Research suggest that the provisions of the Liberty Act have been met for the year 2014; government expenditure is estimated to be 30% of GDP, the fiscal deficit at 3% of GDP and public debt at 36% of GDP. Georgia has significantly reduced the number of taxes levied by the government, from 21 in 2004 to six as of 30 June 2015 (the rates of corporate income tax and personal income tax remain flat at 15% and 20%, respectively), becoming one of the world's most tax-friendly regimes. The Georgian government has also lightened the administrative burden on business by abolishing approximately 70% of business licenses, 90% of permits and quantitative restrictions on tariff barriers. Furthermore, the management of all remaining administrative procedures has been simplified with the establishment of one-stop shops for this purpose.

Maintaining healthy economic growth is high on the political agenda. Georgia has experienced high GDP growth rates for the past decade. GDP growth rates were on average 6.3% annually from 2003 to 2014, and total GDP reached U.S.$16.5 billion in 2014. GDP per capita increased fourfold to U.S.$3,699 in 2014 from U.S.$920 in 2003. Georgia is expected to continue to grow, with the IMF forecasting growth between 3% and 5% between 2016 and 2019. In late 2012, Georgia ensured a peaceful transition of political power, and subsequent presidential elections (in October 2013) and local elections (in June 2014) demonstrate that democratic institutions are working effectively. The Georgian government continues to implement low-regulation, low-tax, free market policies including privatising state entities, strengthening competition laws, and amending the labour code to comply with international labour standards After an initial increase in social spending when the new government took office in 2013, current expenditure has been contained and commitment to fiscal discipline is high on the political agenda. In 2014, Georgia's public debt to GDP ratio was 35.0% of GDP and the fiscal deficit reached 3.0% of GDP.

Continued integration into the international markets. In June 2014, Georgia and the EU signed an Association Agreement, introducing the "Deep and Comprehensive Free Trade Area" (**DCFTA**), effective since 1 September 2014, which is intended to simplify Georgia's access to the EU market, a common-customs zone of approximately 500 million customers, spurring exports (as at 31 December 2014 the EU accounted for just 22% of Georgia's total exports, and no single country accounted for more than 19%) and enhancing the diversification (as at 31 December 2014 cars were the most significant export with an 18% share of the total) and competitiveness of Georgian products. An EU study of the impact of the DCFTA on Georgia suggests a potential increase in GDP growth of 4.3% per year, which amounts to €292 million in national income at current levels. The government continues to maintain strong relations with international development partners (both bilateral and multilateral), focusing primarily on infrastructure development. An ongoing IMF programme, introduced in July 2014, is intended to help implement the government's economic reform programme and aims to reduce macroeconomic vulnerabilities and dependency on the public sector, and increase policy buffers and support growth, while making the economy more resilient to external shocks.

Strong FDI inflows. Foreign Direct Investment (**FDI**) inflows to Georgia have remained positive in recent years, averaging 10% of GDP since 2005, with FDI growth reaching a six-year high of 35% on a year on year basis to U.S.$1,273 million in 2014. FDI is expected to remain a reliable source of current account deficit funding in 2015 and beyond as Georgia's business-friendly environment coupled with its sustainable growth prospects continue to attract foreign investment. Georgia is likely to benefit from the increasing participation of "newer" investors such as China (FDI from China increased from U.S.$10 million in 2011 to U.S.$195 million in 2014), the impact of the DCFTA, (which is expected to attract an additional U.S.$200 million to 300 million of FDI in 2015) and Georgia's location on an important transit route from the Caspian oil fields. Furthermore, Georgia's FDI inflows are well-diversified; no single sector exceeded the 31% share of FDI inflows represented by transport and communications.

Regional logistics and tourism hub. Georgia has developed a network of cross-border and internal maritime, air and land connections. It has a favourable geographic location between land-locked energy rich countries to the east and the European markets to the west of Georgia. This helps Georgia to realise its potential as a hub for transport, logistics and tourism. Continued public capital spending on roads, energy, tourism and municipal infrastructure is helping to strengthen a platform for businesses willing to trade and work in or with Georgia. Georgia is a regional energy transit corridor with approximately 1.5% of the world's oil production and diversified gas supply passing through the country. Travel inflows are a significant source of foreign currency for Georgia; 5.5 million foreign nationals visited Georgia in 2014 generating revenue of U.S.$1,489 million, compared to U.S.$29 million a decade earlier.

Stable energy supply. Georgia has a developed, stable, and competitively priced energy sector. Georgia has overcome the chronic energy shortages and gas supply interruptions of the recent past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Georgia transformed itself into a net electricity exporter during 2007 to 2011 (despite reverting to being a net importer during 2012-2014 due to low precipitation), from being a net electricity importer for more than a decade before 2007, as a result of significantly increased transmission capacity. A 400kv transmission line to Turkey became operational in 2013, creating 700MW of export capacity to Turkey. Other transmission lines to Armenia and Russia have also been upgraded. Georgia's transmission capacity to Russia is expected to increase by 1.7 times to 1,480MW by 2016 after a new 500kv line becomes operational. Currently, only 12% of Georgia's hydropower capacity is utilised. A total of 88 hydropower plants are being built or are in different stages of development (from feasibility study to obtaining a construction permit).

Outlook for the economy

In 2014, Moody's and Fitch upgraded the outlook on Georgia's sovereign credit rating to positive, citing improved economic prospects and the provisional application of the DCFTA. Relatively limited economic dependency on Russia (FDI from Russia accounted for only 5% of total Georgian FDI in 2014) helped Georgia maintain strong growth in 2014 in the midst of regional uncertainties. Following the successful implementation of the DCFTA, Georgia is better placed to weather external shocks compared to its regional peers. Significant upside factors are also in place: lower oil prices are expected to help the economy, improve growth prospects and limit Georgia's oil import expenditure. Lower fuel prices help to restrain inflation growth and support expansionary monetary policy, which add stimulus to the economy. Additionally, after years of deterioration in the Georgian-Russian relationship, which resulted in armed conflict in 2008, relations are now improving: Russia lifted a ban on Georgian exports in July 2013 and exports to Russia increased by 44.2% in 2014 compared to the same period in 2013, though they remain low in percentage terms compared to the level in 2004. At the same time, dependence on Russian imports has continued to decrease; in 2014 Russia's percentage share of total imports to Georgia was less than half of the 2004 value.

According to the IMF's debt sustainability analysis (January 2015), macroeconomic shocks should not jeopardise the sustainability of public debt, and the public debt ratio would remain well below critical levels even in the event of a hypothetical 30% depreciation of national currency.

Healthcare Services Market

Overview

Georgia's healthcare sector, supported by strong GDP growth and relatively high total expenditure on healthcare (at approximately 10% of GDP), grew at an annual compound growth rate of 15.9% between 2001 and 2011. The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades. Favourable government policy has resulted in the following:

- the privatisation and renovation of nationwide healthcare infrastructure (of total nationwide hospital bed capacity, over 60% is new and only under 20% is in the public sector), including both "bricks and mortar" buildings and medical equipment, replacing rundown Soviet-era facilities; and
- increased access to healthcare through the UHC, which has provided basic coverage of healthcare needs to the entire population since 2013. According to the IMF, reform should improve healthcare outcomes and is estimated to add 1% of GDP per year to existing healthcare costs, making healthcare the largest reform area in the country.

Notwithstanding the relatively high total expenditure on healthcare, Georgia has one of the lowest per capita expenditures on healthcare compared with countries in the EU and the CIS. Management believes that there are strong prospects for growth in healthcare expenditure driven by both supply and demand.

Outlook and Main Growth Drivers

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

- *Improving infrastructure to support demand.* Continued investment in healthcare infrastructure, mainly by private healthcare providers that are continuing to expand their businesses to address the growing demand for quality medical care from the population, has included modernising Soviet-era hospitals, upgrading medical technologies, facilitating easier access to healthcare and the addition of over 150 new hospitals between 2007 and 2013 (with approximately 60% under private ownership). These developments also reflect an inflow of investments from strategic financial investors into the market given its high growth potential. An increase in demand and hospitalisation rates is also expected as a result of the growing availability of affordable quality healthcare services, improving diagnostic services and increasing healthcare awareness in Georgia. By way of an example, according to analysis by Frost & Sullivan the hospitalisation rate per 100,000 people in Georgia for cardiovascular diseases was 2.5 times lower than in EU countries, indicating a large number of undiagnosed or untreated conditions. The resulting growth in hospitalisation rates could drive efficiency in inpatient facilities. Utilisation of beds in Georgia, as measured by bed occupancy rates, has the potential to increase by between 20 to 30%.

- *Supportive government healthcare policies.* Since its introduction in March 2013, the UHC has provided the entire population with access to quality healthcare and is expected to help increase demand for medical care. In particular, the UHC will drive the ambulatory market, where current penetration levels (in terms of the number of visits) are low in comparison to developed countries. In addition, it is expected that there will be a 12% increase in the government's budget for and expenditure on healthcare in 2015 (*Source: Georgian Ministry of Finance*). Until September 2014, the majority of drugs in Georgia were sold without a prescription. Since then, the government has introduced prescription requirements for over 6,000 types of medicines, including antibiotics, cardiovascular, hormonal, endocrine and oncology products that account for more than 50% of medicines registered in Georgia. This initiative should increase demand for outpatient visits and should reduce the widespread practice of self-treatment.

- *Double digit growth in healthcare expenditure.* Total healthcare expenditure in Georgia increased by almost seven times over the period from 2000 to 2012. However, on a per capita basis, healthcare spending remains low compared to certain emerging market peers, pointing to further growth potential. At the same time, economic growth and rising disposable incomes of Georgian citizens, including in the regions outside Tbilisi, will also lead to higher spending on healthcare services, particularly in consideration of the potential growth of "top up" medical insurance to supplement basic UHC coverage and the increase of corporate medical insurance plans for employees. Improving facilities and standards have the potential to develop health tourism by attracting citizens of neighbouring countries and, conversely, retaining Georgians currently seeking treatment overseas.

- *Rapidly growing healthcare services market.* Historically high growth in the Georgian healthcare services market is expected to continue, supported by both the hospital and ambulatory clinic segments. Increasing health awareness and quality of services will lead to growth in demand for diagnostics. Between 2010 and 2013, the number of laboratory tests increased by 45%, from 5.5 million to 8 million. The number of advanced diagnostic tests such as medical imaging is also increasing. In the same period, the number of computer tomography (CT) examinations has grown by 38% to almost 40,000. There has also been a growing demand for surgery and, in particular, advanced procedures—the overall number of surgeries performed is increasing by 9% annually in Georgia, which illustrates the growing demand for (and greater ability to deliver) such surgeries. In 2013 alone, the number of hip and knee replacements increased by 46% and the number of heart surgeries by 29% (*Source: NCDC*).

- *Favourable demographics.* The country has an ageing population, with an increasing proportion of its citizens aged over 60 who will require more frequent, better and prolonged healthcare treatments. Increasing incidence of certain lifestyle-related diseases (in particular, hypertension, ischemic heart diseases, cerebrovascular diseases and diabetes) will also boost demand for medical care. In addition, healthy fertility rates will drive demand for obstetric and child care services.

Healthcare Services Market Size

The Georgian healthcare services market was valued at GEL 1.9 billion (U.S.$1.1 billion) in 2014 and is forecast by Frost & Sullivan to expand at a compound annual growth rate of 13.3% from 2014 to 2018. Hospitals accounted for 57% of total revenues in 2014; however, the market for ambulatory clinics is expected to grow at a faster pace with a compound annual growth rate of 15.9% compared to a compound annual growth rate of 11.3% for hospital services over the same period. The primary reason for this is that the number of outpatient visits per capita in Georgia was one third of the EU average in 2011, due to a deeply entrenched practice of self-treatment among the population. Analysis by Frost & Sullivan suggests that the extension of the UHC to cover ambulatory care, amendments to pharmaceutical regulations and increasing healthcare awareness in Georgia are all likely to contribute to the growth in outpatient visits in the coming years.

Healthcare services market revenue, Georgia

(GEL million)

	Healthcare services market revenue		
	Hospitals	**Ambulatory**	**Total**
2008A	674	377	1051
2009A	643	428	1071
2010A	714	376	1090
2011A	811	473	1284
2012A	858	592	1451
2013A	941	695	1636
2014E	1075	802	1877
2015E	1203	930	2134
2016E	1341	1079	2420
2017E	1489	1250	2740
2018E	1647	1448	3096
Compound annual growth rate	Hospitals CAGR 2014-18: 11.3%	Ambulatory CAGR 2014-18: 15.9%	Total market CAGR 2014-18: 13.3%

Source: Frost & Sullivan.

Healthcare service providers (both state and private) generate revenue from out-of-pocket payments (including fee-for-service and co-payments), transfers from state healthcare programmes and payments from private medical insurance companies. Medical insurance companies depend on revenues from medical insurance policies purchased by employers for their employees and by individuals for their own use.

The Georgian government has been steadily increasing the budget that it allocates to healthcare, including the UHC and specific, disease-oriented, vertical programmes. According to budget announcements by the Georgian Ministry of Finance, healthcare spending is expected to increase by a further 7.8% in 2015 as compared to 2014.

State budget expenditure on healthcare, Georgia

(GEL millions)

	State budget, healthcare
2011	390
2012	438
2013	717
2014	713
2015	768

Note: 2011-2015—budget; including the UHC, state insurance , state insurance programmes, and vertical programmes, excluding capital and other expenditures (e.g. healthcare at penal institutions). Source: Georgian Ministry of Finance.

Utilisation of healthcare services

There has been significant progress made in respect of the provision of inpatient services over the last decade and all of the key indicators—the increasing bed occupancy rate (being the number of hospital beds occupied by patients expressed as a percentage of the total beds available in the ward, specialty, hospital, area, region or country) and bed turnover rate (being the number of times there is a change of occupant of a hospital bed over a one-year period, which is 34 in Georgia compared to 48 in the United Kingdom), decreasing average length of stay—are developing positively.

Hospital utilisation indicators, Georgia

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bed occupancy rate, %	33	32	35	40	22	41	44	48	63	50
Average length of stay, days	8.6	7.7	7.4	7.3	3.0	6.3	6.4	7.0	7.0	5.4
Bed turnover rate	13.7	15.2	17.1	20.1	26.2	23.4	25.2	24.8	32.7	33.6

Source: NCDC.

Despite significant advances, the existing hospital network in Georgia has room for further improvement: the low rate of utilisation of healthcare services, unequal access to services due to financial barriers and an ineffective referral system (with the primary level being bypassed) remain the core challenges. For example, the recommended bed occupancy rate in the United Kingdom is 85%. In Georgia, this number currently stands at only 50%, 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. The low bed turnover rate also indicates that there is scope for further efficiencies within the healthcare system and potential for improvement. Hospital utilisation rates are also likely to be affected by the demand for inpatient services in Georgia, which has increased substantially according to the NCDC, as illustrated by the number of hospital admissions and surgical operations conducted. The number of hospital admissions increased by 68,000 patients from 2008 to 2013. There was a corresponding increase in the number of operations conducted in inpatient facilities, which increased from 83,000 in 2003 to 189,000 in 2013.

The number of outpatient encounters per capita has increased over the past decade; however, potential for growth remains because of the historically strong culture of self medication in Georgia, which results in a significantly lower number of patient visits to outpatient facilities when compared to developed nations and a high proportion of spending on drugs versus total healthcare expenditure. In 2013, the number of outpatient visits per capita in Georgia was 2.7 while the average was 7.7 in the EU (based on 2011 data, being the latest available data) and 8.9 in CIS countries (based on 2012 data). With respect to the ambulatory clinics market, substantial growth in demand is expected in the next five years. According to analysis by Frost & Sullivan, the number of outpatient visits per capita in Georgia is expected to increase from 2.7 in 2013 to 4.4 in 2018. This is due to the new regulatory requirement to obtain prescriptions for drugs and to the fact that the UHC covers the provision of outpatient healthcare services.

Healthcare Expenditure

The wave of market reforms undertaken by Georgia beginning in the year 2000 led to a breakthrough in the affordability and quality of healthcare in the country. Total healthcare expenditure increased by almost seven times over the period from 2000 to 2013 and reached U.S.$1.52 billion in 2013.

Total expenditure on health, Georgia

(U.S.$ million)

	Total expenditure on health
2000	213
2001	253
2002	298
2003	341
2004	439
2005	552
2006	653
2007	833
2008	1,150
2009	1,097
2010	1,168
2011	1,357
2012	1,451
2013	1,519
Compound annual growth rate 2000-2013	**16.3%**

Source: Global health expenditure database—World Health Organisation.

In percentage terms, the share of total healthcare expenditure as a proportion of GDP in Georgia is comparable to that of developed countries and above the levels of major emerging countries. This includes expenditure on healthcare services, pharmaceuticals, medical devices and other general healthcare expenditure categories (including compensation of employees in the healthcare services sector), both state and private. However, on a per capita basis, healthcare spending remains low at U.S.$350 in 2013 and falls to U.S.$217 following the deduction of spending on pharmaceuticals. The mid-term goal for the government of Georgia is to reach the level of Turkey (U.S.$608) and certain other emerging market peers (U.S.$1,076, an average of per capita spending in Chile, Costa Rica, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Russian Federation, Slovak Republic), which would mean a two to three-fold increase in healthcare spending.

Healthcare expenditure, 2013

(U.S. dollars)

	Per capita total expenditure on health	Government expenditure on health as a % of: Total expenditure on health	Government expenditure on health as a % of: Total government expenditure	Total expenditure on health, as a % of GDP
United States	9146	47.1	20.7	17.1
Germany	5006	76.8	19.4	11.3
France	4864	77.5	15.8	11.7
Japan	3966	82.1	20.0	10.3
United Kingdom	3598	83.5	16.2	9.1
UAE	1569	70.3	9.4	3.2
Estonia	1072	77.9	11.7	5.7
Russia	957	48.1	8.4	6.5
Poland	895	69.6	11.1	6.7
Turkey	608	77.4	10.7	5.6
South Africa	593	48.4	14.0	8.9
Kazakhstan	580	53.1	10.9	4.3
Bulgaria	555	59.3	11.7	7.6
Belarus	463	65.4	13.5	6.1
Azerbaijan	436	20.8	3.5	5.6
Malaysia	423	54.8	5.9	4.0
Georgia	**350**	**21.5**	**6.7**	**9.4**
Ukraine	313	54.5	12.2	7.8
Thailand	264	80.1	17.0	4.6
Armenia	159	41.7	7.9	4.5
India	61	32.2	4.5	4.0

Source: Global health expenditure database—World Health Organisation.

The share of private spending in total healthcare expenditures remains high at 65% in 2014. High levels of self-treatment and limited regulation of medical prescriptions were the main reasons for high private expenditures. Pharmaceuticals represented 37.8% of total healthcare spending in 2012, compared to between 16% and 17% in parts of Europe (including the United Kingdom, Germany, France, Estonia, Poland and Bulgaria). However, a new regulation, effective September 2014, requires a prescription from a physician for over 50% of registered drugs, as described above. This is expected to drive the utilisation of outpatient services, as well as shifting part of healthcare spending from the pharmaceuticals sector to healthcare services sector.

Reform of the healthcare sector

Soviet heritage

Overcapacity and inefficiency of the healthcare services system in Georgia was a legacy of the Soviet era. After regaining independence following the dissolution of the Soviet Union in 1991, Georgia underwent a decade of economic depression and significant budget constraints. During the first two years of independence, economic output fell by 78%. The healthcare sector suffered a severe contraction, with public health expenditure as a percentage of GDP dropping from just over 4% in 1991 to 0.59% in 1999.

Before 1991, Georgia's healthcare system operated on the Soviet model, where, in theory, care was free and universal, but in practice highly inefficient, resource-intensive and too rigid to sustain in a market-based economy. Georgia also inherited a bulky and obsolete healthcare infrastructure after the collapse of the Soviet Union. Following independence, the country's healthcare market was left with an excessive bed capacity (10 beds per 1,000 people compared to 5.4 in the United Kingdom and 4.6 in the United States in 1992) and an unnecessarily high number of physicians (4.9 per 1,000 people, as opposed to 1.6 in the United Kingdom and 1.8 in the United States). While the current number of physicians per 100,000 population is high compared to the European region as a whole, the number of nurses per 100,000 population is one of the lowest. Additionally, there is an uneven geographic distribution of medical staff: in

2012, numbers of medical staff relative to population in Tbilisi were three to four times higher than in all other regions.

First wave of reforms

In 1995, the first wave of healthcare reforms started. New concepts such as social insurance and co-payments were introduced. One of the priorities was to reduce ubiquitous informal payments. However, the 1997-1998 economic crisis stalled the reforms as falling revenues could not sustain appropriate levels of healthcare spending. Radical reforms began after 2003, when the government took steps towards supporting the development of the private healthcare sector. The administrative burden on businesses (for example, licensing requirements) was significantly reduced, which led to a major increase in private investment in healthcare.

Infrastructure reform

In 2007, the Hospital Development Master Plan (or **100 Hospitals Plan**) was introduced. It envisioned a complete renovation of hospital infrastructure within a three-year period by privatising most healthcare facilities. Private investors committed to invest approximately U.S.$1 billion over the next seven years and to equip 100 new hospitals with 7,800 beds.

The privatisation plan was redesigned in 2010. The country was divided into 26 healthcare districts and private insurance companies were invited to bid for the opportunity to provide plans to the eligible population for a period of three years in each of the districts. Under those contract terms, the state purchased private insurance for socially vulnerable groups, pensioners, children under six, students and teachers (in total, 2.1 million people in 2012) while private insurance companies committed to build or renovate the healthcare facilities in their respective regions. By the end of 2013, over 150 new hospitals had been built with substantial participation from private investors and international donors, and 60% of regional medical centres were privately owned (according to the Georgian Ministry of Labour, Health and Social Affairs). The government mainly retained specialised healthcare facilities, such as tuberculosis clinics and healthcare facilities within psychiatric and penal institutions. Since 1992 and as a result of the infrastructure reforms, Georgia has reached UK and U.S. capacity levels: 2.6 beds per 1,000 people.

The Georgian healthcare services market (defined as revenues generated by hospitals and ambulatory clinics—both state and private) has grown rapidly in recent years due to rising government expenditure on healthcare, the introduction of state insurance programmes and, more recently, the UHC, the growth of private investment in the modernisation of healthcare infrastructure and the construction of new facilities, the growing economy and an increasingly affluent population as well as an increasing incidence of lifestyle and chronic diseases.

Healthcare financing by the state prior to the UHC

The Georgian government implemented the first state insurance programme (**SIP**) in 2007, providing medical insurance coverage with no co-payment to approximately 800,000 "economically vulnerable" citizens of Georgia and teachers. Later in 2012, a second SIP was introduced, extending coverage (this time with co-payment elements) to pensioners, children under five and children with disabilities, and students, covering a total of approximately 2.1 million people by September 2012. The government paid premiums on behalf of beneficiaries to the private insurance companies that administered the SIPs, and oversaw the programme, with private insurance companies bearing insurance risk and purchasing services from healthcare service providers. Both of the SIPs were subsequently merged into the UHC.

Universal healthcare programme

In March 2013, the UHC was introduced to address high private healthcare costs in Georgia. The UHC also supplemented and eventually replaced the existing two SIPs, making state-sponsored health coverage available on a significantly larger scale. The UHC is a government-funded healthcare programme that provides basic healthcare coverage to the entire population, including more than 2 million people who had never held medical insurance and purchased healthcare services only on an out-of-pocket basis. Unlike the preceding SIPs, the UHC is not an insurance product but an undertaking by the government to reimburse healthcare providers directly for the delivery of treatment to patients. The programme is subject to certain limits and service and coverage exclusions, beyond which patients have to fund treatment on an out-of-pocket basis or rely on private medical insurance coverage.

The key principles of the UHC programme are as follows:

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

Pricing, reimbursement and settlement of services under the UHC programme

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

Elective outpatient (ambulatory clinic) services

The UHC provides 100% coverage of the cost for very basic outpatient services for all eligible citizens. This includes services such as visiting a general practitioner, general blood tests, general urine tests, electrocardiogram exams, abdominal ultrasounds, and other limited laboratory testing. The state pays for these services using the capitation method, whereby a fixed amount of money is paid to a clinic for each registered patient per month. A patient remains on a clinic's registry for life, unless he or she deregisters and registers with another clinic. The clinic receives payment in respect of this patient on a monthly basis throughout the patient's registration with the clinic. Clinics are required to register each patient on a national database, and it is not possible for the same patient to be registered at more than one clinic.

For other elective outpatient services, such as specialist visits (for example, to a neurologist, ophthalmologist, cardiologist, endocrinologist, gynaecologist, ENT specialist, or urologist) patients are required to pay 30% of the notional price charged by the particular clinic for the service required. Clinics are free to set their own prices, without restriction. An invoice for this charge is provided to the patient and payment is usually requested prior to the provision of the treatment or service. The remaining 70% of the notional price is accounted for as part of the monthly capitation payments received by the particular clinic, and no further payment is obtained from the state.

The capitation amount per patient is a fixed amount decided by the state, which varies across cities and villages and has not been amended since 2013. Payment is received from the state within 15 working days following the submission of the invoices to the SSA for capitation payments and 35 days for other services.

Emergency inpatient services

The UHC covers the cost of emergency inpatient services for all eligible citizens up to a limit of GEL 15,000 per incident, with the vast majority of cases subject to 100% coverage. The healthcare services provider calculates the state payment level by taking the lowest 25th percentile of historic prices that were in effect under the SIPs, immediately prior to the implementation of the UHC, which were provided by the relevant healthcare provider to the state, and then may either increase or decrease this amount by up to 10%. In the event that the healthcare facility was not operational prior to the implementation of the UHC, the reference price provided by that facility is the current price charged for the service in question. In most cases, the state provides 100% coverage of the amount calculated on this basis, but in certain instances, the coverage is restricted to 70%. If the healthcare facility charges a higher amount for a given service than the amount reimbursed by the state based on the above calculation, the remaining portion of the price is co-paid by the patient. In instances in which UHC coverage is limited to 70% of the calculated payment level, the co-payment includes the remaining 30% as well as any difference in the price for the service charged by the healthcare facility in question.

Following delivery of the emergency treatment, each facility provides the SSA with an invoice on a monthly basis, setting out the services provided and a calculation of the price charged for each patient case. The SSA is then required by legislation to make payment to the healthcare facility within 35 working days of receipt of the invoice. In some instances, in which patients remain at the facility for an extended period of time following admission, the facility can bill for the provision of care monthly on an ongoing basis. Patients are required to provide payment for any services not covered by the UHC, including when the treatment exceeds the GEL 15,000 per incident limit, either in advance of treatment or when discharged from care.

Elective inpatient services

The UHC limits coverage of elective inpatient services to GEL 15,000 per person per calendar year, for services for which the patient must receive prior approval from the SSA. In order to receive the necessary approval from the SSA, a patient must submit, among other documentation, evidence showing the medical necessity for the requested procedure(s), and then wait up to two months for approval. The rate of reimbursement to healthcare service providers is calculated by taking 70% of the average of the lowest 25th percentile of the price charged by healthcare facilities for the same service nationwide. The remainder of the price of the service is co-paid by the patient. Although the amount paid by the state is calculated based on nationwide prices, the co-payment by the patient includes the remaining 30% of the calculated amount as well as any difference in the price for the service at the selected healthcare facility. Following provision of the treatment, each facility provides the SSA with an invoice on a monthly basis, setting out the services provided during the period in question and a calculation of the price charged. The SSA is then required by legislation to make payment to the healthcare facility within 35 working days of receipt of the invoice. Patients are required to provide payment in cash for any services that exceed the GEL 15,000 per incident limit when discharged from care.

Coverage for minors is separately provided for under the UHC. Individuals under 18 years of age benefit from 100% coverage, without limit, for general practitioner, neonatology, oncology and cardiology services. Payment for these services is made in the same manner as described above for emergency inpatient services. In addition, there are a limited number of specific treatments that are individually provided for under the UHC. The state provides a slightly higher contribution for the treatment of cancer with the UHC covering 80% of the minimum historic price, subject to an annual limit of GEL 12,000, and childbirth is subject to a fixed contribution from the government of GEL 500 for a natural birth and GEL 800 for a caesarean section. In addition, the UHC provides nominal coverage for the cost of prescription pharmaceuticals for certain socially vulnerable groups: this is limited to a 50% payment for drugs up to an annual limit of GEL 50.

A number of services are not covered by the UHC or other state-sponsored programmes in any event. These include health assessments, treatment abroad, cosmetic surgery, reproduction-related services other than childbirth, transplantation (excluding kidney transplantation, as noted below) and elective conservative care.

UHC coverage, private medical insurance and "top-up" products

As a result of the implementation of the UHC, approximately 92% of the population was covered by state healthcare programmes by the end of 2014 (Source: *Georgia's Progress Report on Implementation of the ENP Action Plan and the EaP Roadmaps, October 2014*). The remaining 8% included individuals who held private medical insurance immediately prior to the implementation of the UHC, and were regarded as ineligible for state coverage as a result. There is a three month cooling off period, excluding emergencies, for individuals who switch from private medical insurance to coverage under the UHC. It is currently possible for an individual to benefit from UHC coverage and purchase an additional private insurance plan.

In addition to comprehensive private medical insurance that remains independent of the UHC programme, insurers have begun to offer products that "top up" or supplement healthcare coverage provided under the UHC. These vary in scope and offer varying degrees of additional coverage, with a varying mix of percentage coverage of co-payments for outpatient services coupled with free choice of ambulatory clinics, to coverage for the full cost of emergency and elective inpatient services, and coverage for pharmaceuticals and dental care.

Additional healthcare programmes financed by the state

Besides the UHC, twenty disease-oriented (**vertical**) programmes have been implemented in Georgia, including tuberculosis management, HIV/AIDS, dialysis and kidney transplantation, screening for breast cancer and prostate cancer, immunisation, safe blood donors programme, psychiatric care, prenatal examinations, haemophilia, narco rehabilitation, primary healthcare service in rural areas, ambulance and palliative care. The total budget for these vertical programmes in 2014 was GEL 126 million (Source: *Georgia's Progress Report on Implementation of the ENP Action Plan and the EAP Roadmaps, October 2014*). Depending on the programme, a certain level of co-payment (between 10% to 50%) is required from the patient; for example, the government covers 70% of the actual expenses of outpatient and inpatient treatment of oncology diseases for adults aged above 60 years (beyond the 80% coverage afforded by the UHC), and 100% for patients under 18 years old.

Healthcare Supply Analysis

The number of people employed in the healthcare sector totalled 37,900 in 2013, which constitutes 1.9% of the total labour force, and is one of the highest levels among former Soviet countries and most developed nations. The number of physicians per thousand individuals in Georgia is higher than in CIS countries and the European region.

Physicians per thousand individuals by country, 2010-2013

	Physicians per 1000 individuals
Russia	4.3
Georgia	**4.2**
Germany	3.9
Bulgaria	3.9
Belarus	3.8
Kazakhstan	3.6
Ukraine	3.5
Azerbaijan	3.4
France	3.2
Estonia	3.2
United Kingdom	2.8
Armenia	2.7
United States	2.5
Japan	2.3
Poland	2.2
Turkey	1.7

Source: World Bank, 2010-2013.

The number of physicians increased between 2003 and 2013 in almost every category of specialisation. Over the same period, the number of paramedical personnel has declined. The nursing workforce decreased by 33% between 2001 and 2013. According to the NCDC, the ratio of physicians to nurses in Georgia was 1:1.6 in 2013. Whilst this should not in itself hamper growth, because in Georgia trained physicians are accustomed to performing many nursing tasks, there is scope to improve efficiencies.

In terms of the availability of hospital beds, Georgia ranks alongside the United Kingdom, the United States, and Turkey. Georgia has significantly rationalised and modernised its hospital network, with only 36% of hospital beds in Georgia remaining in unrenovated facilities dating back to the Soviet-era. The total number of beds decreased by 36% between 2003 and 2013. The following table shows the number of hospital beds per 1,000 individuals by country.

Hospital beds per thousand individuals

	Hospital beds per 1000 individuals
Japan	13.7
Belarus	11.3
Russia	9.7
Ukraine	9.0
Germany	8.2
Kazakhstan	7.2
Poland	6.5
Bulgaria	6.4
France	6.4
Estonia	5.3
Azerbaijan	4.7
Armenia	3.9
United Kingdom	2.9
United States	2.9
Georgia	**2.6**
Turkey	2.5

Source: World Bank.

Private healthcare providers played a major role in the modernisation process and as a result, at present, 84% of beds (excluding specialty beds at penitentiary, tuberculosis and psychiatric clinics) are in private hospitals.

According to the NCDC, there were 253 hospitals, including 103 specialised and 35 maternity, and 238 outpatient facilities, excluding dental clinics and rural family physicians, in Georgia in 2013. Only 37 hospitals were in state ownership.

The hospital network is unequally distributed across Georgia. Tbilisi's bed capacity is almost twice as high as the country average with 4.6 beds per 1,000 people, which accounts for 46% of all beds in the country. The regions of Tbilisi, Imereti and Ajara together have 71% of total country bed capacity and 51% of the total population of Georgia and, for that reason, are the most attractive regional markets for healthcare service providers.

Healthcare service gaps

Despite significant reforms to the Georgian healthcare system, a number of healthcare service gaps remain, particularly in relation to the medical equipment available and the laboratory services provided in Georgia. There are limited numbers of the following medical equipment: magnetic resonance imaging machines (only three units in West Georgia), linear accelerator units (only six units in Georgia), gamma knife units (only one unit in West Georgia), positron emission tomography computers (only one unit in Georgia), cardiac catheterisation laboratories (limited availability outside of Tbilisi). There are also shortages in Georgia of the following equipment: laparoscopic instruments, equipment for interventional endoscopy including endoscopic retrograde cholangiopancreatography, microwave tissue ablation systems, Magellan robotic systems, arthroscopes, choledocoscopes, muscle reinnervation systems, intraoperative ultrasound probes, vacuum machines, Flowtron mechanical compression units, and pH metre units. In addition, the Georgian healthcare system suffers from limited provision of the following laboratory services: no dedicated pathology laboratories for certain tests (samples are often sent abroad for testing), limited paediatric oncology services, limited rehabilitation services, no suitable IVF centres, no bone marrow transplant facilities, no molecular laboratories and no suitable genetic laboratories.

Competitive Landscape

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

The market is relatively fragmented, with the five largest competitors (all of which are private) accounting for only a third of the total number of beds. The top 15 participants control 58% of capacity. This may indicate further growth potential for both new and incumbent market participants through mergers and acquisitions. The ambulatory clinics market is even more fragmented and no company controls more than a 1% market share, with the Company's own market share at under 1%, as of 30 June 2015. Therefore, further consolidation is likely, as the emergence of a large participant in the market via mergers and acquisitions.

The Company is the single largest market participant, accounting for 22.1% of total hospital bed capacity in the country, as of 30 June 2015, which is four times higher than our nearest competitor, Gudushauri-Chachava. The Company's market share by beds grew to 26.6% following the acquisition of HTMC in July 2015 (450 additional beds) and is expected to grow to approximately 30.0% as a result of the renovation of recently acquired hospital facilities, scheduled for completion in 2016 and 2017 (approximately 500 additional beds). The Company has a market share of 14.0% by hospital revenue, as at 30 June 2015. The Company also has the most extensive network of healthcare establishments in the country with 41 centres (34 hospitals and six ambulatory clinics, as at 30 June 2015). Other large participants include Gudushauri-Chachava medical centre and New Hospitals which operate only in Tbilisi and thus lack comprehensive geographic coverage.

Major private healthcare service providers, Georgia (as at 30 June 2015)

Clinic chain	Location	Number of hospitals/clinics[(1)]	Number of Beds[(2)]	Average number of beds	Market share
Georgia Healthcare Group (the Company)	Tbilisi, Imereti, Samegrelo, Samtskhe Javakheti, Adjara, Kakheti	40	2,220	54	22%
Gudushauri-Chachava	Tbilisi	3	483	242	5%
HTMC[(3)]	Tbilisi	1	450	450	5%
Vienna Insurance Group	Tbilisi, Imereti, Samtskhe Javakheti, Mtskheta-Mtianeti, Kvemo Kartli, Kakheti, Adjara	18	449	25	4%
Aversi	Tbilisi, Kvemo Kartli, Shida Kartli, Guria	5	225	45	2%
New Hospitals (PSP)	Tbilisi	2	216	108	2%

Source: company information, Frost and Sullivan analysis.

Notes:

(1) Number of hospitals/clinics includes Deka Hospital, which was acquired by the Group in June 2015.

(2) Number of operated hospital beds as at 30 June 2015 excludes HTMC Hospital, amounting to 450 additional beds. Includes 80 beds at Deka Hospital that are currently leased out to and operated by a number of individual physicians, for which the Group receives rental income.

(3) The Group acquired a 50% equity interest (with effective management and operational control) for GEL 39.0 million (U.S.$17.0 million) in GNCo on 5 August 2015. GNCo owns the entire issued share capital of High Technology Medical Centre, which owns HTMC Hospital.

Several competitors are known for clinical excellence in a particular field of medicine, for example, New Hospitals in ophthalmology. In addition, there exist stand-alone diagnostics centres, laboratories and specialised cardiology and urology centres.

Because private healthcare development in Georgia is mainly driven by insurance companies, several groups compete in both the healthcare services and the insurance market segments. These groups include the Company (through Evex and Imedi L), Vienna Insurance Group, Aversi and Alpha, New Hospitals and PSP.

In an international context, the Company is among the top performers in terms of EBITDA margin (which was 29.5% in 2013 based on its healthcare services business only, excluding insurance) as compared to leading private healthcare providers in mature and emerging markets.

EBITDA margins—international competitive benchmarks, 2013

	EBITDA margin 2013
MD Medical (Russia)	28%
Life Healthcare (South Africa)	28%
NMC (UAE)	28%
Georgia Healthcare Group (Georgia)	**27%**
Al Noor (UAE)	23%
IHH (Malaysia)	22%
Mediclinic (South Africa)	21%
Dusit Medical (Thailand)	21%
HCA (United States)	19%
Spire (United Kingdom)	19%
Netcare (South Africa)	15%
Apollo (India)	15%
KPJ Healthcare (Malaysia)	14%
Fortis (India)	11%

Source: company information, Frost & Sullivan analysis.

Success Factors and Barriers to Entry

Because Tbilisi accounts for nearly a quarter of the total Georgian population and is the country's major economic centre, competition in Tbilisi is the strongest and a solid presence in the capital region is seen as key to success in the Georgian market. Other success factors include the following:

- Brand awareness—people tend to trust established service providers with a proven track record; thus potential new market entrants may find it difficult to attract a significant client base in the short term;
- Customer satisfaction—this is largely dependent on the reputation and qualifications of healthcare personnel, which is often shared through word of mouth;
- Service mix, including advanced technologies;
- Price competition is still important because for most scheduled services patients co-pay at least 30% or more and thus remain price-sensitive; and
- Efficient patient-capture business model, based on providing both primary ambulatory and specialised inpatient care within the same establishment or business group.

The barriers to entry into the healthcare services market in Georgia are generally high and include the following:

- High capital intensity—substantial initial capital investment is required, including to build and equip new healthcare facilities with hi-tech equipment, which necessitates committing to a long-term investment;
- Established competition—both healthcare services and insurance markets are served by incumbent players, which have well-established networks of facilities, are backed by solid investors, are familiar with local market practices and are expected to continue expansion;
- Recruitment risk—the distribution of medical staff is geographically uneven in Georgia. The concentration of doctors is 300% higher in Tbilisi compared to other cities. Accordingly, the ability to attract sufficient numbers of high calibre medical staff is a significant concern;
- Lack of qualified managerial staff with healthcare experience—companies may need to outsource administration services to established international healthcare operators; and
- Brand awareness and reputation are of crucial importance—large incumbents, with brand equity and recognition tend to be preferred given the very nature of the "health service."

Demographics

Georgia is a relatively small country with a population of 4.5 million people. In terms of age distribution, the share of the population under the age of 15 and the median age of the population are closer to that of most countries in the developed world; developing nations typically have a higher proportion of their populations aged under 15 and a lower median age.

The fertility rate of 1.8 (children born to a woman over her lifetime) is similar to that of the United Kingdom and is higher than among other European nations. At the same time, mortality rates have decreased across all age groups, with over 50% reductions in neonatal, under-fives and infant deaths between 1990 and 2012.

As in many developed countries, the population of Georgia is ageing rapidly—according to the United Nations the percentage of the population aged over 60 is expected to increase from 19% in 2010 to 27% in 2050. This will create an additional strain on the healthcare system and will increase demand for quality healthcare services in the country.

Percentage of total population aged over 60, Georgia

	Percentage of total population aged over 60, Georgia
1990	15.0
1995	16.2
2000	18.4
2005	18.3
2010	19.0
2015	19.8
2020	21.4
2025	23.4
2030	23.9
2035	24.3
2040	24.8
2045	25.6
2050	27.5

Source: World population prospects: the 2012 revision (United Nations, 2013).

Birth rates in Georgia have gradually increased over the past decade; this, together with a lower death rate, ensures natural population growth (that is, excluding migration) in the country.

Total population and rate of natural population increase, Georgia

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total population, '000	4,315	4,322	4,401	4,395	4,382	4,385	4,436	4,469	4,498	4,484
Natural population growth, %	0.2	1.4	1.3	1.8	3.1	3.8	3.3	1.8	1.7	2.1
Per 1,000 population										
Birth rate, %	11.5	10.7	10.9	11.2	12.9	14.4	14.1	12.9	12.7	12.9
Death rate, %	11.3	9.3	9.6	9.4	9.8	10.6	10.7	11.1	11.0	10.8

Source: Geostat.

Life expectancy in Georgia has been increasing due to improvements in the economic conditions and advances in the provision of healthcare. However, it remains below average when compared to the developed world where life expectancy is typically above 80 years. According to WHO forecasts, life expectancy will continue to rise in Georgia, leading to further population ageing and greater demand for healthcare services.

Life Expectancy at Birth by Country

	Both Sexes			Male			Female		
	1990	2012	2025-30[1]	1990	2012	2025-30[1]	1990	2012	2025-30[1]
Georgia	71	74	76	67	70	73	75	78	80
United Kingdom	76	81	83	73	79	81	79	83	84
United States	75	79	81	72	76	79	79	81	83
UAE	72	76	79	71	76	79	73	78	80
Poland	71	77	79	67	73	75	76	81	82
Malaysia	71	74	78	68	72	75	73	76	80
Russia	69	69	70	63	63	64	74	75	76
Thailand	69	75	77	66	71	74	72	79	80
Turkey	65	75	79	62	72	76	68	78	82
South Africa	62	59	61	59	56	59	66	62	62
India	58	66	70	57	64	68	58	68	71

Source: World Health Statistics—2014, WHO; World population prospects—the 2012 revision, June 2013, UN.

(1) Medium fertility forecast.

In terms of healthy life expectancy (the average number of years that a person can expect to live in full health), at an average of 65 years Georgia is positioned above key emerging countries such as India and Russia (58 and 61 years respectively), but is lagging behind developed countries such as the United States (69 years) and the United Kingdom (71 years), which indicates the need for improvement in healthcare services in the country.

Circulatory system diseases and neoplasms (cancer) are the leading causes of death for both sexes in Georgia. In particular, incidence of lifestyle diseases such as hypertension, ischaemic heart diseases, cerebrovascular diseases and diabetes has increased, which will pose an additional burden on the Georgian healthcare system. The number of registered patients with first time diagnoses for acute and chronic diseases has risen from 574,800 in 2003 to 1,795,800 a decade later in 2013, in part reflecting the availability of better diagnostic services and increasing healthcare awareness in Georgia.

Lifestyle and diseases

Adult morbidity and chronic diseases have become an increasing public health problem. Non-communicable diseases (**NCD**) are estimated to account for 94% of all deaths in Georgia, with cardiovascular diseases prevailing. There are high levels of tobacco consumption, particularly among males. Drug abuse is a serious problem due to challenging social-economic conditions and the widespread availability of illegal injected drugs derived from home-made stimulants.

Top 10 prevalent diseases

	Rate per 100,000 population	%
Acute upper respiratory infections	8,318	21.0%
Hypertensive diseases	6,075	15.4%
Endocrine, nutritional and metabolic diseases	4,447	11.2%
Diseases of genitourinary system	4,314	10.9%
Diseases of the eye and adnexa	4,242	10.7%
Diseases of the nervous system	3,111	7.9%
Diseases of the muscular & skeletal system	2,997	7.6%
Infectious and parasitic diseases	2,337	5.9%
Ischemic heart diseases	1,976	5.0%
Diabetes mellitus	1,719	4.3%

Source: NCDC, 2013.

Non-communicable diseases

- *Diseases of the circulatory system.* Diseases of the circulatory system constitute 17.4% of all registered cases of diseases in the country, and 11.0% of all new cases. High morbidity and mortality rates are specific for such diseases as hypertension, ischaemic heart diseases and cerebrovascular diseases. From 2000 to 2013, the prevalence of diseases of the circulatory system in Georgia has been following an upward trend, increasing from 1616.1 incidents per 100,000 members of the population in 2004 to 4375.7 in 2013.

- *Malignant neoplasms.* In recent years the collapse of the dispensary registration system caused a lack of statistical data on malignant neoplasms, and deterioration of cancer morbidity. Therefore, the reported incidence and mortality rates of malignant neoplasms in Georgia have been significantly lower than in the CIS and European countries. In 2013, 110.1 new cases of cancer per 100,000 population were registered in Georgia, of which 55.6% of cases were attributable to women.
- *Diabetes mellitus.* In recent years an upward trend of diabetes mellitus has been registered. Risk factors considered to be influencing the rise of the diabetes morbidity indicators are: malnutrition, obesity, tobacco consumption, overuse of alcohol and hypertension.

Reasons for mortality

(% share in total deaths, all ages)

	Total deaths (all ages)	%
Diseases of the circulatory system	18,693	59.9%
Neoplasms	4,992	16.0%
Injury	1,539	4.9%
Diseases of the digestive system	1,295	4.1%
Diseases of the respiratory system	1,142	3.7%
Endocrine, nutritional and metabolic diseases	1,124	3.6%
Diseases of the nervous system	577	1.8%
Certain infectious and parasitic diseases	510	1.6%
Diseases of the genitourinary system	467	1.5%
Other reasons (total of 10, none more than 0.9%)	891	2.9%

Source: NCDC Georgia, 2013.

Medical Insurance Market

Overview

Over the past decade, the Georgian medical insurance market has evolved significantly. A major boost to its development was given by the government funded medical insurance programme that started in 2007 and significantly increased awareness of private medical insurance among the population. The programme provided that the government would purchase medical insurance from private medical insurance companies on behalf of certain groups of the population. These groups initially included citizens below the poverty line so that they could access healthcare services. Later, coverage was extended to include teachers, internally displaced persons residing in compact settlements, homeless children, national artists, children under the age of five and children with disabilities, retired people, and students. Starting in 2013, the government gradually integrated this programme into the UHC, which provides for direct payments by the state to hospitals on a fee-for-service or capitation basis, bypassing private insurance companies and effectively leaving private insurance companies with a single revenue stream stemming from private medical insurance policies, purchased by employers for their employees and by individuals for their own use. See "*—Healthcare services market—Reform of the healthcare sector—Universal healthcare programme*" above.

From 2007 to 2013, the private insurance market expanded significantly with total enrolment increasing to 491,885. This stands in contrast to 2006 when only 40,000 Georgian citizens (or less than 1% of the total population) had a voluntary medical insurance package, most of which were provided as part of a corporate benefits programme. As of 30 June 2015, 482,381 voluntary medical insurance packages have been reported to the Insurance State Supervision Service of Georgia.

Outlook and Key Developments

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

Private medical insurance

The number of private health policies (including those purchased by employers for their employees and by individuals for their own use) increased from less than 100,000 in 2007 to more than half a million by September 2014. Private medical insurance penetration increased to 12% of the Georgian population.

Private medical insurance penetration, Georgia

	Number of private policies (thousands)	Population covered (% of population)
2007	88	2%
2012	363	8%
2014	535	12%

Source: Bendukidze, Roeder, Tanner, Urushadze: Healthcare reform in the Republic of Georgia, 2014; MoLHSA; Insurance State Supervisory Service; Frost & Sullivan analysis.

Private medical insurance penetration in Georgia is higher than in the neighbouring countries of Russia and Turkey, and is similar to the United Kingdom. However, its growth potential may still be high, as evidenced by the cases of most EU countries, which have achieved near-universal coverage of healthcare but also show high penetration of private medical insurance, varying from 32% in Germany to 95% in France (OECD).

Private medical insurance penetration by country

(% of population in possession of some form of private medical insurance)

United States	61%
South Africa	17%
Malaysia	15%
Thailand	15%
Georgia	12%
United Kingdom	11%
Poland	10%
Russia	5%
Turkey	5%

Source: Frost & Sullivan analysis.

In terms of gross premiums written (**GPW**), the size of the insurance market revenues decreased in 2013 as the UHC was being implemented and state-funded policies were being phased out. GPW means the total premiums on policies issued by an insurance company regardless of what portions have been earned. Written premiums are the amount of premium charged for a policy that has already become effective. Written premiums measured as "gross" mean those before deduction of reinsurance costs. This is different from GPR, or gross premium revenue, or the amount of premiums that a company has earned during the year.

The private insurance segment remained stable during 2009-2014, peaking at GEL 141 million in 2012. In the critical 2013-2014 period the market demonstrated resilience, growing by 9% in 2014, and is expected to continue to grow as more Georgians opt to top up their basic healthcare coverage under the UHC.

Private medical insurance market—gross premiums written, Georgia

	Gross premiums written (GEL million)
2009	107
2010	105
2011	108
2012	141
2013	116
2014	126

Source: Frost & Sullivan analysis.

Insurance Competitive Landscape

At present 11 companies operate in the private medical insurance market in Georgia.

The Company (Imedi L) and Vienna Insurance Group are the leading competitors, cumulatively accounting for nearly two thirds of total market revenues. Their market shares were 28.6% and 26.5% in 2013 and were 38.1% and 26.1% in the first half of 2015 respectively.

Private medical insurance market—gross premium revenues by company, Georgia, 30 June 2015

	Gross Premium Revenue (GEL million)	Market share by GPR
Imedi L	25.3	38%
Vienna Insurance Group	17.3	26%
Ardi	6.5	10%
PSP	6.3	9%
Alpha	3.9	6%
Other	7.1	11%

Source: Insurance State Supervisory Service.

The market has undergone further consolidation, as key competitors managed to slightly increase their market share in 2014. Smaller insurers, such as TAO and Cartu as well as IC Group, lost 1%, 3% and 2% of their market share respectively.

Private medical insurance market—GPW and gross claims reimbursed by company, Georgia, 30 June 2015

(GEL million)

	GPW	Claims paid
Imedi L	38.4	22.5
Vienna Insurance Group	23.9	16.6
Ardi	9.6	5.4
PSP	11.5	7.7
Alpha	5.2	5.4
Other	11.3	6.7

Source: Insurance State Supervisory Service.

Key success factors in the market include a proven track record, experienced personnel, the terms of insurance coverage (price, service coverage), ease of claim reimbursement, and the quality of contractual (preferred) healthcare service providers in clinics and hospitals.

Overall, these factors explain the competitive advantage held by the incumbents in the industry over potential new entrants.

PART IX
OUR BUSINESS

Overview

We are the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. Our leadership position is underpinned by offering the most comprehensive range of inpatient and outpatient services targeting the mass market segment through our vertically integrated network of 34 hospitals and six ambulatory clinics, as at 30 June 2015.

Our operations are organised in specific geographic clusters to provide services to the broadest range of patients with (i) ambulatory clinics providing basic outpatient services, (ii) community hospitals offering broader outpatient and a range of multi-profile inpatient healthcare services, and (iii) referral hospitals offering a comprehensive range of complex and specialist services. The referral hierarchy within each geographic cluster provides patients with a complete treatment pathway, from local physicians via ambulatory clinics and community hospitals to larger general referral hospitals where more specialised treatments are provided. Our specialised ambulance services help facilitate the movement of patients between hospitals.

We are the single largest market participant, accounting for 22.1% of total hospital bed capacity in the country as of 30 June 2015, which is more than four times higher than our nearest competitor, Gudushauri-Chachava. Our market share by beds grew to 26.6% following the acquisition of HTMC Hospital in August 2015 (450 additional beds) and is expected to grow to 30.0% as a result of the renovation of recently acquired hospital facilities, scheduled for completion in 2016 and 2017 (approximately 500 additional beds). As at 30 June 2015, we have a market share of 14.0% by hospital revenue. By comparison, our nearest competitor, Gudushauri-Chachava has a market share of less than 3% by hospital revenue. We also have the widest geographic coverage network relative to our competitors, with facilities currently located in six regions covering three quarters of the 4.5 million population of Georgia.

We are also the largest provider of medical insurance in Georgia with a 38.1% market share based on net insurance premiums earned, as at 30 June 2015, over 12% larger than our nearest competitor. We had approximately 250,000 insurance customers as at 30 June 2015. Our business was established in 1990, and has operated as a subsidiary of Bank of Georgia since 2004.

We have 25 years of experience in the medical insurance market and has been providing healthcare services to patients since 2006. We offer healthcare services under the Evex brand name and medical insurance under the Imedi L brand name.

Our business has grown rapidly in recent years, driven by significant organic expansion of our existing facilities and by selectively acquiring and integrating a number of complementary businesses and assets. Our total revenue has increased from GEL 119.4 million in 2012 to GEL 196.3 million in 2014, our EBITDA from GEL 23.3 million to GEL 36.9 million and our number of beds from 1,041 to 2,140. In the first half of 2015, we had total revenue of GEL 108.8 million and EBITDA of GEL 23.6 million, of which our healthcare services business comprised 75.9% and 94.7%, respectively with the balance generated by our medical insurance business.

We employed a total of 8,631 people as at 30 June 2015, including 2,748 physicians and 2,364 nursing staff.

Our senior management team is comprised of individuals recruited from leading healthcare facilities and medical insurance providers in Georgia and internationally. They have an average of 11 years of management experience in the healthcare services and medical insurance markets, and have been instrumental in delivering our organic growth strategy and identifying strategic acquisitions to grow the business and create its current market leadership position.

The following table details the evolution of our revenue from each of our business segments for the periods indicated:

	First half of		Year ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Total revenue	108,553	94,865	196,332	165,601	119,364
Of which:					
Healthcare services	82,553	52,437	126,884	62,638	49,450
Medical insurance	26,202	42,428	69,448	102,963	69,914

Healthcare services

We offer a comprehensive range of inpatient and outpatient healthcare services through our vertically integrated network of hospitals and ambulatory clinics. Our healthcare services generated GEL 82.6 million revenue in the first half of 2015, comprising 75.9% of our total revenue and 94.7% of our total EBITDA. Of this amount, 1.8% was generated from private medical insurance companies and out-of-pocket payments by individual customers and 77.5% was generated from state-funded healthcare programmes. We operate three types of healthcare facilities:

Referral hospitals. We operate 15 referral hospitals, of which 13 are general hospitals and 2 are specialty hospitals, with a total of 1,759 beds as at 30 June 2015. These hospitals are located in Tbilisi and major regional cities and provide secondary or tertiary level outpatient and inpatient diagnostic, surgical and treatment services. Our referral hospitals, which serve as hubs for patients within a given region, had a 60.1% bed utilisation and generated 87.1% of our total healthcare services revenue in the first half of 2015. The EBITDA margin for our referral hospitals for the six months ended June 2015 was 25.2% (and on a net revenue basis, the EBITDA margin was 25.7%). The EBITDA margin for our referral hospitals for the year ended December 2012 was 25.1%, on both a gross and a net basis.

Community hospitals. We operate 19 community hospitals with a total of 461 beds as at 30 June 2015. Community hospitals are located in regional towns and municipalities and provide basic outpatient and inpatient diagnostic, surgical and treatment services to the local population. They also refer patients to referral hospitals for secondary or tertiary level treatment. Our community hospitals had a 21.3% bed utilisation and generated 10.0% of our total healthcare services revenue in the first half of 2015. The EBITDA margin for our community hospitals for the six months ended June 2015 was 24.5% (and on a net revenue basis, the EBITDA margin was 25.0%). The EBITDA margin for our community hospitals for the year ended December 2012 was 20.4%, on both a gross and a net basis.

Ambulatory clinics. We operate six ambulatory clinics that provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities. Ambulatory clinics generate the highest margin and management believes that this segment of our business will become the largest source of future growth. Our ambulatory clinics treated more than 220,000 patients and generated 2.9% of our total healthcare services revenue in the first half of 2015. The EBITDA margin for our ambulatory clinics for the six months ended June 2015 was 30.9% (and on a net revenue basis, the EBITDA margin was 31.5%). The EBITDA margin for our ambulatory clinics for the year ended December 2012 was 18.4%, on both a gross and a net basis.

Medical insurance

We are the largest medical insurance provider in Georgia with a wide distribution network. We offer a variety of medical insurance products. We had approximately 250,000 customers as at 30 June 2015.

We offer a wide range of comprehensive private medical insurance policies that customers can opt for instead of relying on the coverage provided under the UHC and other state-funded healthcare programmes and have introduced products that "top up" or supplement the UHC coverage. Our products are offered as corporate packages to large employers and standalone policies for self-paying individuals.

Medical insurance generated GEL 26.2 million of revenue in the first half of 2015, comprising 24.1% of our total revenue and 5.3% of our total EBITDA. All of this revenue was generated by private medical insurance customers. Our gross written premiums in the first half of 2015 amounted to 41.3 million.

We operate 11 branches and service centres of our medical insurance business located in a number of cities and towns across Georgia.

Competitive Strengths

We believe that we are well-positioned to benefit from a number of favourable trends in Georgia because of our integrated service offering and national coverage, which enable us to offer a wide range of healthcare services to a large section of the Georgian population:

- our nation-wide network of healthcare facilities is well positioned to accommodate anticipated future growth of the market;
- our operations are organised in specific geographic clusters in order to provide services to the broadest range of patients with (i) ambulatory clinics providing basic outpatient services, (ii) community hospitals offering broader outpatient and a range of multi-profile inpatient healthcare services, and (iii) referral hospitals offering a comprehensive range of complex and specialist services; and
- continuous investments in technology allow the Company to reduce service gaps and meet growing quality and service requirements.

We believe our business benefits from the following competitive strengths:

The market leading healthcare services provider, with a reputation for delivering high-quality care in a market with significant barriers to entry.

We operate the largest healthcare provider network in Georgia based on bed capacity (according to the NCDC) and the largest medical insurance business based on revenue (with a 38.1% market share as of 30 June 2015, according to the Insurance State Supervision Service Agency of Georgia). We are, in addition, the only provider that is consolidating in the fragmented Georgian healthcare services market. We have the widest population coverage (being accessible to over three quarters of the 4.5 million Georgian population) and the greatest geographic reach within the country. We believe that our experience and reputation for high clinical standards continue to drive demand for services at our healthcare facilities and attract more patients and physicians which, in turn, helps us further enhance our reputation for high-quality care and efficiency and strengthen our relationships within the local community. Accordingly, we believe we are well positioned in a market with significant barriers to entry that benefit businesses such as ours that are already well-established. These barriers include the following:

- significant capital expenditure requirements to build and equip new healthcare facilities;
- the need for sufficient economies of scale and efficient operating structures to achieve profitability;
- the increasing importance of brand recognition and reputation to patients choosing their healthcare providers;
- the ability to attract sufficient numbers of high calibre medical staff;
- the importance of local market knowledge; and
- the ability to develop and maintain strong relationships with suppliers.

We believe that our scale, ability to access funding, existing network of high-quality, well-capitalised and well-branded private healthcare facilities, and our track record of developing healthcare facilities and attracting patients and qualified personnel, position us to capture a significant portion of the expected growth in the Georgian healthcare services market.

Well positioned to take advantage of the expected long-term macroeconomic and structural growth drivers favourably influencing the Georgian healthcare services market.

We operate in the rapidly developing and relatively underpenetrated Georgian healthcare services market, which benefits from a number of long-term structural growth drivers:

- *Favourable macroeconomic environment.* Georgia's nominal GDP increased at a compound annual growth rate of 5.6% from 2012 to 2014, and at a compound annual growth rate of 11.8% between 2003 to 2014. According to the IMF's World Economic Outlook database (October

2014), real GDP is projected to grow by 3.9% per annum from 2014 to 2019, which we believe will increase consumer expectations for enhanced care and the availability of more advanced and complex treatments, procedures and medical devices that lead to improved patient outcomes.

- *Positive industry trends.* The Georgian healthcare services market has also grown rapidly, at a compound annual growth rate of 17% between 2000 and 2012, according to the World Health Organisation's global health expenditure database. However, Georgia still has very low per capita expenditure on healthcare relative to more developed economies and certain peer countries. In 2013 per capita expenditure on healthcare was U.S.$350 compared to U.S.$9146 in the United States, U.S.$264 in Thailand, U.S.$423 in Malaysia, and U.S.$957 in Russia according to World Health Organisation data. Therefore, healthcare spending per capita in Georgia remains comparatively low, at U.S.$350 (of which, only U.S.$217 is spent on healthcare services) with annual outpatient encounters only 2.7 per capita and the Company's revenue per hospital bed at approximately U.S.$40,000. Although only 5.7% of GDP was spent on healthcare services in 2014, healthcare spending has grown at a compound annual growth rate of 15% from 2011 to 2014 and is expected to grow at a compound annual growth rate of 13.3% from 2014 to 2018, with spending by the Georgian government more than doubling between 2011 and 2015. Recent supportive Georgian government reforms and the significant engagement of private capital in the sector has boosted demand as a result of improved infrastructure and the increased financing of healthcare services by the Georgian government.

- *Favourable demographic trends.* The Georgian population is also ageing: the percentage of the population aged over 60 is expected to increase from 19% in 2010 to 24% in 2030. This combination of economic growth, an ageing population and an increase in lifestyle-related diseases is expected to continue to drive the demand for healthcare services in Georgia. Advances in technology and medical innovation have contributed to people living longer, which in turn has led to increasing levels of medical intervention required to treat the conditions associated with old age, including the increasing incidence of cancer. Georgia is also experiencing increasing levels of lifestyle-related medical conditions, particularly cardiovascular diseases. In addition, patients in Georgia have increasing levels of access to medical technologies as a result of the recent renovation of medical infrastructure, which has led to incidences of reported diseases more than doubling between 2008 and 2013, according to the NCDC 2013 report.

- *Opportunities for private healthcare and medical insurance operators.* Against a backdrop of increasing demand, the fragmented and under-capitalised Georgian healthcare services market faces supply constraints. These include a lack of modern medical facilities, particularly in Tbilisi. They also include service gaps in areas such as paediatrics, neonatology, oncology, intensive and critical care medicine and emergency medicine diagnostics, among others, as well as low penetration of medical insurance (as of 2013, only 12% of the population of Georgia possessed some form of private medical insurance according to analysis by Frost & Sullivan). We see strong opportunities for growth in the highly fragmented and under-served outpatient market in particular, since no company, including us, controls more than a 1% market share, as of 30 June 2015 and our ambulatory clinics generate the highest margin and are the fastest growing segment of our business. Outpatient visits per capita in Georgia are approximately one-third of the average in the EU and CIS, according to the NCDC 2013 report, and as at 30 June 2015 no single group owns more than six clinics.

- *Supportive government policy.* We expect that the trends towards increasing consumption of healthcare services and increasing demand for private medical insurance following the implementation of the UHC in 2013 and 2014 will continue as the UHC raises awareness of the benefits of health coverage among the wider population of Georgia, many of whom were not previously covered. We believe that this will lead to private medical insurance becoming an increasingly common employee benefit, as employers seek to top up the basic UHC health cover for their employees, as well as becoming increasingly attractive for other self-pay clients. Additionally, Georgia is one of the top performers globally in terms of ease of doing business, according to the World Bank's Doing Business 2015 report, and Georgia fares well in other international rankings, such as Transparency International's Global Corruption Barometer (only 4% of Georgians admitted to having paid a bribe during 2012, fewer than in the United Kingdom and the United States) and the Heritage Foundation's Economic Freedom Index (22^{nd} in 2015).

An integrated, synergistic business model that allows us access to a larger patient population and helps us manage utilisation effectively.

We believe that our vertically integrated network of referral hospitals, community hospitals and ambulatory clinics enhances our ability to capture a greater share of the growing Georgian healthcare services market. General practitioners in our healthcare facilities frequently refer patients to specialists and diagnostic services within our healthcare services network, and our ambulatory clinics and community hospitals refer patients to our referral hospitals where appropriate. Our existing referral hospitals are complemented by our network of community hospitals and ambulatory clinics to achieve higher levels of access to our services. This structure allows the Company to provide a full range of integrated patient services and to capture different customer segments through differentiated pricing. Our referral hospitals charge a premium compared to our community hospitals and ambulatory clinics. This pricing policy also helps to free up capacity at our referral hospitals for secondary and tertiary services. Our specialist ambulances (all of which have intensive care equipment and paramedics) facilitate the movement of patients between our hospitals, improving utilisation of our facilities and medical personnel. We are investing in more specialist ambulances and staff to enhance our patient referral services (where we believe we are already the market leader). Our increasing market share in Tbilisi will further expand our client capture capability, especially for tertiary care services, because patients typically perceive facilities in Tbilisi as being of higher quality.

Our medical insurance activities also bolster ambulatory and hospital patient referrals, playing a feeder role in originating and directing patient traffic to our hospitals. Customers insured by us may also use the services of competitor healthcare facilities. However, insurance customers are incentivised to use our hospitals and clinics through co-payment incentives and direct settlement of claims. Our clinics are directly paid by our medical insurance business whilst patients must pay for and seek reimbursement for most non-Evex medical care. As at 30 June 2015 31.9% of our insured customers used our Evex healthcare facilities. In 2014, GEL 18.5 million or 12.7% of total Evex revenue was driven by our insurance business. In 2015, approximately 34% of Imedi L ambulatory claims are being spent at Evex facilities. We aim to retain 50% of Imedi L outpatient claims in Evex facilities by 2018.

A model with significant cost benefits from economies of scale and a well-invested asset base.

With 15 referral hospitals, 19 community hospitals, six ambulatory clinics and the widest geographic coverage in Georgia (as at 30 June 2015), our healthcare services business provides substantial benefits derived from economies of scale. We have centralised certain functions across our healthcare services facilities and our medical insurance business, and have focussed on implementing other efficient cost management practices. Our centralised functions include finance, procurement and logistics, a single human resources administration and training centre, legal, sales and marketing, business development, clinical service development and coordination, public relations, information technologies and systems, clinical equipment engineering management and clinical laboratories, as well as the development of policies and procedures for the whole business. Our centralised administration provides additional cost benefits compared with our competitors, which generally have separate administration functions at each of their facilities. As Georgia's largest buyer of medicines and medical supplies with the ability to conduct centralised purchasing, coupled with our efficient purchasing practices that require tenders for each supply item, we were able to reduce prices of supplies on average by 20% within four months following the implementation of this practice and expect to derive further gains from its continued implementation.

We have a well-invested asset base. Almost all of our hospitals and clinics are purpose-built, which makes them more efficient to run, and we own all of our hospitals, which reduces our operating costs. We have (partially or fully) refurbished or constructed 10 of our referral hospitals, community hospitals and ambulatory clinics within the past five years. We enjoy strong EBITDA Margins, 21.3% in the first half of 2015, and benefit from low construction and refurbishment costs relative to our cost of funding. Our scale also supports investment in more specialised areas of medicine, collaborative research efforts and efficiencies in pursuing new opportunities and acquisitions. Accordingly, it provides us with competitive advantages and a platform to expand our business further.

Leading service quality focused franchise.

We believe our focus on quality has allowed us to differentiate ourselves from our competitors within Georgia. Our scale, reputation, focus on quality and in-house training help us attract the best available medical personnel. We believe we are increasingly seen as the employer of choice in the healthcare services market in Georgia. While developing our own Evex brand reputation, we also benefit from the strong reputation of several of our existing regional hospitals. We also believe (based on feedback from our patients) that many of our other clinics and hospitals are developing reputations as centres of excellence by delivering successful clinical outcomes, and that this positions our healthcare services business well with patients, consultants, general practitioners and medical insurance providers. Our commitment to quality is reflected in various aspects of our healthcare operations, including the calibre of our physicians and other medical personnel, the quality of the equipment installed, the level of comfort offered to patients, our utilisation of the latest technologies and techniques, and the regular introduction of new services. Our Evex Quality Standards (**EQS**) help standardise and ensure patient safety and quality of medical care that compares to international, EU and Joint Commission International (**JCI**) standards.

We are committed to investing in our medical personnel and the technologies used in our facilities to enable us to provide the highest quality care to patients. For example, our facilities are equipped and supplied by leading international suppliers, such as Varian, General Electric, Siemens, Dräger and Olympus.

Within Georgia generally, there is a shortage of medical training in the latest techniques and procedures and a lack of trained nurses. We provide regular training and education for all our medical personnel. We established our own training centre, and launched a training programme for nurses, and we guarantee employment at our facilities to successful graduates of our nursing programme.

As a reflection of this focus on quality, we believe we are the first and only Georgian healthcare company to be working towards JCI accreditation.

Strong and experienced management and a track record of growth.

Our board of directors and senior management team includes individuals with extensive experience in relevant fields including healthcare entrepreneurship and management, strategy and legal advisory, national healthcare policy setting, healthcare research analysis, financial services and advisory. This team includes individuals who have held leading roles at institutions such as McKinsey & Company, JP Morgan Chase, EBRD, Sullivan & Cromwell, Bank of Georgia Holdings, Citibank, Smith & Nephew, Jefferies, Capio UK, Chelsea and Westminster Hospital, Allianz, EY and AstraZeneca, among others. Our senior management team have an average of 11 years of management experience in the healthcare services and medical insurance markets and have implemented numerous strategic initiatives that have been integral to our continued growth. The senior management team is supported by executives and management personnel comprised of physicians and professional managers with extensive industry experience and expertise, and in many cases long-standing experience in the healthcare or insurance industry. In particular, to ensure high clinical standards the Company has recruited select clinicians with extensive prior experience with leading western institutions such as the Division of Neonatology, University of Kentucky, the Oldenburg Cardio Surgery Centre (Germany), Treviso Regional Hospital General (Italy) and the Northwestern Memorial Hospital (Chicago).

The market knowledge and experience of our management team is instrumental in our structured approach to both organic growth and acquisitions. Our strong business management team has increased market share by beds from under 1% in 2009 to 26.6% currently, with additional organic development capacity up to approximately 30% from hospital renovations planned during 2016 and 2017. Since the opening of our first ambulatory clinic in 2006 we have acquired and integrated 25 hospitals and ambulatory clinics and built or renovated a further 10 facilities, growing our asset base from GEL 109.2 million (as at 31 December 2011) to GEL 504.1 million (as at 30 June 2015) and adding 1,495 beds. For each acquisition or development, we form a multi-disciplinary integration team of senior executives covering the healthcare services and engineering, operations, finance, human resources, public relations, commercial and sales and legal functions. The team monitors and coordinates the integration process following established procedures. After completing the more immediate tasks of integrating financial systems and human resources, we focus on modernisation and the assessment and standardisation of service quality.

Transparency and robust corporate governance.

We seek to maintain the highest levels of corporate governance. We are a member of the BGH group, which was the first Georgian group to be admitted to the premium list of the London Stock Exchange (in 2012). We have been complying, as a subsidiary of a listed parent company, with the obligations applicable under the UK Listing Rules and Disclosure and Transparency Rules since November 2006, when Bank of Georgia (then our parent company) became the first Georgian entity to list global depositary receipts on the London Stock Exchange. As a result, we have a culture of transparency. We also adhere to a robust corporate governance policy. Our board of directors is comprised of one executive director and eight non-executive members, seven of whom the Board considers to be independent directors, including the Senior Independent Non-Executive Director. Additionally, we have an audit committee with four independent members, a remuneration committee with three independent members, a nomination committee with four independent members, and a clinical quality and safety committee with four independent members. We are in compliance with all of the requirements of the Corporate Governance Code, save that our Chairman, who is also the CEO of BGH, is not independent and serves as a member of our nomination and remuneration committees.

Strategy

Our long-term growth strategy is focused on achieving a one-third market share by both number of beds and revenue, and increasing profitability. We believe that the implementation of the UHC in Georgia (which provides basic healthcare coverage to the entire population), the highly fragmented nature of the healthcare services market (whereby the top five providers control approximately 40% of the market by number of beds, as of 30 June 2015) and existing service gaps in both the hospital and ambulatory segments have created significant potential for expansion and market share gains for us, through organic growth and acquisitions. We believe that we can more than double our 2015 revenue by 2018, while achieving and maintaining an EBITDA Margin of approximately 30%. To achieve this, we aim to:

- capture one-third of the Georgian hospital market, where we currently have a 22.1% market share by number of beds (as of 30 June 2015), through a combination of organic growth and the integration of recently acquired hospitals, mainly focusing on Tbilisi and increase our market share in the fast-growing, highly-fragmented and under-penetrated outpatient market (where no company controls more than a 1% market share, with the Company's own market share at under 1%, as of 30 June 2015), through the launch of 20-30 ambulatory clinics within the next two to three years;
- invest in medical equipment, utilising existing service gaps, particularly in oncology, high-tech diagnostics, laboratory, and specialist services;
- continue to lead the market in the quality of our medical care;
- drive margin improvements through operational efficiency and utilisation levels in our facilities; and
- maintain our existing market share in medical insurance and triple our 2015 self-pay insurance revenue.

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

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

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

In particular, we plan to establish a general hospital in East Tbilisi by renovating and developing the existing Sunstone hospital. We purchased this property, a long-established and well-known hospital in Tbilisi that has not been fully operational for several years in 2014. It provides us with access to patients in the East Tbilisi district, as well as referrals from East Georgia, and has an estimated total development capacity of 300 beds. We will also continue to integrate HTMC Hospital, which we acquired in August 2015. HTMC Hospital is a 450-bed major and well-established referral hospital in Tbilisi that is also the single largest hospital in Georgia. We also plan to renovate an additional hospital in Tbilisi, which we acquired from Deka in June 2015. This hospital has a potential 350-bed capacity and is located in a prime location in Tbilisi.

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

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

We plan to establish a network of ambulatory clinics in Tbilisi to access a much wider patient base and help increase physician referrals to our hospitals. The development of this ambulatory network will enable us to capitalise on the high-growth potential of higher-margin ambulatory services, develop the ambulatory clinic network as a feeder for our hospital network. Furthermore, we receive higher margins for the provision of services in Tbilisi compared to the regions and reimbursement rates under the UHC are higher in Tbilisi than in the regions, which will further enhance the profitability of our healthcare services business. We intend to take advantage of the gap between the average number of outpatient visits per capita, which in Georgia are the lowest in the region at 2.7, compared to 8.9 in the CIS and 7.7 in the EU as at 31 December 2013.

We are in the process of developing networks of ambulatory clinics organised in cluster models, whereby each cluster includes a district ambulatory clinic, located centrally in a particular district of the city, and three to five smaller express ambulatory clinics, located in other areas of the same district. We already operate a cluster in the Saburtalo district and plan to launch at least two more ambulatory clusters this year in Tbilisi.

We expect that our new district ambulatory clinics will (like the existing Saburtalo district clinic) provide the widest range of services available in Tbilisi. Most specialist services will be provided on a full-time basis and will also include a small operating theatre and beds for outpatient services, chemotherapy and diagnostics services, including computer tomography scanning. A typical district ambulatory clinic will occupy an area of 1,800-2,500 m^2 and will be open six days a week during normal working hours (from 10:00 a.m. to 8:00 p.m.).

Our new express ambulatory clinics will (like the existing Saburtalo express clinics) primarily provide general primary care physician outpatient services, with specialist services provided on a part-time basis. Their diagnostics capabilities will also incorporate clinical laboratories (which will collect samples locally and use referral laboratories to perform tests), ultrasound and ECG. Express ambulatory clinics will be clustered within 15-30 minutes' walking distance from the district ambulatory clinic in each neighbourhood, and will provide basic ambulatory services and refer patients to the district ambulatory clinic, where a wider range and more sophisticated services are offered. A typical express ambulatory clinic will occupy an area of 120-200 m^2 and will be open seven days a week, with extended working hours (from 9:00 a.m. to 9:00 p.m.).

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

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

Continue to grow by expanding existing sites, developing new services and investing in medical technology.

We intend to continue to expand our existing portfolio of healthcare services through organic growth. We plan to expand capacity selectively within our existing network in areas where we have identified service gaps, strong local demand and growth potential. We are also seeking to broaden our range of specialist capabilities and our capacity to treat patients with more acute symptoms or that require more complex procedures including specialised surgical or diagnostics services, including cardiology, oncology paediatric and neonatal intensive care, and emergency services. We believe that there is considerable potential for growth, because a number of advanced or complex medical procedures are not yet available in Georgia. Our expansion plan is particularly focused on Tbilisi, where our market share is currently the lowest among the regions in which we have a presence in Georgia. As a result, we believe that there is significant potential for us to grow in this market. Tbilisi represents a large potential customer base, with a quarter of Georgia's population and a hospitalisation rate that is almost twice the national average, according to the Georgian Ministry of Labour, Health and Social Affairs. Tbilisi accounts for approximately half of Georgia's GDP, and has a greater concentration of physicians and specialists. Furthermore, patients typically perceive facilities in Tbilisi as being of higher quality than in other regions. We expect that more patients will seek treatment in Tbilisi now that they are free to choose physicians and hospitals under the UHC. Our expansion plans in the capital will benefit from us operating an integrated business model, allowing us to refer more patients to our facilities in Tbilisi from regional healthcare facilities.

We expect that as a result of our expansion, we will realise significant cost and revenue synergies, through the diversification of our revenue base, development of a strong healthcare brand on a national level and increased bargaining power and operational economies with suppliers.

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

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

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

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

Continue to lead the market in the quality of our medical care.

Quality of medical care is key to our plans for mid- to long-term growth and maintenance of market share by creating a high level of trust in Evex as a healthcare brand among the Georgian population. We are working with JCI towards full accreditation and plan to implement several quality control and maintenance initiatives in the near term. By the end of 2016, we expect that all of our healthcare facilities will be monitored and accredited by our own Evex Quality Standards, which we believe will help us achieve significant efficiencies in the use of our resources, human capital and physical infrastructure, grow our expansion potential and enable us to replicate systems across our healthcare facilities. We aim to continue recruiting physicians with experience in high-quality standardised medical care and develop their leadership potential to disperse their know-how throughout the organisation. In addition, we plan to expand our training centre into new regions and seek accreditation from the Georgian Ministry of Education to use it as the main source of recruitment for our middle-level medical staff. Through our nurse training programme, we aim to increase significantly the supply of nurses for our healthcare facilities, and we have developed the curriculum with a number of institutions including nursing colleges and medical schools in Batumi, Kutaisi and Tbilisi, several of which have agreed to use our curriculum for their own education programmes. We believe that this will further enhance our recruitment capability. Furthermore, we have a residency programme in a number of fields at several of our healthcare facilities, and are launching a residency programme in a number of additional areas to develop specialist physicians and cater to our needs in these areas.

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

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

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

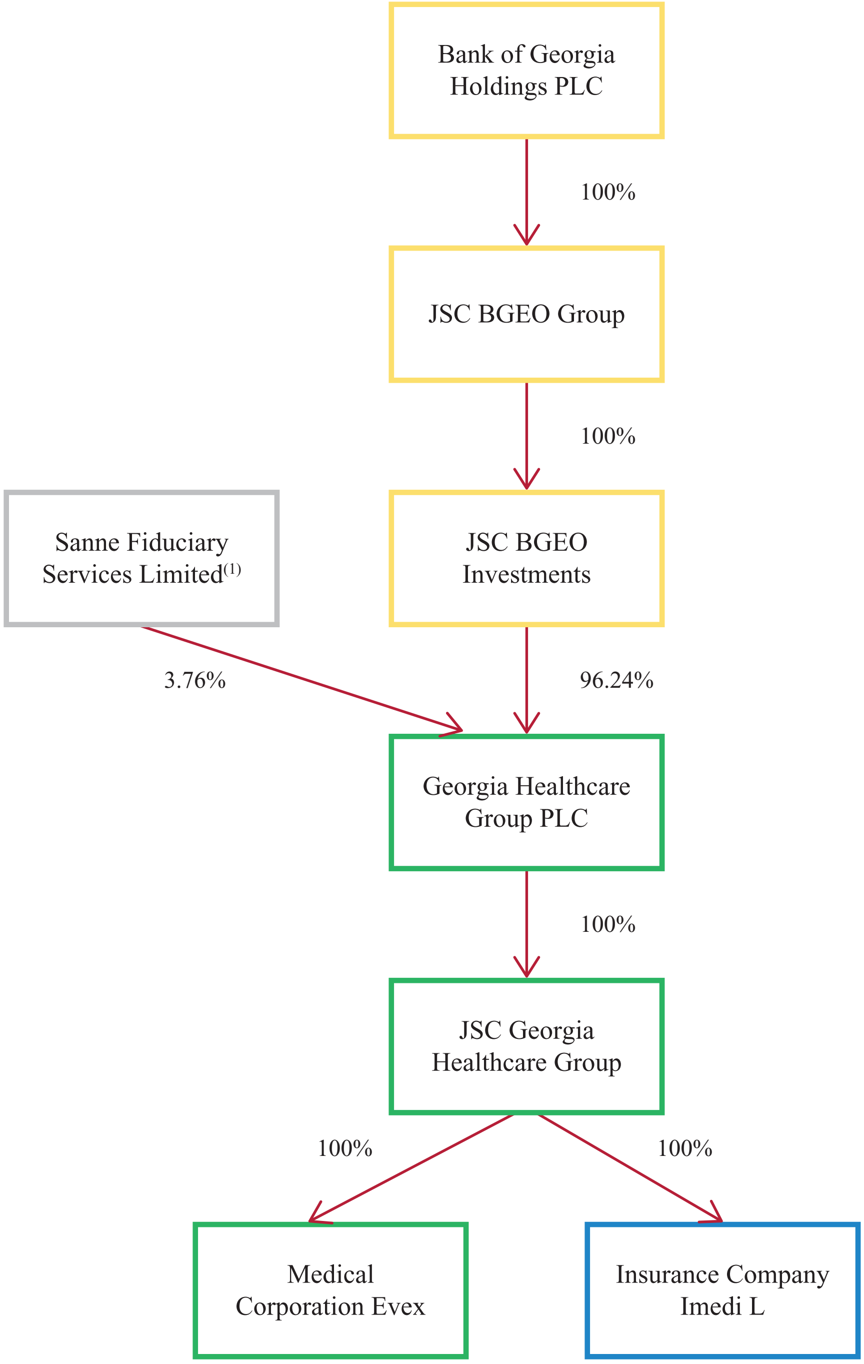
History and Development

Our business was founded in 1990, but has developed particularly rapidly over the last decade. Over that period we have differentiated ourselves by our centralised approach. We believe we were the first group to centralise the management of healthcare services in Georgia by organising healthcare facilities in regional clusters and a referral hierarchy, to manage a number of hospitals as a single business with centralised administrative and support functions and capitalise on the synergies between the delivery of insurance and healthcare services. Although we were a subsidiary of Bank of Georgia from 2004 until the completion the Reorganisation in 2015, our healthcare services and medical insurance businesses have operated independently of Bank of Georgia since their inception.

The following table sets out the Company's major development milestones since the inception of the business in 1990:

1990	Established as an independent insurance provider under the brand name Aldagi and grown this business through a series of mergers and acquisitions.
2006	Opened first ambulatory clinic in Tbilisi to capitalise on the growth opportunities in the Georgian healthcare services market and diversify our sources of revenue.
2008-2012	Integrated our rapidly growing medical insurance and healthcare services businesses and completed multiple acquisitions and opened new healthcare facilities. • 2008-2011—acquired a total of 13 hospitals. In our largest acquisition during this period, concluded in the fourth quarter of 2011, we acquired 11 facilities in western Georgia from a group called Block Georgia. Among these facilities were two referral hospitals in Kutaisi, Georgia's second largest city, and a regional hospital in Zugdidi, another important western Georgian city. • 2012—acquired Insurance Company Imedi L, then Georgia's third largest insurance and healthcare company, which added ten new hospitals to our healthcare facilities in western Georgia. Opened six new hospitals through organic development during the same period.
2013	• Opened of a further four new hospitals and an ambulatory clinic. • Acquired Caraps Medline, a specialty hospital in Tbilisi with a 60-bed capacity.
2014	• Acquired Avante Hospital Management Group in February, the second largest healthcare provider in Georgia by number of beds (after the Company), which owned and operated a chain of four hospitals in Tbilisi and Batumi with an aggregate 578-bed capacity, including leading paediatric and maternity care hospitals. • Acquired Sunstone Medical, which owned a hospital in East Tbilisi that we are developing into a 350-bed facility in order to access the East Tbilisi healthcare services market and referrals from East Georgia, in May. • Acquired Traumatology, a 60 bed referral hospital with expertise in traumatology located in the western part of Tbilisi, in order to increase our market share and bed capacity in Tbilisi.
2015	• Acquired a 95% equity interest in Deka in June. Deka owns a hospital with a potential 350 bed capacity located on 2.4 hectares of land in a prime location in Tbilisi. We plan to undertake a substantial renovation of this hospital during the course of 2015 and early 2016. • Acquired a 50% equity interest in and control of GNCo in August. GNCo is a holding company that owns 100% of HTMC Hospital, a major and well-established 450 bed referral hospital in Tbilisi, which is also the single largest hospital in Georgia, providing a wide range of inpatient and outpatient services, including the largest department of oncology radiotherapy in Georgia.

The following diagram sets out the structure of the Group and its parent companies:



(1) Sanne Fiduciary Services Limited holds the Shares as trustee of the Group's employee benefit trust.

Our Business Model

Of our GEL 108.8 million revenue in the first half of 2015, 75.9% was generated by healthcare services and 24.1% by medical insurance. Healthcare services generated EBITDA of GEL 22.3 million while medical insurance generated EBITDA of GEL1.2 million in the first half of 2015.

The following table provides a breakdown of our revenue from our healthcare services and medical insurance segments for the periods indicated.

	First half of		Year ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Healthcare services	86,577	65,728	145,349	93,370	67,726
Medical insurance	26,365	42,539	69,759	103,305	70,231
Total revenue	**112,942**	**108,267**	**215,108**	**196,675**	**137,957**
Intra-group eliminations	(4,187)	(13,402)	(18,776)	(31,074)	(18,593)
External revenue	**108,755**	**94,865**	**196,332**	**165,601**	**119,364**

Healthcare services

We provide a range of inpatient and outpatient healthcare services through our network of referral and community hospitals and ambulatory clinics. Of our GEL 82.6 million revenue from healthcare services in the first half of 2015, 87.1% was generated from referral hospitals, 10.0% from community hospitals and 2.9% from ambulatory clinics.

The following table details the evolution of our healthcare services revenue from each of these market segments for the periods indicated.

	First half of		Year ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Total healthcare services revenue	**82,553**	**52,437**	**126,884**	**62,638**	**49,450**
Of which:					
from referral hospitals	71,899	42,856	107,410	40,511	26,529
from community hospitals	8,253	4,871	12,294	7,618	8,583
from ambulatory clinics	2,401	1,850	4,318	2,951	5,923
from ambulance and rural primary care	—	2,860	2,862	11,558	8,415

Of our GEL 82.6 million revenue from healthcare services in the first half of 2015, 77.5% was generated from state-funded healthcare programmes, 1.8% from private medical insurance companies and 20.7% from out-of-pocket payments by clients. The following table details the evolution of our healthcare services revenue from each of these payor sources for the periods indicated.

	First half of		Year ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Total healthcare services revenue	**82,553**	**52,437**	**126,884**	**62,638**	**49,450**
Of which:					
Healthcare services revenue from state	65,788	28,279	82,729	20,106	16,451
Healthcare services revenue from insurance companies	1,512	8,247	13,348	23,236	8,915
Healthcare services revenue from out-of-pocket and other	17,095	16,819	32,623	19,296	24,084
Less: corrections & rebates	(1,842)	(908)	(1,816)	—	—

State-funded healthcare programmes were the largest source of healthcare services revenues in the first half of 2015. The majority of these government medical insurance programmes were funded by the state budget, while some programmes were also financed by municipal budgets.

Private medical insurance companies were the third largest source of healthcare services revenues in the first half of 2015. Of these customers, Imedi L was the largest contributor, accounting for 4.7% of our total healthcare services revenue in that period, while Vienna Insurance Group and IC Group contributed 0.6% and 0.2%, respectively.

Out-of-pocket revenues consist of co-payments for private medical insurance and government-funded healthcare programmes, as well as pure out-of-pocket payments for services not covered by either private medical insurance or government healthcare programmes. Co-payments apply to most private medical insurance and government-funded healthcare programmes, especially elective services.

Following the initial introduction of the UHC programme in 2013, the government now reimburses healthcare providers directly rather than through private medical insurance companies (as was the case prior to the introduction of the UHC programme). Accordingly, between 2013 and 2014 the share of revenue generated from private medical insurance companies declined relative to revenue from state-funded healthcare programmes and out-of-pocket revenue from 59.0% to 10.6% but we expect that this will increase in future periods. See *Part VIII: "Industry Overview—Healthcare services market—Reform of the healthcare sector—Universal healthcare programme*" for more information on reimbursement under the UHC.

Medical insurance

All of our GEL 26.2 million revenue from medical insurance in the first half of 2015 was generated by private medical insurance customers. Prior to the implementation of the UHC, we also derived revenue from state insurance programmes. The following table details the evolution of our healthcare services revenue from each of these payor sources for the periods indicated.

	First half of		Year ended 31 December		
	2015	**2014**	**2014**	**2013**	**2012**
	(thousands of GEL)				
Total net insurance premiums earned	**26,202**	**42,428**	**69,448**	**102,963**	**69,914**
Of which:					
State-funded medical insurance products	—	22,252	27,910	62,683	33,099
Private medical insurance products	26,202	20,176	41,538	40,280	36,815
Of which:					
Corporate	23,993	18,653	37,931	37,218	34,196
Retail	2,209	1,523	3,607	3,062	2,619

Private medical insurance customers comprise employers that purchase private medical insurance for their employees from us and self-pay individuals, primarily middle and upper income Georgians, who purchase their own private medical insurance. In the first half of 2015, approximately 11% of the Georgian population was covered by private medical insurance policies purchased by their employers, according to the Insurance State Supervision Service of Georgia. Self-pay customers generally come to us through Imedi L's network of independent insurance agents, third-party distributors, and personal and private bankers at Bank of Georgia who offer family medical cover to their clients. We believe that the number of self-pay customers will increase as patients seek quicker treatment, or facilities or procedures that are not covered by the UHC, and will increasingly seek to top up their state coverage through private medical insurance.

Other sources of revenue

In addition to our core activities, we provide support services (which consist of supplying medical staff to certain outside facilities, such as airports), undertake research, and generate rental income from the provision of space at our healthcare facilities to pharmacies and catering companies. These do not generate material levels of revenue.

Our Healthcare Services

The following table details the inpatient and outpatient services we provide at our facilities at primary, secondary and tertiary care levels.

Category of clinic/hospital	Outpatient and diagnostics services	Inpatient services
Level 3: Referral hospitals	• Primary care & specialist consultancy • Clinical laboratory • Ultrasound, X-ray, endoscopy • Computed Tomography, Magnetic Resonance Imaging • Catheterisation laboratory • Blood bank	• Emergency and Intensive Care Unit, Neonatal Intensive Care Unit, Paediatric Intensive Care Unit • Internal medicine (specialised services) • Surgery, including cardiac surgery • Maternity care • Antenatal care • Neonatal & paediatric care units
Level 2: Community hospitals	• Primary care & specialist consultancy • Clinical laboratory • Ultrasound • X-ray • Endoscopy	• Emergency • Internal medicine (basic therapy and paediatric care) • Surgery • Maternity care (delivery beds) • Antenatal care
Level 1: Ambulatory clinics	• Primary care & specialist consultancy • Clinical laboratory • Ultrasound • X-ray, Endoscopy • Computed Tomography	• Basic surgery

Our patient capture model

We operate a highly integrated patient capture business model. Our ambulatory clinics and hospitals are organised in geographic clusters with:

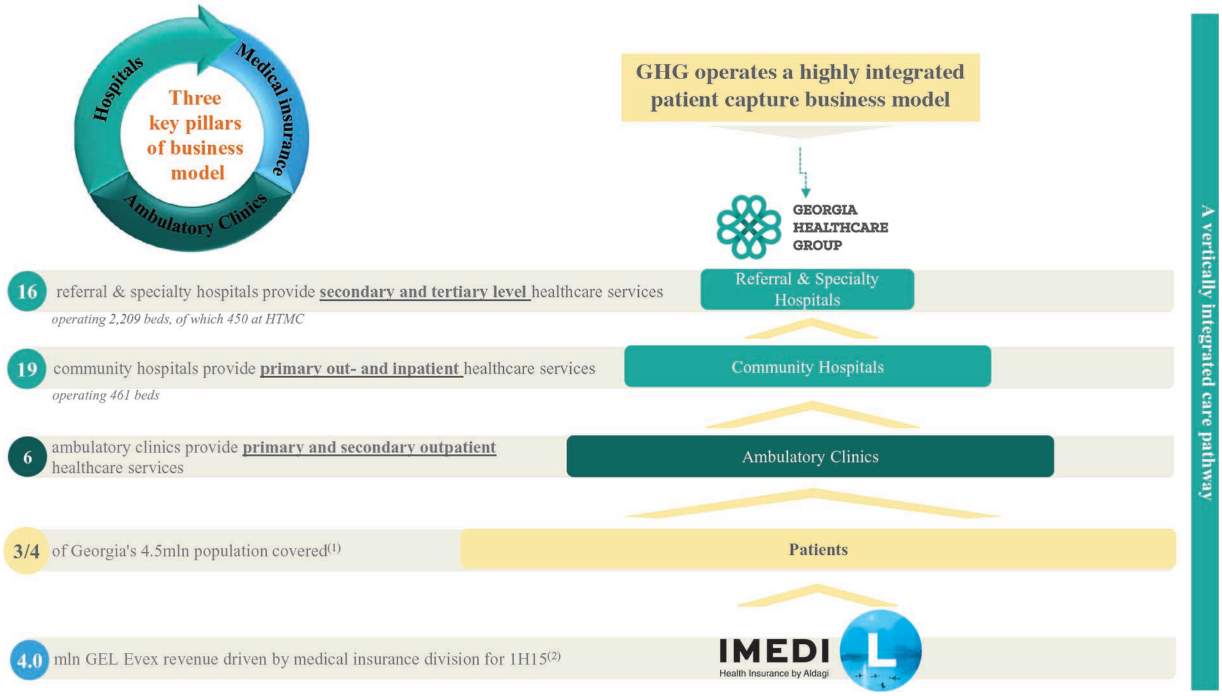
- ambulatory clinics offering outpatient services;
- community hospitals offering basic outpatient and inpatient multi-profile healthcare services; and
- referral hospitals offering complex or specialist services.

The referral hierarchy within each geographic cluster provides patients with a pathway from local physicians via ambulatory clinics and community hospitals to general or specialised referral hospitals, optimising utilisation of our facilities and medical personnel. Our specialist ambulances help to achieve this by facilitating the movement of patients between hospitals.

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

We are in the process of developing networks of ambulatory clinics organised in cluster models, whereby each cluster includes a district ambulatory clinic, located centrally in a particular district of the city, and three to five smaller express ambulatory clinics, located in other areas of the same district.

The chart below shows the clinical pathway from ambulatory clinics to community hospitals and referral hospitals within our network.



Sources:

(1) Geostat.ge, data as of 1 January 2014.

(2) Company internal reporting. Note: revenues do not add up due to intercompany eliminations.

We centrally manage high-risk patients in our regional healthcare facilities. High-risk patients are either medically complex cases or patients suffering from illnesses that require consultation of a physician with a certain specialisation or knowledge not available at the hospital where the patient is hospitalised. This centralised service involves the transfer of the patient's case management and history to the central team, whilst the patient remains at the same location. This approach allows us to distance-treat patients from regions where there may be limited specialist availability, or the staff may be less familiar with certain medical treatment guidelines and protocols. This service enhances our ability to treat customers living in remote areas of Georgia quickly, by enabling their local physicians to share their medical reports for diagnosis by staff at our larger facilities.

Our healthcare services

Some of our key medical specialties are described below:

- *Cardiology.* Cardiology deals with disorders of the heart, including congenital heart defects, coronary artery disease, heart failure, valvular heart disease and electrophysiology, which are treated through surgery or medicine. We offer a range of tests and scans, including electrocardiograms, cardiac MRI scans, and coronary angiography.

- *Cardiovascular surgery.* Cardiovascular surgery is surgery on the heart or large blood vessels to the heart performed by cardiac surgeons to treat heart disease (for example, coronary artery bypass grafting), correct congenital heart defects or treat valvular heart disease.

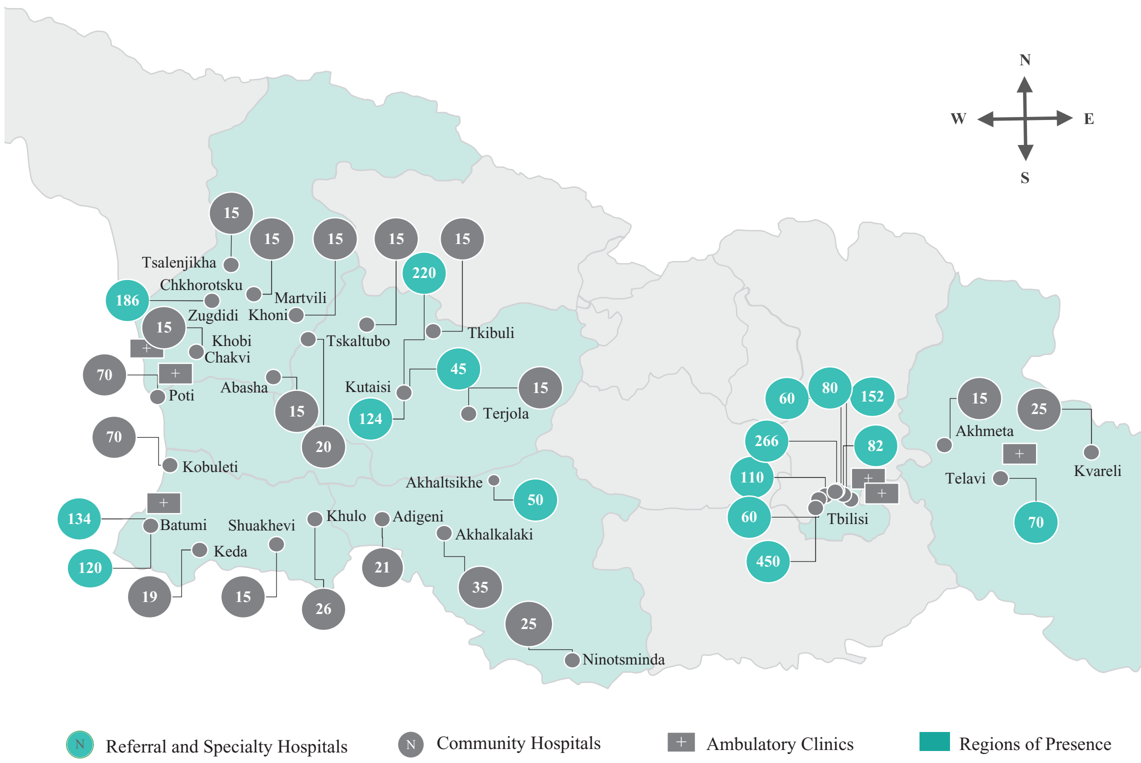
- *Dialysis.* We offer the artificial replacement for lost kidney function (renal replacement therapy) for patients who have become ill and have acute kidney failure (temporary loss of kidney function), or for stable patients who have permanently lost kidney function.

- *General Surgery.* We offer general surgery options, including complex cancer surgery, haemorrhoid treatment, hernia repair and varicose vein treatment. Additionally, we plan to start outpatient minor surgery services in the fields of eye treatment, trauma and general surgery, ENT surgery, and gynaecology at our ambulatory clinics in Tbilisi.

- *Intensive care.* We offer three levels of intensive care for life-threatening injuries and illnesses. Patients with complicated surgeries, accidents and other high risk complications are treated at intensive care units (**ICU**s), involving close, high-tech, constant attention by a team of specially-trained healthcare providers.
- *Neonatal intensive care.* We provide intensive-care for critically ill or premature new-born infants with low birth weight and other life-threatening conditions. The neonatal intensive care combines advanced technology and trained healthcare professionals to provide specialised care for especially vulnerable groups of patients.
- *Paediatrics.* Paediatrics is a branch of medicine dealing with the health and medical care of infants, children, and adolescents from birth up to the age of 16. We offer care for children who are acutely or chronically ill as well as preventive health services for healthy children. We also offer continuous neuro-rehabilitative services for paediatric patients. We intend to enhance our paediatric offering and complement our established neonatal intensive care unit and department of paediatrics and paediatric surgery service, by expanding our service offering to include specialties in paediatric ophthalmology, paediatric heart surgery and paediatric general and plastic surgery.
- *Obstetrics and Gynaecology.* Obstetrics and Gynaecology is a medical/surgical specialty concerned with the care of women from pregnancy until after delivery and with the diagnosis and treatment of disorders of the female reproductive tract. Our obstetric and gynaecological treatments include caesarean section, colposcopy, endometrial ablation, female sterilisation, hysterectomy, screening for Down's syndrome, ovarian cyst removal, stress urinary incontinence, ultrasound scan, uterine fibroid embolisation, vaginal repair operations and termination.
- *Medical Radiology.* Medical radiology is a medical specialty that uses imaging to diagnose and treat diseases. We offer a variety of imaging techniques such as X-ray radiography, ultrasound, computed tomography (**CT**), magnetic resonance imaging (**MRI**) and interventional radiology for medical procedures requiring the guidance of imaging technologies.
- *Oncology.* Oncology is the branch of medicine that deals with cancer. We have dedicated teams with specially trained nurses to support the oncologists and haematologists who practice in our hospitals. Our oncology offering includes the diagnosis (pathology) as well as treatment of cancer patients. Diagnostic services include physical examinations, blood tests, scans and biopsies. As part of the treatment, patients may receive chemotherapy, radiotherapy and surgery. We recently launched a new, full-scale oncology centre to serve the population of West Georgia and replace the existing outdated facilities.
- *Laboratory and diagnostic services.* Laboratory and diagnostic services involve tests on clinical samples in order to obtain information about the health of a patient for use in the diagnosis, treatment, and prevention of disease. At our ambulatory clinics, we provide outpatient services, including laboratory, diagnostics, histopathology and radiology services, which complement the existing clinical service lines in each of our hospital facilities.

Our Hospitals and Clinics

We operate six ambulatory clinics, 19 community hospitals and 15 referral hospitals (as at 30 June 2015), organised in geographic clusters in six regions across Georgia. This regional integration model enables us to capture the largest population base most efficiently. Georgia is naturally divided by mountains into western and eastern parts. We operate in the capital city Tbilisi, the Kakheti and Samtskhe regions in South-East Georgia, and the Adjara, Samegrelo and Imereti Regions in West Georgia, as illustrated below.



The following table sets out certain details on our current facilities:

Name	Total staff[1]	No. of Physicians	No. of Beds[2]	Revenue per Bed[3]	Occupancy Rate 2014[4]	Occupancy Rate 2015[5]	Operating Theatres	Total No. of Surgeries 2014[6]	Average No. of Surgeries 2014[7]	Total No. of Surgeries 2015[8]	Average No. of Surgeries 2015[9]	Year Built / Renovated	Area (m^2)
Referral Hospitals													
HTMC Hospital[10]	646	241	450	—	—	—	—	—	—	—	—	2011	18,500
Deka[11]	267	172	80	—	—	—	—	—	—	—	—	2001	24,000
Iashvili Paediatric Tertiary	898	265	266	43,803	77.6%	77.4%	3	2,644	2.4	1,608	2.9	2011	16,693
KNMC	871	208	220	69,381	74.9%	80.5%	8	7,602	2.6	3,757	2.6	2011	15,332
Sunstone	375	140	152	17,486	14.2%	30.4%	6	421	0.2	466	0.4	2015	25,000
Zugdidi Regional	565	170	186	36,036	54.8%	53.6%	5	2781	1.5	1,398	1.5	2007	9,342
Batumi Regional	515	173	134	53,367	70.6%	61.2%	7	3,948	1.5	1,666	1.3	2013	8,350
Kutaisi	400	129	124	41,982	64.3%	62.6%	4	2,572	1.8	1,157	1.6	2012	6,211
Childrens New	646	186	110	76,695	68.6%	81.0%	3	1,592	1.5	959	1.8	2011	7,498
New Life	181	63	82	13,417	48.2%	39.1%	2	810	1.1	310	0.8	2012	4,468
Batumi Paediatric Regional	523	123	120	32,967	56.6%	70.6%	2	1,213	1.7	825	2.3	2013	7,194
Telavi	242	80	70	24,469	37.5%	37.2%	5	1,078	0.6	595	0.7	2013	6,100
Traumatology	323	128	60	67,968	10.2%	42.7%	4	817	0.6	1,460	2.0	2012	4,314
Caraps Speciality	165	59	60	89,095	26.7%	25.6%	6	3,176	1.5	1,580	1.4	2012	3,948
Akhaltsikhe	213	57	50	25,343	27.3%	30.6%	5	531	0.3	200	0.2	2015	18,132
Saint Nikolozi Surgery and Oncology	145	66	45	19,301	18.7%	19.4%	3	963	0.9	516	0.9	2015	1,500
Community Hospitals													
Kobuleti	245	87	70	26,052	26.2%	30.9%	5	621	0.3	342	0.4	2013	7,226
Akhalkalaki	131	49	35	13,498	19.0%	13.3%	3	120	0.1	60	0.1	2015	5,400
Khulo	73	22	26	18,951	22.2%	22.1%	2	170	0.2	170	0.5	2013	2,331
Kvareli	91	42	25	14,474	13.0%	8.0%	2	235	0.3	95	0.3	2012	1,451
Ninocminda	85	28	25	11,587	52.3%	23.1%	2	40	0.1	8	0.0	2015	5,321
Adigeni	74	27	21	19,046	25.4%	37.3%	2	54	0.1	32	0.1	2012	1,125
Khoni	81	31	20	21,510	19.6%	21.8%	1	81	0.2	50	0.3	2011	1,204
Qeda	70	24	19	13,990	10.7%	7.2%	1	102	0.3	38	0.2	2012	1,781
Shuakhevi	76	31	15	15,392	5.0%	6.1%	1	19	0.1	11	0.1	2012	1673
Terjola	97	49	15	23,451	27.3%	20.3%	1	68	0.2	10	0.1	2011	1,700
Tkibuli	85	38	15	26,815	23.4%	24.7%	1	75	0.2	22	0.1	2011	1,700
Tskaltubo	81	37	15	24,119	4.8%	5.6%	1	35	0.1	25	0.1	2011	2,827
Akhmeta	104	46	15	29,269	26.0%	23.9%	1	72	0.2	18	0.1	2012	1,160
Abasha	97	46	15	25,604	14.8%	12.0%	1	82	0.2	22	0.1	2011	1,248
Chkhorotsku	77	34	15	31,955	27.6%	24.1%	1	12	0.0	1	0.0	2012	1,080
Martvili	83	32	15	36,021	39.0%	31.6%	1	279	0.8	135	0.7	2011	1,420
Tsalenjikha	82	35	15	23,190	16.2%	16.5%	1	133	0.4	44	0.2	2011	1,481
Khobi	93	38	15	39,083	38.3%	38.3%	1	241	0.7	108	0.6	2011	1,690
Poti[12]	112	42	70	—	—	31.0	2	—	—	86	0.2	2012	7,000
District Ambulatory Clinics[13]													
Tbilisi Outpatient Centre	128	83	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2013	1,549
Chaqvi	54	22	N/A	N/A	N/A	N/A	N/A	N/A	N/A	342	0.4	2014	1,691
Telavi Outpatient Centre	51	25	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2006	1,160
Poti Outpatient Centre	63	36	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2006	912
Express Ambulatory Clinics[13]													
Nucubidze	33	19	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2014	549

Notes:

(1) Includes full-time and part-time employees.

(2) Referral hospital and community hospital bed numbers, as at 30 June 2015.

(3) Average revenue per hospital bed for the six months ended 30 June 2015.

(4) Calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds) available during the year ended 31 December 2014.

(5) Calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds) available during the six months ended 30 June 2015.

(6) Total number of surgeries carried out in the year ended 31 December 2014.

(7) Average number of surgeries carried out per operating theatre, per day in the year ended 31 December 2014.

(8) Total number of surgeries carried out in the six months ended 30 June 2015.

(9) Average number of surgeries carried out per operating theatre, per day in the six months ended 30 June 2015.

(10) We acquired HTMC Hospital in August 2015. As this facility will be consolidated in the our financial statements in future periods, certain operating data is not yet available.

(11) We acquired Deka Hospital in June 2015. As this facility will be consolidated in the our financial statements in future periods, certain operating data is not yet available.The 80 beds currently operational at Deka Hospital currently leased out to and operated by a number of individual physicians, for which we receive rental income.

(12) Poti hospital is owned by a third party but operated by us as an Evex facility.

(13) The following metrics are not applicable (**N/A**) to ambulatory clinics, due to the nature of healthcare services provided at these facilities : number of beds, revenue per bed, occupancy rate, operating theatres, total number of surgeries, and average number of surgeries.

We own all of the above facilities, with the exception of Poti Community Hospital, which is owned by a third party but operated as an Evex facility.

Our referral hospitals

Below is a short description of our principal referral hospitals, listed in order of number of beds as of 30 June 2015.

HTMC Hospital

HTMC Hospital is the largest hospital in Georgia, serving a population of 1.2 million in Tbilisi, where we currently have a 24.0% market share by number of beds. The hospital provides a wide range of inpatient and outpatient services, including the largest oncology radiotherapy department in Georgia. Other services offered at HTMC Hospital include general surgery, neurosurgery, nephrology, angiology cardiology and neurology services, urology, diagnostics, clinical, biochemical and serological lab tests, imaging studies (including magnetic resonance imaging, positron emission computed tomography, three linear accelerators, echocardiography, X-ray, endoscopy), and emergency room, step down and intensive care services.

We acquired HTMC Hospital in August 2015 to access patients in a new district in Tbilisi and continue our expansion in Tbilisi by increasing market share and bed capacity. HTMC Hospital has historically charged a price premium of 10-15% when compared to other Evex facilities owing to its scale and reputation in the market.

HTMC Hospital occupies a total area of 18,500 square meters and has 450 beds. As at 30 June 2015, HTMC Hospital had 646 employees, of whom 241 were physicians and 245 were nurses.

Iashvili Paediatric Tertiary Referral Hospital

Iashvili Paediatric Tertiary Referral Hospital is the cornerstone of our neonatal and paediatric services, and offers the most comprehensive portfolio of such services in Georgia. It is located approximately 10 km from the centre of Tbilisi. Iashvili Paediatric Tertiary Referral Hospital has the strongest reputation for neonatal and paediatric services in Georgia among both physicians and patients, as reflected in the volume of referrals from other healthcare facilities and the occupancy rates. It was partially renovated in 2011 and equipped with new medical equipment. The facility occupies a total area of 16,693 square meters and comprises 266 beds. The hospital primarily caters to residents of Tbilisi, but also serves as a major referral hospital for specialised services and tertiary care for neonatology and paediatric services for patients throughout Georgia. It offers a full range of medical and surgical specialities to outpatients and inpatients, as well as 24-hour emergency services.

We acquired Iashvili Paediatric Tertiary Referral Hospital in February 2014 through the acquisition of Avante as part of our strategy to scale up our healthcare services business through targeted hospital acquisitions focusing on the Tbilisi metropolitan region. As at 30 June 2015, Iashvili had 898 employees, of whom 265 were physicians and 269 were nurses.

At Iashvili Paediatric Tertiary Referral Hospital we are focused on growth through the enhancement of existing, and the provision of additional, complex secondary and tertiary services, with a focus on neonatal and paediatric care. We plan to establish a department for neonatal and paediatric cardiac surgical care with a capacity of 25 beds and to expand the existing physical and labour capacity of the existing neonatal and paediatric neurosurgery department by investing in upgrades of existing equipment and recruiting additional physicians at an expected cost of GEL 3.5 million. We also plan to establish a department for neonatal and paediatric bone marrow transplants.

KNMC Referral Hospital

KNMC Referral Hospital has been operating since 2004. It is the cornerstone facility of our operations in West Georgia, where we currently have a 35.2% market share by number of beds. It offers the most comprehensive portfolio of services in the country, including the full range of outpatient and inpatient medical and surgical specialties as well as 24-hour emergency room services for any age group, and has a strong reputation (based on feedback from patients and physicians, including follow-up calls performed by our call centre) for intensive care, cardiology (interventional and cardio surgery), angiology, urology, gynaecology and diagnostics. It offers the widest range of secondary and tertiary neonatal and paediatric services in the region. In addition, it has departments for dialysis, mammography and histopathology as well as a blood bank. It was the first hospital to introduce a hypothermia service in West Georgia and the first to introduce computed tomography and magnetic resonance imaging for diagnostics, interventional cardiology services and cardio surgery in West Georgia. The Imereti referral laboratory that serves the rest of our Imereti healthcare facilities is also located here.

We acquired KNMC Referral Hospital in 2011 as part of the Block Georgia acquisition. By way of an example of the improvements that we have made to our newly acquired facilities and the impact that this has had on their results (based in part on information provided by Block Georgia, the previous owner of the hospital), we believe that the KNMC Referral Hospital generated revenue, gross profit and EBITDA of GEL 18.5 million, GEL 5.7 million and GEL 1.3 million, respectively, in 2011. After renovation and other improvements by us, the facility generated revenue, gross profit and EBITDA of GEL 25.9 million, GEL 10.1 million and GEL 6.9 million, respectively, in 2014 and GEL 15.3 million, GEL 5.9 million and GEL 4.3 million, respectively, in the first half of 2015, representing a compound annualised growth rate of 13%, 20% and 59%, respectively, over this period. Gross margin increased from 31% in 2011 (based on information provided by the previous owners) to 39% in the first half of 2015 and EBITDA margin increased from 7% in 2011 to 29% in the first half of 2015. The total number of surgical operations (including Caesarean sections) increased from 2,906 in 2011 to 7,897 in 2014 and 3,957 in the first half of 2015, while the total number of inpatients increased from 3,332 in 2011 to 12,165 in 2014 and 6,259 in the first half of 2015, representing a compound annualised growth rate of 28% and 39%, respectively. This information is unaudited.

KNMC Referral Hospital occupies a total area of 15,332 square meters and has 220 beds. While the hospital primarily caters to Kutaisi, it also serves as a major referral hospital for specialised services and tertiary care for all regions in West Georgia.

As at 30 June 2015, KNMC Referral Hospital had 871 employees, of whom 208 are physicians and 308 are nurses. Its laboratory has ISO 9001:2008 certification, accreditation awarded from the International Organisation for Standardisation in January 2014.

Zugdidi Regional Referral Hospital

The Zugdidi Regional Referral Hospital is located in the main city of the Samegrelo region, and has been operating since the Soviet era. It is the largest healthcare facility in Samegrelo, capturing most regional patients. The hospital primarily covers the Samegrelo population and also serves patients from neighbouring Abkhazia. It offers multi-profile primary and secondary services with a wide range of outpatient and inpatient medical and surgical specialties, as well as 24-hour emergency services, all up to and including the secondary level. Patients can also be referred to KNMC Referral Hospital or one of our Tbilisi healthcare facilities for secondary or tertiary services.

We acquired the Zugdidi Regional Referral Hospital in 2011 as part of the Block Georgia acquisition. Following the acquisition, we developed the hospital into a regional referral centre for the regional cluster of healthcare facilities. The Zugdidi Regional Referral Hospital facility occupies a total area of 9,342 square meters and has 186 beds. As at 30 June 2015, it had 565 employees, of whom 170 were physicians and 184 were nurses.

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

Sunstone Referral Hospital

Sunstone Referral Hospital is a long-established general hospital in Tbilisi, serving a population of 0.3 million people in East Tbilisi. Sunstone Referral Hospital provides a full range of inpatient services including internal medicine, infectious diseases, psychiatry, anaesthesiology, critical care, paediatrics, neonatology, general surgery, paediatric surgery, cardio-thoracic surgery, urology, ENT medicine, ophthalmology, orthopaedics, traumatology, gynaecology, obstetrics, reproductive services, radiology and laboratory services.

We acquired Sunstone Referral Hospital in May 2014 to continue our expansion into Tbilisi, and to capitalise on the development of an under-utilised hospital where approximately half of its bed capacity is currently operational. We plan to undertake a substantial renovation of the facility and increase the number of operational beds from the current 152 to a total of 350. This renovation is expected to take approximately between 12 and 18 months and cost GEL 27.3 million. Sunstone Referral Hospital has historically set prices 25% lower than the average charged by Evex facilities.

Sunstone Referral Hospital occupies a total area of 25,000 sq. meters and has 350 bed capacity, of which 152 beds are currently operational. As at 30 June 2015, Sunstone Referral Hospital had 375 employees, of whom 140 were physicians and 99 were nurses.

Batumi Regional Referral Hospital

Batumi Regional Referral Hospital was opened in February 2013 and is a multi-profile regional referral hospital catering to the population of Adjara, where we currently have a 40.7% market share by number of beds. It also serves as a secondary referral point for patients from Guria, a region in West Georgia with a population of approximately 139,000 people.

We acquired Batumi Regional Referral Hospital in 2012 through the acquisition of Imedi L as part of our strategy to expand in Adjara. As at 30 June 2015, Batumi Regional Referral Hospital had 515 employees, of whom 173 were physicians and 154 were nurses.

It employs the leading physicians in the region and has a strong reputation as the site of the first successful liver transplant in Georgia in December 2014, which we continue to build on by improving the quality of patient care by standardising processes and enhancing our service offering. In particular, we plan to increase the number of liver transplant operations and add a kidney transplant service. This is expected to cost approximately GEL 500 thousand. It has a emergency department, offers outpatient and inpatient primary and secondary care services and refers patients to clinics in Tbilisi.

Kutaisi Regional Referral Hospital

Kutaisi Regional Referral Hospital is located in the centre of Kutaisi and has been operating since 2012. It is another cornerstone facility of our Imereti operations as it captures most of the region's emergency patient traffic. It offers the best emergency service in the region and has a strong reputation among patients (based on feedback from patients and physicians, including follow-up calls performed by our call centre). The state-owned ambulance service delivers most of the Imereti region's emergency patients to the hospital. Accordingly, services are focussed on the emergency department, a surgery department with a general surgery line and several specialised surgery lines, an intensive care department, a conservative care department (for care designed to avoid radical medical therapeutic measures or operative procedures), including a stroke unit, ophthalmology, cardiology and complementary laboratory and medical radiology diagnostics services.

We built the Kutaisi Regional Referral Hospital to replace the large scale Soviet-era Imereti Regional Emergency Hospital, which ceased to operate after the new facility was launched in the spring of 2012. The new facility occupies a total area of 6,211 square meters and has 124 beds. It serves the entire Imereti region. We have recently expanded the range of current services to include full-scale oncology services and related surgical procedures at a cost of approximately GEL 12 million.

As at 30 June 2015, Kutaisi Regional Referral Hospital had 400 employees, of whom 129 were physicians and 113 were nurses.

Batumi Paediatric Regional Referral Hospital

The Batumi Paediatric Regional Referral Hospital is the major provider of neonatal and paediatric services in the Adjara region. It also provides obstetrics and gynaecological services. Although the facility was established during the Soviet era, we have recently renovated the facility and it receives a significant number of child patients and deliveries in the region.

We acquired this facility as part of the acquisition of Avante in February 2014. It occupies a total area of 7,194 square meters and operates 120 beds. As at 30 June 2015, it had 523 employees, of whom 123 were physicians and 147 were nurses.

Batumi Paediatric Regional Referral Hospital has been the subject of substantial recent developments. We have established a neonatal intensive care unit here, because previously patients had to travel to Kutaisi or Tbilisi for treatment. As neonatal intensive care services are a key driver for obstetrics, we have strengthened our obstetrics and gynaecology offering in the region by concentrating them at Batumi Paediatric Regional Referral Hospital and using the space freed up at Batumi Regional Referral Hospital to expand other high-demand services.

Childrens New Referral Hospital

Childrens New Referral Hospital opened in 2011 as an extension of Iashvili Paediatric Tertiary Referral Hospital to capture the increased flow of neonatal and paediatric patients. The hospital occupies a built-up area of 7,498 square meters approximately one kilometre from Iashvili Paediatric Tertiary Referral Hospital, and has 110 beds. It currently serves as the main emergency centre for children. The hospital also offers a full range of medical and surgical services.

We acquired Childrens New Referral Hospital in February 2014 through the acquisition of Avante. As at 30 June 2015, Children's New Hospital had 646 employees, of whom 186 were physicians and 184 were nurses.

We plan to expand the scope and scale of services at Childrens New Referral Hospital in line with developments at Iashvili Paediatric Tertiary Referral Hospital and eventually intend to manage these two facilities as one by keeping basic services at both locations and dividing specialised services between the two locations, particularly those that require extensive capital expenditures for equipment and highly skilled-specialist physicians, such as the intensive care unit, the neonatal intensive care unit, cardiac surgery, and the oncology department.

Caraps Specialty Referral Hospital

Caraps Specialty Referral Hospital is located approximately 500 meters from Iashvili Paediatric Tertiary Referral Hospital. This high-end specialty hospital was established by a private investor in 1998 and moved to its current location in 2012. It is a new 60 bed hospital. It focuses on plastic and reconstructive surgery, as well as oncology surgery, angiology, gynaecology, ophthalmology, orthopaedics and medical radiology.

We acquired Caraps Specialty Referral Hospital in December 2013 as part of our strategy to expand our healthcare services in Tbilisi. As at 30 June 2015, Caraps Specialty Referral Hospital had 165 employees, of whom 59 are physicians, and 41 were nurses.

We plan to capitalise on the strong reputation of Caraps Specialty Referral Hospital by establishing new plastic surgery offerings at our referral hospitals in regions outside Tbilisi, starting with the Kutaisi and Telavi regional referral hospitals. Physicians from Caraps Specialty Referral Hospital in Tbilisi will provide surgical services in the regional healthcare facilities while the support medical personnel will be based locally.

Deka Referral Hospital

Deka Referral Hospital has a strong historical reputation and a prime location in North-East Tbilisi, serving a population of 1.2 million people. The hospital focuses on a wide range paediatric and adult outpatient and inpatient services. Deka Referral Hospital also provides clinical, biochemical and serological lab tests, imaging studies (including computed tomography, echocardiography, X-ray, endoscopy), functional diagnostics, surgery, combustology, psychiatry, obstetrics, gynaecology and ante-natal services; as well as emergency room, intensive care and step down services.

We acquired Deka Referral Hospital in June 2015 to continue our expansion into Tbilisi, and to capitalise on the development of an under-utilised hospital where less than a quarter of its bed capacity is currently operational. At present we do not operate Deka Referral Hospital. The building is leased and operated by a number of individual physicians, for which we receive rental income. Following the expiry of the current lease terms, we plan to substantially renovate the facility and increase the number of operational beds from 80 to 350. This process is expected to take approximately 15 to 18 months and cost GEL 33 million. After completing the redevelopment we will operate Deka Referral Hospital as an Evex facility. Deka Referral Hospital occupies a total area of 2.4 hectares.

Quality Standards and Accreditation

The Georgian Ministry of Health has established various measures to monitor the quality of medical care currently provided in Georgia. Providers are expected to maintain standards at their medical facilities that are in line with the WHO and certain EU standards. These standards include specific, best practice-based minimum qualifications and requirements for medical and nursing staff and the introduction of processes for data collection, evaluation and monitoring. We periodically measure a number of Prevention Quality Indicators (**PQI**), Inpatient Quality Indicators (**IQI**), Patient Safety Indicators (**PSI**) and Paediatric

Quality (**PQ**). We are in compliance with all applicable standards except for our hospitals currently undergoing renovation. We are also subject to extensive regulation regarding the licensing of medical facilities, pharmacies and medical personnel and data protection. See *Part XIX: "Regulatory Overview"* for further details.

Since January 2014, our Tbilisi, Kutaisi and Batumi referral laboratories have been awarded accreditation from the International Organisation for Standardisation ISO 9001:2008 for their quality management systems.

We have developed a range of basic minimal clinical standards that apply to all of our healthcare facilities. We are working with JCI towards full accreditation for a number of our hospitals and plan to implement several quality control and maintenance initiatives in the near term. By the end of 2016, we expect all of our healthcare facilities to be monitored and accredited by our own internal quality requirements, the Evex Quality Standards (**EQS**), to insure the quality of healthcare at all our healthcare facilities. We developed EQS as a benchmark, based on JCI and EU standards, to enable us to analyse and improve the clinical outcomes of medical procedures at our hospitals. This balanced system focuses on providing evidence-based quality care and a safe environment for our patients and on strengthening the functional efficiency of our hospitals, stimulating quality improvement while reducing variations in quality. EQS is based on four pillars (PQI, IQI, PSI, and PQ) that we periodically measure, as discussed above.

EQS accreditation indicates that healthcare services are being provided to international standards and requires the adoption of global best practices. The annual accreditation process is built around healthcare quality and patient safety, with particular emphasis on infection control, medication safety, facility safety and quality of medical service. As a part of the EQS accreditation process, clinical practices at our hospitals will be standardised in line with global best practices and will be audited on a regular basis to ensure specific goals are achieved. In addition, we intend to develop KPIs for various processes and monitor them on a periodic basis to optimise resources. We will establish hospital committees to regularly update our policies and procedures and ensure compliance monitoring.

We have also adopted various infection control procedures at our hospitals in partnership with external consultants including JCI Consultancy, CDC Atlanta, CDC Georgia, Emory University and the WHO European Regional Office.

Our reputation for high-quality care has also been strengthened by our global collaborations with leading institutions including the Mayo Clinic, John Snow Inc., URC, the Rostropovich-Vishnevskaya Foundation and USAID.

Healthcare services customers

Historically, we have primarily served the medical needs of the mass market segment of the Georgian population, and we expect to maintain our focus on this market, particularly in light of the introduction of the UHC. However, we expect that the amount spent on healthcare by out-of-pocket customers (who are primarily middle and upper income Georgians) will continue to increase.

In the first half of 2015, we received approximately 1.8% of our total healthcare services revenue from private medical insurance companies and 20.7% from out-of-pocket customers.

Private medical insurance companies. Our healthcare facilities have direct billing arrangements with most of the Georgian insurance providers such as IC Group, Alfa, Ardi, Vienna Insurance Group, Irao, Standard Insurance, Unison, Tao Insurance, PSP Insurance and Insurance Company Cartu, in addition to our own insurance business (Imedi L). We enter into contracts with insurance companies on both a long-term basis and on a short-term basis in relation to specific procedures, such as employee medical exams. For long-term contracts, invoices are generated monthly. Contracts for specific procedures are invoiced immediately after the service is provided or at the end of the month. Payment terms range between 30 and 90 days, depending upon the terms of the contract, and insurance companies pay by bank transfer. The terms of contracts with insurance companies are generally standardised. We invoice insurance providers directly for the fees for healthcare services provided to their insured patients. In the first half of 2015, Imedi L was the largest contributor to revenue from private medical insurance companies, accounting for 4.7% of our total healthcare services revenue, while Vienna Insurance Group and IC Group, a privately-owned Georgian company contributed 0.6% and 0.2%, respectively.

Out-of-pocket customers. Out-of-pocket revenues consist of co-payments by individual patients for private medical insurance and government-funded healthcare programmes, as well as pure out-of-pocket payments for services not covered by either private medical insurance or government-funded healthcare programmes. Co-payments apply to most private medical insurance and government-funded healthcare programmes, especially planned services. The majority of our out-of-pocket patients are from Georgia. These payments are mainly dependent upon the patient's insurance policy or government vertical programme terms, which often set limits on the amounts that the insurance company or the government will reimburse for particular procedures.

Pricing our healthcare services

Prices for the healthcare services that we provide are not regulated. Under our pricing policy, which we adopted in 2011 in order to standardise prices across all our facilities, our prices differ depending on:

- the region of operations;
- the level of hospital within a given regional cluster;
- the service provided; and
- the contractually agreed prices with medical insurance providers and the government (including the scope of services and other factors).

Under our standardised pricing policy, we set the prices for out-of-pocket customers and use these as a benchmark when negotiating contracts with business customers, including insurance companies and the state. While we generally adhere to this standardised pricing policy, we consider the competitive environment of each region and in some cases, set different prices for some products and regions accordingly. Furthermore, we may price certain newly implemented services at a discount in order to gain market share without having to increase marketing efforts. Our referral hospitals, in particular HTMC, charge a premium compared to our community hospitals and ambulatory clinics; which offer services at prices that are, on average, 10% to 15% lower than our referral hospitals. This pricing policy also helps to free up capacity at our referral hospitals for secondary and tertiary services.

Most of our services can be provided and paid for either as part of a long or short-term contract, or per single visit. A typical contract with an individual patient or an insurance company is based on a flat rate for a course of treatment. However, some contracts with the state use a "bottom-up" pricing approach, under which we must present a breakdown of costs in the invoice, and if the sum of the costs and the price mark-up is less than the flat rate, then the government pays that sum instead of the flat rate. This bottom-up approach applies to about 500 emergency services. In most of these cases we receive the flat rate.

Under the UHC, the government provides reimbursement for planned and emergency ambulatory services, emergency inpatient services including intensive therapy, planned surgeries (including cardiology and oncological surgery), chemotherapy, hormone and radio therapies and childbirth. See *Part VIII:* "*Industry Overview—Healthcare services market—Reform of the healthcare sector—Universal healthcare programme*" for further detail on reimbursement under the UHC.

Our out-of-pocket patients pay for their treatment up front for the outpatient services and before discharge for inpatient services. We have a discount policy in the range of 5% to 30% of the out-of-pocket price for large corporate clients to encourage referrals to our medical facilities. Excluding visits to general practitioners, our average revenue per visit to our outpatient clinics was GEL 47.80 during the six months ended 30 June 2015.

Marketing our healthcare services

We believe that our success and results are dependent on the reputation of our brands, as we operate in an industry where integrity, customer trust and confidence are paramount. The key focus of our marketing strategy is to build and maintain strong brand recognition for our businesses and to strengthen our image as a trustworthy, innovative and reliable brand in the market. We implement this strategy through a variety of advertising activities, high-quality customer service, customer-friendly claim settlement procedures, innovative products and competitive pricing.

Our marketing strategy is focused on market development as we expand our healthcare facilities and services throughout Georgia. We also implement a segmentation strategy that involves a combination of mass marketing and targeting selected services at mid- and high-income individuals. We are in the process of introducing a "one window" approach for healthcare customers which is intended to make our services more user-friendly and improve patient flow within our healthcare facilities.

Our marketing strategy is premised on the following three objectives that are designed to attract new patients while maintaining the loyalty of our existing patients:

- generate credibility among our stakeholders by introducing a new corporate identity that will integrate all of our ambulatory clinics under the Evex umbrella, based on the quality of service and delivering a high standard of innovative medical care that meets international standards (while maintaining the individual brand identity of our well-known regional hospitals);
- reinforce our distribution channels through our cluster model. We are opening ambulatory clinics to provide express outpatient care in Tbilisi and surrounding neighbourhoods, which will act as primary entry points into our healthcare facilities for primary care and will be referral feeders to our system of hospitals by providing accessible diagnostic services and referring patients to our outpatient centres and hospitals when necessary for secondary and tertiary care; and
- deliver a higher quality customer experience to our patients by improving and standardising our service quality and customer flow management, optimising service procedures, training front line personnel, and improving the layout and design of our facilities.

We have dedicated sales and marketing personnel for our health service business whose role is to ensure that our patients' experiences are positive. The department focuses on standardisation of the patient registration process and customer-service training for our staff. It also manages the patient complaint process, ensuring that complaints are addressed and resolved in a timely manner and that complaint information is reported to management on a regular basis.

In addition to these responsibilities, the sales and marketing department develops and implements the standard design and layout concept of our clinics.

Our suppliers

We procure most of our medical supplies from a list of preferred suppliers by way of tender in such a way as to maximise the benefits of our scale as the largest buyer in Georgia. Our supplier base is made up of agents and distributors of medicines, medical consumables and disposable products, and medical equipment. We carefully select our suppliers for quality, price and delivery capability. We purchase supplies centrally and distribute them to our facilities. We are supplied by a range of companies and are not dependent on any particular supplier. In 2014, almost all of our supplies of medicines and medical devices were obtained locally from representative offices of major pharmaceutical companies. We manage supply risks by maintaining adequate inventories and building strong relationships directly with our suppliers.

We maintain high service standards by sourcing most of our medical and non-medical supplies and equipment from leading international suppliers with international reputations for high-quality products. Our clinics are equipped with modern medical and diagnostic equipment manufactured by leading international companies and multinational conglomerates based in the United States, the United Kingdom, Germany, Holland, Japan, Sweden, Belgium, Switzerland, and, in particular, leading companies such as GE, Johnson & Johnson, Siemens, Philips, Dräger, B-Braun-Aesculap, Getinge, Olympus, Fujifilm, Roche Diagnostics, Sysmex, and Leica.

We procure equipment, instruments and consumables for our healthcare facilities from a wide range of local distributors of major international medical and scientific equipment manufacturers. These local suppliers, based in Georgia, constituted almost all of our healthcare segment's purchases (other than capital expenditure) for 2014 and 2013. We maintain strong relationships with our suppliers. As a large network of healthcare facilities with centralised procurement, we believe we are able to negotiate favourable terms and priority payment terms with many of these suppliers and third-party service providers.

In the first half of 2015, our top five suppliers accounted for 40% of our medical disposables and equipment purchasing costs and 83% of our non-medical purchasing costs compared with 42% and 68%, respectively, in 2014. In the first half of 2015, no supplier accounted for more than 15% of our medical disposables and equipment supply requirements and 42% of non-medical supply requirements in expenditure terms, compared with 21% and 27%, respectively, in 2014.

Our purchasing efforts are divided into three categories: medical disposables, medical equipment and non-medical purchases.

Medical disposables

Our central purchasing department places orders for medical disposables based on requests from the pharmacies at our hospitals and ambulatory clinics. Most of the medical disposables we use are generic products. The central purchasing department holds closed tenders once a year for all items. We do not commit to purchase any minimum volumes. Each item is tendered as a separate lot which enables us to extract favourable prices and keep our costs down. After the tender, prices for the purchase are fixed by binding legal agreements. Disposables are delivered to the regional warehouses by the seller's agent or distributor, or a logistics service agent. They are later dispersed to our hospitals and ambulatory clinics.

Medical equipment

Our investment committee reviews and approves decisions to purchase medical equipment in consultation with our clinical department. Specialised consumables sub-committees are created when major consumable lines are changed due to new technology, methodology or for cost optimisation reasons.

Non-medical purchasing

Our non-medical purchases includes information technology and information systems hardware and software, stationery, office equipment, furniture, kitchen items and outsourced contracts for waste disposal, catering, cashier service, laundry and security, as well as accommodation for staff.

Hospital IT systems

We are reliant on IT/IS for several key aspects of our medical operations. Our custom, purpose-built software packages are divided into clinical and back-office systems, as follows:

Clinical IT systems. Our clinical IT systems involve patient registration, medical records, treatment history, medical history, laboratory testing, and radiology requests, invoicing, and variable payroll calculations.

Back-office systems. We use ORIS accounting software for accounting transaction entries. Our principal IT/IS hardware infrastructure consists of enterprise systems from HP, CISCO and IBM. Our redundancy infrastructure and emergency recovery systems include multi-tier protection for all major components. Our servers are located in the outsourced data centre, which we believe has robust data-centre design, stringent security controls and ITIL-compliant disaster recovery/business continuity plans. The servers are protected with redundant hard drives, redundant fans, redundant network cards and redundant power supplies fed from diverse sources. Backup to disk and tape technologies are used to ensure a reliable recovery from either complete system failures or facility outages. Backup tapes are stored in remote sites with cold backup systems to protect contents against catastrophic events. Disaster recovery processes currently exist but are limited to manual processes (such as server replacement or hard disk replacement). We use McAfee Data Loss Protection and our corporate security department monitors information flows.

New ERP system. We are in the process of modernising our hospital technology infrastructure by introducing industry-standard and vendor-supported applications and hardware. We are implementing a new ERP system that we believe will support our expansion strategy. This system will integrate all accounting and statistical data for our medical business. The ERP system will comprise several modules: electronic medical records; billing (admission, transfer, and discharge); recruitment, human resources and payroll administration; procurement, inventory and property and equipment; assets, liabilities (including agreement data) and cash management (enabling integration with our banks); accounting; taxation (including integration with the national tax portal); planning (budgeting), reporting, and analysis; and geography. It will be available to authorised users at headquarters and all of our clinics and hospitals.

New billing system. We are in the process of modernising our hospital technology infrastructure by introducing industry-standard and vendor-supported applications and hardware. We are implementing a new billing system that we believe will support our expansion strategy.

We have already started implementation of the first phase of the new ERP system including billing (admission, transfer, discharge), recruitment, HR and payroll administration, procurement, inventory management and expect to go live with the second phase by the end of 2015. The third phase will include clinical modules. The projected total capital expenditure for this project is GEL 0.6 million, of which we have spent GEL 0.2 million as of 30 June 2015. We will continue to update our IT/IS systems as necessary to meet our needs as we expand.

In addition, we share certain IT systems with Bank of Georgia, such as Active Directory, Mail Exchange Server, Microsoft Lync, Microsoft TMG Internet Proxy, Microsoft Security Essentials, MacAfee DLP, Physical Server Hosting, Website/Intranet Hosting, internet services, IT support and certain telephony systems. On 25 August 2015, we entered into an agreement with Bank of Georgia pursuant to which Bank of Georgia will continue, until the end of 2016, to provide the shared IT systems to us at the same terms as they have been provided during the six months prior to the date of the agreement and without charge.

We are currently in the process of migrating to our own data centre for independent server hosting. We have purchased the necessary hardware and expect to operate all of these shared IT systems on a fully independent basis within the next 12 months. We have developed a business process and are implementing applications and controls to ensure the secure and smooth migration of these services from the Bank of Georgia platform to our own platform within that period. All of these services are readily obtainable from a number of independent third parties and we would not be subject to any business interruption if Bank of Georgia were to stop providing these services.

Our Medical Insurance Business

We entered the medical insurance business by founding Aldagi in 1990 and developed it into the largest medical insurer in Georgia. In 2012, with our acquisition of the then third largest Georgian medical insurer Imedi L, we substantially improved our leading market position. In 2014 we rebranded all of our medical insurance operations under the Imedi L brand.

We offer self-pay and employer-paid medical insurance products for retail customers and employees of our corporate clients. Our insurance packages cover the costs of inpatient, outpatient, dental, pregnancy, and oncology treatment and medicine, and are offered with different monthly premiums and coverage limits in order to meet the individual requirements of our customers. Following the introduction of the UHC, we have increasingly focused on selling private medical insurance to both corporate and self-pay customers seeking to top up their state coverage through private medical insurance, though this currently remains a small portion of our business. See *Part VIII: "Industry Overview—Healthcare services market—Reform of the healthcare sector—Universal healthcare programme"* for more information.

Through our vertically integrated business model, our insurance business converts claims expenditure on medical insurance into revenue for our healthcare services business. For the first half of 2015, 8.1% of our health claims converted into healthcare services revenue, which amounted to GEL 1.8 million, compared to 11.9% and GEL 4.5 million for the first half of 2014. The renewal rate for medical insurance was 92.0% for the first half of 2015, 91.9% for 2014 and 91.5% for 2013.

Medical insurance customers

In the first half of 2015, we received all of our medical insurance revenue from private medical insurance customers. Private medical insurance customers include large corporate employers, public sector employers, and small and medium-sized businesses that purchase private medical insurance for their employees from us. They also include self-paying individuals, primarily middle and upper income Georgians, who purchase their own private medical insurance. In the first half of 2015, approximately 458,000 Georgian individuals were covered by private medical insurance policies purchased by their employers, according to the Insurance State Supervision Service. In total, as at 30 June 2015, we had over 13,000 corporate customers and 209,000 self-pay individuals covered by our private medical insurance policies. We believe that the number of self-pay customers will increase as patients who seek quicker treatment, or facilities or procedures that are not covered by the UHC increasingly seek to top up their state coverage through private medical insurance.

Pricing our medical insurance products

Premiums for medical insurance products vary depending on a number of factors including the following:

- co-payment rates;
- the number of members enrolled (in group insurance);

- the mix of treatments covered;
- the list of exclusions;
- the location of the insured;
- the sums insured;
- the list of providers and provider choices;
- claims settlement procedures;
- demographics of the insured; and
- the insurance periods.

The pricing of insurance products offered by private insurance companies is not regulated in Georgia. When pricing our insurance policies, we use our own actuarial tables based on more than ten years of data relating to more than 600,000 customers. Our underwriting department uses these actuarial calculations and predicts future provider price fluctuations based on historical data.

For group medical insurance (which we define as including employers and groups of employees), insurance premiums are calculated exclusively for the target group, and aspects such as the size of group, nature of the employer, and average age are taken into consideration, together with the level of cover selected by the insured. In group insurance policies, the insured may be either the employer or its employees. If the premium is paid by the employees themselves, we sign a tripartite contract, where the employees are the insured. In this case the employer collects the premium from its employees and transfers the total group premium to us. In all types of group insurance contracts, the employer or insured employee is required to transfer the premium each month.

There are predefined product and price mixes for groups which account managers use when approaching potential buyers. If the insured has specific requirements, account managers collect the necessary data (such as the customers' needs, the budget per insured (if any) and the location of the insured) and transmit this data to the underwriting department, where underwriters design the exclusive offering for the applicant by applying the information collected to actuarial calculations.

For self-pay customers, insurance premiums are fixed, based on the cover mix and age of the insured party. A 10% discount can be applied when insuring more than four individual members. Self-pay customers have an option to pay premiums in advance annually, quarterly or monthly.

If any group insurance premium is unpaid but less than three months overdue, account managers are responsible for negotiations with the insured. After three months, this responsibility is transferred to an asset and liability division, where debtor officers negotiate terms with the debtors. Account managers lose their commission on accounts with premiums that are more than three months overdue, even if the debtor subsequently pays the premiums in full.

In most self-pay policies, the insured pays at least the first and last month's premium in advance. If a self-pay policy is one month in arrears, a letter of cancellation is sent to the debtor and the insurance policy is terminated by the end of the same month. The insurance premium is covered by the last monthly premium paid in advance by the insured.

As of 30 June 2015, our average annual premium per insured customer was GEL 214. We insured an average of 246,734 customers during the six months ended 30 June 2015.

Marketing our medical insurance products

As in our health services business, we believe that our success and results in our medical insurance business are dependent on the reputation of our brands, since we operate in an industry in which integrity, customer trust and confidence are paramount. The key focus of our marketing strategy is to build and maintain strong brand recognition for our business and to strengthen our image as a trustworthy, innovative and reliable brand in the market. We implement this strategy through a variety of advertising activities, high-quality customer service, customer-friendly claim settlement procedures, innovative products and competitive pricing.

Our customers include employers purchasing health cover for their employees, groups of people employed by a single employer and purchasing their own health cover and individuals and families. Each of these customer segments is further divided into sub-segments. Our product mix, pricing, distribution and claims settlement strategies are designed in accordance with the needs and behavioural factors of each sub-group.

Historically, group medical insurance was our main revenue driver, and our strategy in marketing medical insurance products was to focus on direct sales via account managers, responsible for both sales and post-sale service to customers. Larger corporations intending to set up medical insurance plans for their staff generally conduct tenders in which we participate. Individual and family medical insurance have historically represented a relatively small part of our total medical insurance revenue. However, following the implementation of the UHC, our marketing strategy has switched to expanding our retail distribution channels to penetrate the growing individual and family market, focussing on "top up" self-pay customers. Although the market for "top up" products is currently small, we believe that we are well-placed to benefit from growth in this segment as the population of Georgia becomes more familiar with the UHC and the limitations of the coverage available thereunder.

We operate 11 branches and service centres of our medical insurance business in a number of cities and towns across Georgia, including Tbilisi, Kutaisi and Batumi. These branches are the main sales and customer service points in each region, and are responsible for the collection of claims documentation and the sale of medical insurance products (mainly individual travel and health policies).

Our services centres and other points of sale located across the country relying on additional resources, include:

- account managers responsible for group insurance and tenders;
- independent insurance brokers who mainly sell group insurance;
- insurance agents, responsible for selling individual policies and group policies for small groups and are in a variety of locations;
- third-party distributors, such as clinics and travel agencies; and
- personal and private bankers at Bank of Georgia who offer family medical cover to their clients.

For the insurance business, the sales and marketing department is responsible for sales (including separate teams for both corporate and retail customers) and customer service.

Insurance IT systems

Our software packages are divided into insurance and back-office systems, as follows:

Insurance systems. We have two main in-house developed insurance systems: Pyxis—for policy administration, billing and invoicing; and iMED—for claims management, patients registration, medical history, debt management, and invoicing and an additional web module for pharmacies and clinics' employees.

Back office systems. We use CRM software for monitoring incoming calls in our call centre, accounting software developed by Greensoft in 2003 (which is being modified for us by an independent contractor) and procurement software for procurement and warehousing which we developed ourselves.

Employment, Regulatory and Related Matters

Health, Safety and Environmental Matters

Health, safety and environmental issues are governed by a number of laws and guidelines that affect businesses operating in Georgia. Accordingly, we are required to comply with a number of health, safety and environmental requirements. In order to comply with these health, safety and environmental requirements, we have adopted a number of policies that are used throughout our facilities. See "—*Quality Standards and Accreditation*" for a more detailed discussion of our clinical standards.

The collection, storage and disposal of medical waste by medical institutions is regulated. Every medical institution is responsible for collecting, sorting and storing medical waste and it must adopt appropriate internal policies. We have entered into agreements with third-party providers who provide us with waste containers and are responsible for the transportation and disposal of this waste while we are responsible for collecting, sorting, and storing it before collection.

Intellectual Property

Our business operates under the trade name Georgia Healthcare Group. Our insurance business operates under the trade name Imedi L. Our hospitals and ambulatory clinics operate under the trade name Evex Medical Corporation and certain similar symbols to designate the individual clinic names. The majority of our trademarks and logos have been registered.

Property

See "*—Our Hospitals and Clinics*" above for a discussion of our property interests and details of our healthcare facilities.

Centralised Operations

Imedi L and Evex have been run separately since their establishment. Georgian law requires insurance companies to be managed independently. As a result, some administrative staff are dedicated to Imedi L. Apart from this, we have sought where possible to centralise certain functions across our healthcare services and medical insurance businesses, including finance, human resources, training, legal, sales and marketing, public relations, procurement and logistics, information technologies and systems (IT/IS) and engineering management, and we also operate a central call centre. The remaining operational functions are decentralised across our facilities, with day-to-day patient care and clinical and operational responsibility left with the relevant healthcare facility management teams. We believe that this business model helps us control costs and provides us with substantial scale benefits, including improved purchasing and supply chain capabilities, and an efficient and scalable model that will facilitate future organic expansion and enable the effective and efficient incorporation of any acquired facilities.

Our pooled and centralised corporate support services include the following:

- Human resources;
- Sales and marketing;
- Public relations;
- Finance;
- Legal;
- Information technology and systems;
- Engineering;
- Centralised operations support, procurement and logistics;
- Security; and
- Fixed assets support and maintenance.

Employees

The number of people employed by the Company as at the dates indicated, analysed by category, were as follows:

	30 June	31 December		
	2015	2014	2013	2012
Ambulatory clinics	6,117	5,684	2,755	1,967
Physicians	1,817	1,681	825	575
Nurses	1,816	1,749	888	636
Other	2,484	2,254	1,042	756
Community hospitals	1,769	1,731	1,651	1,719
Physicians	683	659	646	685
Nurses	506	501	490	521
Other	580	571	515	513
Ambulatory clinics	413	413	386	458
Physicians	248	260	262	311
Nurses	42	56	54	59
Other	123	97	70	88
Ambulance and rural primary care	—	—	666	674
Physicians	—	—	797	799
Nurses	—	—	418	421
Other	—	—	666	674
Insurance	220	209	173	58
Corporate centre	371	353	415	438
Total[(1)]	8,631	8,138	6,872	6,268

Note:

(1) Includes full-time and part-time employees.

Employee development programmes

We offer our employees training opportunities at our own training centre and at various educational institutions and conferences. Middle and high level managers also participate in workshops and training sessions outside Georgia.

Our training centre offers various classroom and practical training programmes, seminars, master-classes and workshops. All physicians undergo continuing medical education, which is comprised of professional development programmes designed to keep up with advances in medicine and changes in the delivery of care on a regular basis. Furthermore, our physicians also attend international conferences on diverse medical topics in Georgia and abroad. Nurses also undergo continuing education; through our nurse training programme, we aim to significantly increase the supply of nurses for our healthcare facilities, and have developed the curriculum with a number of institutions including nursing colleges and medical schools in Batumi, Kutaisi and Tbilisi, a number of which have agreed to use our curriculum for their own education programmes. We opened a new training facility in 2014 in Kutaisi, Georgia, to support the development of quality healthcare services in Georgia by strengthening professional knowledge and skills within Georgian hospitals and clinics through training needs assessment, training course design and delivery and testing. The centre is well-equipped with modern infrastructure and practical/simulation skills labs, which can simultaneously serve over 150 students per day. Prior to this, training was carried out locally at the medical facilities. Our current teaching covers the implementation of up-to-date guidelines and protocols as well as invasive manipulations commonly associated with clinical complications. To further improve the quality and timeliness of medical care, we are running the following training courses:

- *Emergency medicine.* We have launched a training programme in emergency medicine for pre-selected personnel in cooperation with Partners for International Development and the Tbilisi State Medical University. Launching the ER service is intended to tackle the problem of the lack of specialists in rural areas, as it will enable ER specialists to treat, diagnose and manage a wide range of patients with acute and chronic symptoms of different age groups, complexity of condition and medical history.

- *Nursing Care.* The aim of this initiative was to train competent and caring nurses who can provide care at an international standard by developing their basic knowledge and their practical skills. We have completed the first phase which involved the selection of 40 candidates to undergo "training of trainers", ten of whom have successfully completed the course. The nurse trainers will be rotated in order to train nurses across our healthcare facilities.
- *Obstetrics and Gynaecology.* These training courses are conducted to implement updated protocols and guidelines among physicians to standardised patient management in all Evex hospitals. Besides theory, training includes case studies, role-play and on-the-job training.
- *Computer Training (IT) courses.* We provide IT training courses, from basic to advanced computer skills. The aim of these courses is to develop computer literacy in our physicians and nurses, helping them better manage their daily work, share information and independently research the latest professional know-how.
- *Life savers ICU personnel.* We have planned American Heart Association certified Basic Life Support, Advanced Cardiac Life Support and Pre-Hospital Trauma Life Support courses to train professionals in managing community disasters. Over 100 life savers will be trained across the healthcare facilities using standardised materials.

We conduct periodic training programmes for nurses, receptionists, administrative and insurance staff, using internal staff as well as external consultants to continuously improve our customer service and the quality of our healthcare and medical insurance service.

Insurance employees undergo continuing professional development courses with two levels: basics of insurance and advanced courses in insurance for managers and employees in key positions. We believe that these training programmes will further enhance our recruitment capability.

Employee retention

Our turnover levels, excluding redundancies, for the six month period ended 30 June 2015 were as follows:

- Physicians—5.34%
- Nurses—5.29%
- Other—14.84%

We believe that we have been able to control attrition rates by implementing competitive compensation and benefit schemes, providing a comfortable work environment and developing appropriate training and skill enhancement programmes. In order to ensure the continued retention of our key employees (including physicians) and to manage employee turnover we require key personnel to enter into employment contracts with certain restrictions, including a six-month non-compete clause if the employee leaves. Additionally, to improve retention of key employees we use holdbacks for managers and sales employees, and share-based compensation for the senior managers and directors, issuing share purchase options with a three-year gradual vesting period.

Employee compensation

Our compensation structure for staff (other than directors, key executives, insurance sales staff and underwriters) consists primarily of salaries, housing allowances and insurance coverage. Remuneration is negotiated on an individual basis within a framework of pre-set criteria, depending on the specific job category in the sector in which the employee works.

Employee compensation forms the largest component of our direct expenses. Compensation for an individual physician or a medical professional can vary substantially based on seniority, specialty, reputation and work experience. Our compensation package consists of fixed and variable pay, where variable pay is driven by either the value of services performed or the number of patients served. Fixed pay can also be per hour and the employee is compensated based on the hours worked. Insurance agents' compensation is driven by the sales they generate, adjusted for the quality of their portfolio in terms of premium collection, cross-selling and other factors.

There are special bonus arrangements for insurance underwriters, claims department personnel, debt recovery officers and personal physicians in addition to their base salary, which are calculated depending on key performance indicators such as the loss ratio, cost per insured, provision targets, number of loyal customers or average cost per claim, depending on their job. Sales staff receive a commission based on sales, adjusted to reflect renewal rates, product mix and premium collection. Underwriters are eligible for a bonus based on the revenue and loss ratio of different portfolios (such as retail, group and travel insurance). Bonuses for claims processing department staff are based on the average cost per insured in different portfolios (such as retail, group, and state financed accounts). Debt recovery officers are eligible for commission from premiums collected from debtors, adjusted by the level of provision in a given month.

All administrative personnel receive fixed pay and may be eligible to receive an annual bonus, subject to our annual profit and the employee's performance. Salaries are paid monthly.

For directors and key executives, the compensation package is composed of a monthly salary, annual bonus and/or share based compensation based on achieving annual goals. See *Part XX "Additional Information—Employee Equity Compensation Plans."*

Pensions, medical insurance and other benefits

Some employees are entitled to pension benefits. Such employees contribute 1.0% of their salary to a pension fund and we match this contribution. We match additional employee pension fund contributions on a 0.2% to 1.0% basis up to 1.0% of the employee's gross monthly salary.

We pay salaries to employees using payroll services provided by Bank of Georgia and another major Georgian bank. The majority of our full-time employees receive medical insurance, and are permitted to use an overdraft from the bank, which is not subject to any guarantee from us, of up to 90.0% of his or her salary. Administrative personnel may benefit from certain discounts on banking products and may be eligible to receive an annual bonus subject to our annual profit and the employee's performance.

Union representation and labour relations

We have no binding trade union agreements. By law, our employees may join or form trade unions if they wish and, at their request, we would deduct trade union membership fees from salaries for payment to the trade union. A small number of our employees are unionised. We do not have any collective bargaining agreement with these or other unions or labour organisations. We consider our relations with our employees to be good and no dispute has ever occurred.

Insurance

We maintain insurance policies to cover certain risks. The principal risks covered by our insurance policies are for damage to our property. In common with other Georgian healthcare companies, we do not maintain medical malpractice insurance owing to the very low incidence of medical malpractice claims in Georgia.

Licenses

We hold all licenses necessary for the operation of our business. For more information on what licenses and permissions we need under Georgian law and other applicable regulations, see *Part XIX: "Regulatory Overview*."

Litigation and Other Proceedings

Other than as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

On 16 April 2015, some of the former shareholders of Insurance Company Imedi L filed a claim in the Tbilisi City Court against Insurance Company Aldagi and the Company's subsidiaries, Insurance Company Imedi L and Evex Medical Corporation, all of which are legal successors of Insurance Company Aldagi BCI. Pursuant to a demerger agreement entered into in 2014, the business and assets and liabilities of Insurance Company Aldagi BCI were spun off into three entities: Insurance Company Imedi L acquired the medical and travel insurance (limited to cover for emergency medical treatment) business, Evex Medical Corporation acquired the healthcare services business and Insurance Company Aldagi continues to operate the property and casualty and pension business. The claim alleges that 66.0% shares owned directly or indirectly by the claimants in the share capital of Insurance Company Imedi L were sold to Insurance Company Aldagi BCI in 2012 under duress at a price below market value, and the claim seeks damages in the amount of U.S.$17.1 million. The action is in a preparatory stage and the first preliminary hearing took place on 9 October 2015. A further preliminary hearing is scheduled for 4 December 2015.

We believe that the claim is without merit and the shares in Insurance Company Imedi L were acquired by Insurance Company Aldagi BCI at a fair price on the basis of bona fide agreements. However, if the claim is decided in favour of the claimants, we would be required to pay to the claimants damages in the amount as determined by the court.

PART X
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

Directors

The following table sets out the name, age, position and term of appointment of each of our Directors.

Name	Date of birth	Position
Irakli Gilauri	12 May 1976	Non-executive Chairman
Nikoloz Gamkrelidze	02 December 1979	Chief Executive Officer
David Morrison	05 August 1952	Senior Independent Non-executive Director
Neil Janin	12 February 1955	Independent Non-executive Director
Allan Hirst	09 August 1949	Independent Non-executive Director
Ingeborg Oie	03 July 1983	Independent Non-executive Director
Tim Elsigood	12 December 1954	Independent Non-executive Director
Mike Anderson	02 May 1951	Independent Non-executive Director
Jacques Richier	12 February 1955	Independent Non-executive Director

The term of appointment of all of the non-executive directors commenced on 4 September 2015. Irakli Gilauri and Nikoloz Gamkrelidze were appointed on 28 August 2015. Each appointment is subject to the Articles (as amended from time to time). All Directors will be required to seek election by the Shareholders at the next annual general meeting of the Company (**AGM**). Continued appointment is contingent on continued satisfactory performance and re-election by the Shareholders at each AGM. Continued appointment is also subject to any relevant statutory provisions relating to removal of a Director. The non-executive Directors will also be required to adhere to any succession plan adopted by the Board.

The business address of each of the Directors is No. 40, Vazha-Pshavela Avenue, 0177, Tbilisi, Georgia. Biographical details of each of the Directors, together with details of their responsibilities within the Group are set out below.

Irakli Gilauri (Chairman)

Irakli Gilauri is the Company's Chairman. Mr Gilauri has also been CEO of BGH since 2011, and has been CEO of Bank of Georgia since May 2006. Mr Gilauri joined Bank of Georgia as CFO in 2004. Before his employment with Bank of Georgia, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies. 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.

Irakli Gilauri also serves as a member of the Company's nomination and remuneration committees.

Nikoloz Gamkrelidze (Chief Executive Officer)

Nikoloz Gamkrelidze is the Company's Chief Executive Officer. Prior to that he was Deputy CEO (Finance) of Bank of Georgia from October 2012 to December 2014, and CEO of Insurance Company Aldagi from 2007 to 2012. Prior to joining Insurance Company Aldagi, Mr Gamkrelidze served as CEO of My Family Clinic from October 2005 to October 2007. Prior to joining My Family Clinic, 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. He graduated in Healthcare Management from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Tanaka Business School of Imperial College London.

David Morrison (Senior Independent Non-executive Director)

David Morrison is the Company's Senior Independent Non-Executive Director. Mr Morrison also serves as the Senior Independent Non-Executive Director of both BGH and the supervisory board of Bank of Georgia. Prior to joining Bank of Georgia in 2009, Mr Morrison founded the Caucasus Nature Fund

(**CNF**), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan, and Mr Morrison continues to serve as its executive director. Prior to founding the CNF, Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as managing partner of the law firm's Continental European offices. His practice focused on advising public companies in a transactional context. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank, Kreditanstalt für Wiederaufbau (**KfW**). He also served on the board of directors of KfW's finance subsidiary for 20 years. 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. 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.

David Morrison is also the chairman of the Company's audit committee and a member of the Company's nomination and clinical quality and safety committees.

Neil Janin (Independent Non-executive Director)

Neil Janin is one of the Company's Independent Non-executive Directors. Mr Janin also serves as chairman of the board of directors of BGH and the supervisory board of Bank of Georgia. Mr Janin 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. Prior to joining Bank of Georgia in 2010, 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, while serving as a member of the French Institute of Directors, Mr Janin authored a position paper on the responsibilities of the board of directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

Neil Janin also serves as the Chairman of the Company's nomination and remuneration committees.

Allan Hirst (Independent Non-executive Director)

Allan Hirst is one of the Company's Independent Non-executive Directors. He was a non-executive director of BGH from October 2011 to December 2013. He was a member of Bank of Georgia's supervisory board from 2006 to 2013 and Vice-Chairman of Bank of Georgia's supervisory board between 2008 and 2010. Prior to joining Bank of Georgia, he was employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999 to 2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, having oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior capacities at Citibank, including as division executive in the Middle East and Indian subcontinent and as division executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as a non-executive director of the Financial Services Volunteer Corps and Phico Therapeutics. He is also a member of the executive committee of the board of the FSVC. Mr Hirst received an MBA from the University of Texas.

Allan Hirst also serves as a member of the Company's audit committee.

Ingeborg Oie (Independent Non-executive Director)

Ingeborg Oie is one of the Company's Independent Non-executive Directors. 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 EMEA. 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. 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.

Ingeborg Oie also serves as a member of the Company's remuneration and clinical quality and safety committees.

Tim Elsigood (Independent Non-executive Director)

Tim Elsigood is one of the Company's Independent Non-executive Directors. Mr Elsigood has over 35 years of international healthcare management experience, in over 15 countries across the world. He is CEO of North Africa Hospital Holdings Group. Prior to his role in North Africa, Mr Elsigood carried out an extensive review of a major medical diagnostics business in India, evaluating the existing business and advising potential investors on the best path to follow to expand the business and build on the existing portfolio. Prior to this he was a vice president for Medsi Group, a private hospital group in Russia. Before this Mr Elsigood worked in Kiev, Ukraine where he was CEO of Isida Hospital, a specialist maternity and women's hospital with a large IVF Centre. He has also carried out executive healthcare roles in Romania and Greece. Initially Mr Elsigood started his career in the UK National Health Service and after 15 years moved to the private sector in the United Kingdom. He then became senior vice president of business development in Capio AB based in Sweden. Mr Elsigood has also served as the UK Head of Alliance Medical Ltd, the largest Medical Imaging Company in Europe. He has an MBA with a focus on health policy and strategy.

Tim Elsigood also serves as a member of the Company's remuneration, audit and clinical quality and safety committees.

Mike Anderson (Independent Non-executive Director)

Mike Anderson is one of the Company's Independent Non-executive Directors. 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. He was initially appointed as a physician at West Middlesex University Hospital in 1990. He subsequently became a medical manager and joined the board of West Middlesex University NHS Trust as Medical Director in 1997. He served as a medical director at Chelsea and Westminster Hospital from 2003 to 2013, as well as continuing in his role as a physician. He is now one of the medical directors for the North West London reconfiguration programme (Shaping a Healthier Future) and continues as a physician at Chelsea and Westminster Hospital and in private medical practice. Dr Anderson has also worked as a clinical advisor and been chairman of hospital inspections for the Care Quality Commission. Dr Anderson is an honorary clinical senior lecturer of Imperial College of Science, Technology and Medicine and a member of the British Society of Gastroenterology and British Association for the Study of the Liver.

Mike Anderson also serves as a member of the Company's nomination committee, and serves as the chairman of the Company's clinical quality and safety committee.

Jacques Richier (Independent Non-executive Director)

Jacques Richier is one of the Company's Independent Non-executive Directors. 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 CEO in 1998. In 2000, he joined Swiss Life France as CEO, becoming chairman and CEO in 2003. In 2008, Jacques Richier was offered the position of CEO of AGF and, in 2010, he became chairman and CEO of Allianz France. Since 2014, he has also served as chairman of Allianz WorldWide Partners. Mr Richier holds a postgraduate degree in Physics from INSA (French National Institute of Applied Science). After being offered a visiting scholar position by the Lawrence Berkeley National Laboratory in Biophysics, California (United States), he took an MBA course in HEC (Paris) in 1984. Mr Richier is currently Chairman and CEO of Allianz France and Chairman of Allianz WorldWide Partners.

Jacques Richier also serves as a member of the Company's audit and nomination committees.

Senior Managers

The following table sets out the name, age, position and term of appointment of each of the Group's Senior Managers.

Name	Date of birth	Position	Term of appointment/Reappointment
David Vakhtangishvili	21 April 1978	Deputy CEO, Finance	Five years, starting from 29 April 2015
Giorgi Mindiashvili	04 January 1985	Deputy CEO, Commercial	Five years, starting from 29 April 2015
Nino Koguashvili	21 July 1981	CEO, Insurance Company Imedi L	Three years, starting from 29 April 2015
Irakli Gogia	22 June 1982	Deputy CEO, Operations	Five years, starting from 29 April 2015
Nino Kortua	21 March 1979	Head, Legal Department	Three years, starting from 29 April 2015
Manana Khurtsilava	06 September 1977	Head, Internal Audit	Three years, starting from 29 April 2015
Dr Ivane Bokeria	21 June 1963	Deputy CEO, Clinical	Three years, starting from 29 April 2015
Medea Chkhaidze	07 December 1980	HR and Organisational Development Director	Three years, starting from 29 April 2015
Otar Lortkipanidze	16 November 1979	IT Director	Three years, starting from 29 April 2015

Each of the Group's Senior Managers can be contacted through the Group's head office at No. 40, Vazha-Pshavela Ave., 0177, Tbilisi, Georgia. Biographical details of the Senior Managers are set out below.

David Vakhtangishvili (Deputy CEO, Finance)

David Vakhtangishvili is the Group's Deputy CEO, Finance. Prior to joining the Group, Mr Vakhtangishvili was the chief financial officer of Bank of Georgia from January 2007. He was in charge of the Bank of Georgia group's accounting, reporting and analysis, budgeting, taxation, M&A due diligence, ERP implementation and certain regulatory aspects, both in Georgia and the United Kingdom, with responsibility for regulatory reporting, regulatory capital and liquidity management of the bank, working capital assessment, UK CFC legislation, and assisting the board of directors with finance related matters. Mr Vakhtangishvili has extensive experience with initial public offerings, Eurobond offerings, cross border transactions and financial management of foreign subsidiaries in different taxation and regulatory environments. Prior to joining Bank of Georgia Mr Vakhtangishvili worked in global international audit and advisory firms for nine years, including five years at Andersen and four years at EY. Mr Vakhtangishvili has a BBA diploma issued by the Free University Business School (ESM).

Giorgi Mindiashvili (Deputy CEO, Commercial)

Giorgi Mindiashvili is the Group's Deputy CEO, Commercial. Prior to joining the Group, Mr Mindiashvili was the CEO of Evex Medical Corporation from April 2013 and a member of the supervisory board Evex Medical Corporation from 2010. In 2012, he also served as executive director of Imedi L. Prior to joining Evex Medical Corporation, he was the CFO of Insurance Company Aldagi from September 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.

Nino Koguashvili (CEO of Insurance Company Imedi L)

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

Irakli Gogia (Deputy CEO, Operations)

Irakli Gogia is the Group's Deputy CEO, Operations. Mr Gogia was appointed deputy chairman of the supervisory board of Evex Medical Corporation and Insurance Company Imedi L in July 2014. He has ten years of experience in the financial industry. From 2009 to 2014, Mr Gogia was the 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 in 2007, Mr Gogia was the CFO of Liberty Consumer. Prior to this, he was a senior auditor at EY and Deloitte & Touche. Mr Gogia holds a Bachelor of Business Administration from the European School of Management in Tbilisi. He was awarded the Order of Honour by the President of Georgia and for academic excellence by the Minister of Education of the United Kingdom.

Nino Kortua (Director of the Legal Department)

Nino Kortua is the director of the Group's legal department. Ms Kortua has 14 years of experience in the insurance field as a lawyer. From 2007 to 2014, Ms Kortua was the head of the legal division of Insurance Company Aldagi with responsibility for general legal compliance, contracts and disputes and represented the company in court proceedings. Prior to joining Insurance Company Aldagi, she was head of the legal unit at Insurance Company BCI from December 2005. She started her career in insurance in 2000 with Insurance Company Nabati (which in 2004 was renamed Insurance Company Aldagi), which was later acquired by Insurance Company BCI. Ms Kortua also practiced 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.

Manana Khurtsilava (Head of Internal Audit)

Manana Khurtsilava is the Group's head of internal audit. She formerly held various managerial positions within the wider Bank of Georgia group. Prior to joining the Group, Manana Khurtsilava was the 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 held various senior positions including internal control officer, senior corporate banker and principal banker (from 2003 to 2014). Prior to joining Bank of Georgia, Ms Khurtsilava was a business consultant for the World Bank's CERMA Project in Tbilisi (from 2002 to 2003) and served as a credit administrator in Bank Republic Société Générale Group, Tbilisi (from 2001 to 2002). She holds Masters and Undergraduate Degrees in economics, major in finance, banking and taxation from Tbilisi State University.

Dr Ivane Bokeria (Deputy CEO, Clinical)

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

Otar Lortkipanidze (IT Director)

Otar Lortkipanidze is the Group's IT director. He has over ten years of experience in the IT field. Prior to joining Evex Medical Corporation, he worked at GPI Holding insurance company. From 2009 to 2012, Mr Lortkipanidze worked for Georgian Water and Power as the head of their IT department. In 2008 he joined Georgian Card as head of the new product development department. From 2006 to 2008, he was head of the IT department and IT consultant for various projects at UBC International audit company. Mr Lortkipanidze started his career as a system administrator in Atlanta, Georgia, where he worked from 2002 to 2004. Mr Lortkipanidze has a BA degree in computer science (Brevard College, United States) and a Master of Science in IT management (CEU Business School, Budapest).

Medea Chkhaidze (HR and Organisational Development Director)

Medea Chkhaidze is the Group's HR and Organisational Development Director. Prior to joining Evex Medical Corporation, Mrs Chkhaidze was head of the HR division at Insurance Company Aldagi from 2009 to 2014 and, before this, she was an independent HR consultant in the insurance field. From 2007 to 2008, Mrs Chkhaidze worked at Standard Bank as the head of their training and development unit.

Between 2002 and 2007, she worked for the Georgian non-profit organisation Foundation of the Development of Human Resources as the leader of various projects and as the executive director of the same organisation during 2001 to 2007. Mrs Chkhaidze holds a Masters Degree in social psychology and conflict management from Javakhishvili Tbilisi State University.

Supervisory Board of JSC Georgia Healthcare Group

All of the Directors of the Company, with the exception of Nikoloz Gamkrelidze, are also members of the supervisory board of JSC Georgia Healthcare Group.

Corporate Governance Policy and Board Committees

The Board recognises the importance of maintaining sound corporate governance practices and supports high standards of corporate governance. In considering Board policies and composition we have carefully considered the requirements of the UK Corporate Governance Code published in September 2014 by the Financial Reporting Council (the **Corporate Governance Code**). In addition, we have considered a number of other factors including in particular the experience and independence of the Company's executive and non-executive directors and the value they can bring to the Board and its committees.

Given that the Group's operations are wholly based in Georgia the Company considers that it is an advantage for the Board to include non-executive directors who have deep familiarity with Georgia. However, since it is an emerging market with few companies listed on international markets, there are a limited number of potential candidates who have the relevant knowledge and experience of the market and of being a director of a UK listed company.

The Corporate Governance Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors, with at least half of the board (excluding the Chairman) being independent non-executive directors. The Board comprises nine directors—one, the Company's CEO Nikoloz Gamkrelidze is an executive director, while the other eight, being Irakli Gilauri, David Morrison, Neil Janin, Allan Hirst, Ingeborg Oie, Tim Elsigood, Mike Anderson and Jacques Richier, are non-executive directors. This model, of having one executive director on the Board, complies with the Corporate Governance Code and has been successfully used by the Company's principal shareholder, BGH. It has allowed BGH to bring a wealth of external experience to its board through its non-executive directors, while keeping it appropriately sized. We are therefore replicating this model at the Company.

The Corporate Governance Code states that the Board should determine whether non-executive directors are "independent", meaning whether they are independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. We have therefore considered the independence of the Company's non-executive directors (in particular in light of the fact that some of them serve on the board of BGH and the factors described in the Corporate Governance Code) and the Board has determined that all non-executive directors are independent except for Irakli Gilauri.

Irakli Gilauri is the Company's Chairman and also serves as CEO of the Company's principal shareholder, BGH. As such, the Board does not consider Irakli Gilauri to be independent. Nevertheless, the Board believes that it is in our best interests to take advantage of Mr Gilauri's capabilities and experience in leading the Board, in particular as we transition to being a publicly listed company.

The Board has determined that the other seven non-executive directors, being David Morrison, Neil Janin, Allan Hirst, Ingeborg Oie, Tim Elsigood, Mike Anderson, and Jacques Richier, are all independent non-executive directors.

The Corporate Governance Code states that the Board should explain its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination. The Board considers that David Morrison and Neil Janin are independent for the following reasons:

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

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

The Corporate Governance Code recommends that the board of directors of a UK public company shall appoint one of its independent non-executive directors as the Senior Independent Director. Given his experience at BGH and his background, the Board has appointed David Morrison to fill this role. The Senior Independent Director will be available to Shareholders if they have concerns which contact with the Chairman or CEO has failed to resolve or for which such contact is inappropriate.

As described above, we are in compliance with all of the requirements of the Corporate Governance Code, except for the following:

- Our Chairman, Irakli Gilauri, is not independent (as described above). Given Mr Gilauri's capabilities and experience the Board believes that he is best placed to lead the Board, in particular as we transition to being a publicly listed company.
- Irakli Gilauri, who is not independent (as described above), serves on the Company's nomination and remuneration committees. The Board considers his experience on appointments and remuneration matters an asset to the Board and does not consider his non-independence to pose any issue as far as executive appointments and compensation is concerned.

Our Board is assisted in fulfilling its responsibilities by four principal committees, being the audit, nomination, remuneration and clinical quality and safety committees. The terms of reference for each of these committees are summarised below. The members of such committees are appointed by the Board.

Audit committee

The members of the Company's audit committee are David Morrison (Chairman), Allan Hirst, Tim Elsigood and Jacques Richier, all of whom are considered by the Board to be independent (see "—*Corporate Governance Policy and Board Committees*" above). The Board is satisfied that both Mr Morrison and Mr Hirst have recent and relevant financial experience.

The Company's audit committee will have responsibility for, amongst other matters: (i) recommending the financial statements to the Board and for reviewing the Company's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing the Company's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the Board the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) approving the audit fee and on an annual basis assessing the effectiveness and independence of the external auditors; and (vii) keeping under review the Company's internal controls and systems for assessing and mitigating financial and non-financial risk.

Nomination committee

The members of the Company's nomination committee are Neil Janin (Chairman), David Morrison, Irakli Gilauri, Mike Anderson and Jacques Richier, all of whom are considered by the Board to be independent apart from Irakli Gilauri (see "—*Corporate Governance Policy and Board Committees*" above). Our nomination committee will normally meet at least twice per year.

Our nomination committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations for new appointments of executive and non-executive directors and on the membership of board committees to the Board. The committee will also oversee the annual review of board effectiveness.

Remuneration committee

The members of the Company's remuneration committee are Neil Janin (Chairman), Irakli Gilauri, Ingeborg Oie and Tim Elsigood, all of whom are considered by the Board to be independent apart from Irakli Gilauri (see "*—Corporate Governance Policy and Board Committees*" above).

Our remuneration committee is constituted to determine and make recommendations to the Board regarding the framework or broad policy for the remuneration of the Company's Chairman, the CEO, the Group Company Secretary and such other members of the Company's executive management as it is designated to consider. The remuneration committee shall also oversee any major changes in the Group's employee benefits structures. The remuneration committee is also required to produce a report of the Group's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval.

Clinical quality and safety committee

The members of the Company's clinical quality and safety committee are Mike Anderson (Chairman), David Morrison, Ingeborg Oie and Tim Elsigood. The clinical quality and safety committee assists the Board in monitoring the Group's non-financial risks, including clinical performance, health and safety and facilities. The committee also reports to the Board on matters of internal control and risk management within its remit.

Share Dealing Code

We will adopt, with effect from Admission, a share dealing code which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. This share dealing code will apply to the Board, other persons discharging managerial functions and certain employees of the Group.

Inside Information Disclosure Policy

We have adopted an Inside Information Disclosure Policy, which will be in effect by Admission. The policy is designed to prevent market abuse, insider dealing and other similar offences by ensuring the timely identification and escalation of inside information as well as co-ordinating the announcement of inside information using appropriate information services. The policy applies to all members of the Group and their respective directors, officers and employees.

Relationship Agreement with BGH

As at the date of this document, we are owned and controlled by BGH which, immediately prior to Admission, will indirectly own 96.24% of the Company's issued share capital, with the remaining 3.76% being held by Sanne Fiduciary Services Limited as trustee for the Group's employee benefit trust. Immediately following the Offering and Admission, we expect that BGH will indirectly (through the Selling Shareholder) own approximately 68% of the Company's issued share capital, assuming no exercise of the Over-allotment Option, and 65% assuming it is exercised in full. We have therefore entered into a Relationship Agreement with BGH and the Selling Shareholder. The principal purpose of the Relationship Agreement is to ensure that the Company and any of its subsidiaries are at all times capable of carrying on the Group's business independently of BGH and its associates as required by the Listing Rules. The Relationship Agreement entitles BGH to appoint one person to be a non-executive director of the Company. BGH will retain the right to appoint one non-executive director of the Company for so long as it (together with its associates) holds at least 20% of the voting share capital of the Company. See "*Part XVI—Material Contracts—Relationship Agreement*" for a summary of the Relationship Agreement.

Conflicts of Interest

Irakli Gilauri is the CEO of BGH, David Morrison is the Senior Independent Director of BGH and Neil Janin serves as chairman of the board of BGH (see "*—Directors*" above). Immediately following the Offering and Admission, it is expected that BGH will indirectly (through the Selling Shareholder) own approximately 68% of the Company's issued share capital, assuming no exercise of the Over-allotment Option, and 65% assuming the Over-allotment Option is exercised in full.

Save as set out in the paragraph above, there are no actual or potential conflicts of interest between any duties owed by the Directors or senior management to the Company and their private interests or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management.

PART XI
SELECTED HISTORICAL FINANCIAL INFORMATION

The selected historical financial information set out below has been extracted without material adjustment from Part XXII: "Historical Financial Information".

Consolidated Income Statement

	For the six months ended 30 June				For the year ended 31 December				
	2015		2015-2014	2014	2014	2014-2013	2013	2013-2012	2012
	(unaudited) (thousands of U.S$)(1)	(audited) (thousands of GEL)	Change (%)	(unaudited) (thousands of GEL)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)
Healthcare services revenue	37,907	82,553	57.4	52,437	126,884	102.6	62,638	26.7	49,450
Net insurance premiums earned	12,031	26,202	(38.2)	42,428	69,448	(32.6)	102,963	47.3	69,914
Revenue	**49,938**	**108,755**	**14.6**	**94,865**	**196,332**	**18.6**	**165,601**	**38.7**	**119,364**
Cost of healthcare services	(21,218)	(46,209)	55.1	(29,802)	(71,803)	117.2	(33,062)	10.1	(30,041)
Net insurance claims incurred	(9,230)	(20,101)	(39.4)	(33,154)	(54,263)	(28.1)	(75,513)	65.6	(45,596)
Costs of services	**(30,448)**	**(66,310)**	**5.3**	**(62,956)**	**(126,066)**	**16.1**	**(108,575)**	**43.5**	**(75,637)**
Gross profit	**19,490**	**42,445**	**33.0**	**31,909**	**70,266**	**23.2**	**57,026**	**30.4**	**43,727**
Other operating income	779	1,696	27.3	1,332	2,875	(1.3)	2,912	(6.0)	3,099
Salaries and other employee benefits	(5,787)	(12,602)	27.3	(9,901)	(19,804)	45.5	(13,613)	(0.8)	(13,729)
General and administrative expenses	(2,273)	(4,950)	17.5	(4,212)	(9,449)	45.8	(6,480)	19.2	(5,434)
Impairment of healthcare services, insurance premiums and other receivables	(848)	(1,846)	68.6	(1,095)	(5,134)	48.0	(3,470)	32.8	(2,613)
Other operating expenses	(530)	(1,155)	(37.5)	(1,848)	(1,892)	42.1	(1,331)	(23.5)	(1,740)
	(9,438)	**(20,553)**	**20.5**	**(17,056)**	**(36,279)**	**45.7**	**(24,894)**	**5.9**	**(23,516)**
EBITDA(2)	**10,831**	**23,588**	**45.7**	**16,185**	**36,862**	**5.2**	**35,044**	**50.3**	**23,310**
Depreciation and amortization	(2,245)	(4,889)	31.9	(3,707)	(7,630)	29.3	(5,901)	54.3	(3,824)
Interest income	562	1,223	48.6	823	1,532	5.0	1,459	(38.5)	2,372
Interest expense	(5,208)	(11,341)	69.6	(6,685)	(14,338)	31.2	(10,928)	47.7	(7,397)
Net gains/(losses) from foreign currencies	2,502	5,449	(405.6)	(1,783)	(2,494)	(38.3)	(4,045)	697.8	(507)
Net non-recurring (expense)/income	(352)	(767)	(157.5)	1,333	578	—	—	—	—
Profit before income tax expense	**6,090**	**13,263**	**115.1**	**6,166**	**14,510**	**(7.2)**	**15,629**	**12.0**	**13,954**
Income tax benefit/ (expense)	24	53	(107.6)	(695)	(1,246)	(44.7)	(2,255)	26.8	(1,779)
Profit for the period	**6,114**	**13,316**	**143.4**	**5,471**	**13,264**	**(0.8)**	**13,374**	**9.8**	**12,175**
Attributable to:									
—shareholders of the Group	5,443	11,854	164.7	4,478	10,207	8.3	9,422	4.9	8,985
—non-controlling interests	671	1,462	47.2	993	3,057	(22.6)	3,952	23.9	3,190

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 2,1778 per U.S. dollar, being the official GEL to U.S. dollar exchange rate reported by the National Bank of Georgia as an average for the six month period ended 30 June 2015.

(2) EBITDA is calculated as profit for the year, before interest, taxes, depreciation and amortisation.

Consolidated Statement of Financial Position

	As at 30 June 2015		As at 30 June 2015-As at 31 December 2014	As at 31 December				
				2014	2014-2013	2013	2013-2012	2012
	(unaudited) (thousands of U.S$)[(1)]	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)
ASSETS								
Cash and cash equivalents	11,335	25,484	(22.3)	32,784	633.3	4,471	(46.8)	8,398
Amounts due from credit institutions	7,237	16,270	16.6	13,954	62.1	8,606	(2.4)	8,816
Insurance premiums receivable	14,195	31,914	80.6	17,673	(63.9)	48,910	(7.1)	52,637
Receivables from healthcare services	23,772	53,447	23.5	43,265	219.5	13,543	77.5	7,630
Prepayments	4,140	9,307	90.9	4,875	(0.9)	4,919	(45.0)	8,942
Property and equipment	142,427	320,218	21.8	262,938	52.4	172,581	15.9	148,954
Goodwill and other intangible assets	5,660	12,725	25.7	10,123	14.4	8,846	84.9	4,783
Current income tax assets	982	2,208	3.2	2,139	128.0	938	942.2	90
Deferred income tax assets	450	1,012	44.0	703	64.6	427	(18.0)	521
Other assets	14,014	31,507	51.3	20,823	27.8	16,291	(5.9)	17,318
Total assets	**224,210**	**504,092**	**23.2**	**409,277**	**46.4**	**279,532**	**8.3**	**258,089**
LIABILITIES								
Accounts payable	4,259	9,576	11.5	8,591	45.6	5,901	(10.5)	6,596
Accruals for employee compensation	5,774	12,981	33.3	9,740	46.1	6,667	21.2	5,500
Payables for share acquisitions	1,100	2,473	(81.2)	13,165	2799.8	454	(67.0)	1,374
Insurance contract liabilities	13,407	30,142	71.4	17,583	(65.1)	50,335	(11.8)	57,050
Debt securities issued	14,683	33,012	—	—	—	—	—	—
Borrowings	72,280	162,507	(0.2)	162,860	54.7	105,242	15.4	91,161
Current income tax liabilities	2,370	5,329	14.8	4,641	205.9	1,517	100.4	757
Deferred income tax liabilities	6,126	13,773	55.1	8,880	172.0	3,265	5.4	3,098
Other liabilities	9,151	20,574	78.8	11,506	55.0	7,425	(30.5)	10,682
Total liabilities	**129,150**	**290,367**	**22.5**	**236,966**	**31.1**	**180,806**	**2.6**	**176,218**
EQUITY								
Share capital	39,784	89,446	215.7	28,335	107.0	13,686	0.0	13,686
Additional paid-in capital	29,644	66,648	(32.8)	99,138	188.9	34,317	1.6	33,765
Other reserves	(6,800)	(15,289)	(7.6)	(16,543)	(3876.9)	438	23.0	356
Retained earnings	21,226	47,723	33.0	35,869	39.8	25,662	58.0	16,240
Total equity attributable to shareholders of the Group	**83,854**	**188,528**	**28.4**	**146,799**	**98.1**	**74,103**	**15.7**	**64,047**
Non-controlling interests	11,207	25,197	(1.2)	25,512	3.6	24,623	38.1	17,824
Total equity	**95,061**	**213,725**	**24.0**	**172,311**	**74.5**	**98,726**	**20.6**	**81,871**
Total equity and liabilities	**224,210**	**504,092**	**23.2**	**409,277**	**46.4**	**279,532**	**8.3**	**258,089**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 2.2483 per U.S. dollar, being the official GEL to U.S. dollar exchange rate reported by the National Bank of Georgia on 30 June 2015.

Consolidated Statement of Cash Flows

	For the six months ended 30 June				For the year ended 31 December				
	2015		2015-2014	2014	2014	2014-2013	2013	2013-2012	2012
	(unaudited) (thousands of U.S$)[(1)]	(audited) (thousands of GEL)	Change (%)	(unaudited) (thousands of GEL)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)	Change (%)	(audited) (thousands of GEL)
Cash flows from operating activities									
Healthcare services revenue received	32,595	70,986	83.9	38,605	100,037	100.8	49,826	12.7	44,225
Cost of healthcare services paid	(20,454)	(44,544)	82.4	(24,421)	(75,474)	147.4	(30,510)	8.1	(28,221)
Net insurance premiums received	12,369	26,938	(37.6)	43,155	72,398	(30.2)	103,674	50.5	68,869
Net insurance claims paid	(8,340)	(18,163)	(46.9)	(34,211)	(56,544)	(29.3)	(80,028)	50.2	(53,296)
Salaries and other employee benefits paid	(5,338)	(11,625)	22.7	(9,473)	(18,540)	33.8	(13,857)	(10.8)	(15,530)
General and administrative expenses paid	(1,176)	(2,561)	(38.0)	(4,131)	(9,572)	26.9	(7,542)	1.4	(7,440)
Acquisition costs paid	(650)	(1,416)	3.7	(1,366)	(2,702)	(13.0)	(3,105)	54.8	(2,006)
Other operating income received	820	1,785	(12.2)	2,034	3,726	517.9	603	(71.5)	2,116
Other operating expenses paid	(868)	(1,891)	(0.3)	(1,896)	(2,556)	126.2	(1,330)	430.5	(213)
Net cash flows from operating activities before income tax	8,958	19,509	135.2	8,296	10,773	(39.9)	17,931	110.9	8,504
Income tax paid	(214)	(465)	(41.6)	(796)	(2,327)	21.8	(1,911)	102.0	(946)
Net cash flows from operating activities	**8,744**	**19,044**	**153.9**	**7,500**	**8,446**	**(47.3)**	**16,020**	**112.0**	**7,558**
Cash flows from (used in) investing activities									
Acquisition of subsidiaries, net of cash acquired	(12,944)	(28,189)	65.2	(17,068)	(22,631)	550.7	(3,478)	(63.4)	(9,513)
Acquisition of additional interest in existing subsidiaries	(923)	(2,011)	(93.3)	(29,826)	(30,005)	—	—	—	—
Purchase of property and equipment	(11,110)	(24,196)	264.5	(6,638)	(30,006)	142.3	(12,385)	(79.7)	(60,867)
Purchase of intangible assets	(696)	(1,516)	101.3	(753)	(430)	505.6	(71)	(79.1)	(340)
Interest income received	145	316	10.9	285	244	(64.9)	696	(66.0)	2,047
Loans issued	(310)	(675)	—	—	—	—	—	(100.0)	(1,849)
Withdrawals and redemptions of amounts due from credit institutions	—	—	—	—	—	(100.0)	1,219	(92.4)	15,974
Placements of amounts due from credit institutions	(62)	(135)	(64.7)	(382)	(5,348)	434.8	(1,000)	(92.2)	(12,807)
Proceeds from sale of property and equipment	868	1,891	210.5	609	2,158	80.6	1,195	(53.2)	2,556
Net cash used in investing activities	**(25,032)**	**(54,515)**	**1.4**	**(53,773)**	**(86,018)**	**522.2**	**(13,824)**	**(78.7)**	**(64,799)**
Cash flows from (used in) financing activities									
Proceeds from issuance of ordinary shares	—	—	(100.0)	49,335	78,679	—	—	(100.0)	31,413
Proceeds from debt securities issued	15,726	34,247	—	—	—	—	—	—	—
Proceeds from borrowings	17,011	37,047	77.4	20,885	66,099	218.7	20,741	(53.6)	44,662
Repayment of borrowings	(16,215)	(35,314)	120.0	(16,049)	(20,491)	22.6	(16,708)	179.5	(5,978)
Purchase of derivative financial assets	—	—	(100.0)	(45)	—	(100.0)	(1,158)	—	—
Proceeds from derivative financial assets	918	2,000	—	—	—	—	—	—	—
Interest expense paid	(5,089)	(11,083)	86.0	(5,960)	(18,363)	103.7	(9,016)	51.1	(5,966)
Net cash flows from (used in) financing activities	**12,351**	**26,897**	**(44.2)**	**48,166**	**105,924**	**(1824.9)**	**(6,141)**	**(109.6)**	**64,131**
Effect of exchange rates changes on cash and cash equivalents	585	1,274	137.2	537	(39)	(316.7)	18	(141.9)	(43)
Net (decrease) / increase in cash and cash equivalents	**(3,352)**	**(7,300)**	**(400.4)**	**2,430**	**28,313**	**(821.0)**	**(3,927)**	**(157.4)**	**6,847**
Cash and cash equivalents, beginning	15,054	32,784	633.3	4,471	4,471	(46.8)	8,398	441.5	1,551
Cash and cash equivalents, end	**11,702**	**25,484**	**269.3**	**6,901**	**32,784**	**633.3**	**4,471**	**(46.8)**	**8,398**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 2,1778 per U.S. dollar, being the official GEL to U.S. dollar exchange rate reported by the National Bank of Georgia as an average for the six month period ended 30 June 2015.

Statement of Changes in Equity

(audited)	Share Capital	Additional Paid-in Capital	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
			(thousands of GEL)				
1 January 2012	**6,485**	**9,366**	**356**	**7,255**	**23,462**	**14,634**	**38,096**
Profit for the year	—	—	—	8,985	8,985	3,190	12,175
Total comprehensive income	—	—	—	**8,985**	**8,985**	**3,190**	**12,175**
Issue of share capital	7,201	24,212	—	—	31,413	—	31,413
Share-based compensation	—	187	—	—	187	—	187
31 December 2012	**13,686**	**33,765**	**356**	**16,240**	**64,047**	**17,824**	**81,871**
Profit for the year	—	—	—	9,422	9,422	3,952	13,374
Other comprehensive income	—	—	82	—	82	—	82
Total comprehensive income	—	—	**82**	**9,422**	**9,504**	**3,952**	**13,456**
Increase of non-controlling interest in existing subsidiaries	—	—	—	—	—	2,847	2,847
Share-based compensation	—	552	—	—	552	—	552
31 December 2013	**13,686**	**34,317**	**438**	**25,662**	**74,103**	**24,623**	**98,726**
Profit for the year	—	—	—	10,207	10,207	3,057	13,264
Total comprehensive income	—	—	—	**10,207**	**10,207**	**3,057**	**13,264**
Issue of share capital	14,649	64,030	—	—	78,679	—	78,679
Acquisition of additional interest in existing subsidiaries	—	—	(16,981)	—	(16,981)	(13,024)	(30,005)
Non-controlling interests arising from business combinations	—	—	—	—	—	10,856	10,856
Share-based compensation	—	791	—	—	791	—	791
31 December 2014	**28,335**	**99,138**	**(16,543)**	**35,869**	**146,799**	**25,512**	**172,311**

	Share Capital	Additional Paid-in Capital	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
			(thousands of GEL)				
31 December 2013	13,686	34,317	438	25,662	74,103	24,623	98,726
Profit for the period *(unaudited)*	—	—	—	4,478	4,478	993	5,471
Total comprehensive income *(unaudited)*	—	—	—	4,478	4,478	993	5,471
Issue of share capital *(unaudited)*	9,373	39,962	—	—	49,335	—	49,335
Non-controlling interests arising from business combinations *(unaudited)*	—	—	—	—	—	10,856	10,856
Acquisition of additional interest in existing subsidiaries *(unaudited)*	—	—	(16,981)	—	(16,981)	(12,845)	(29,826)
Share-based compensation *(unaudited)*	—	396	—	—	396	—	396
30 June 2014 *(unaudited)*	23,059	74,675	(16,543)	30,140	111,331	23,627	134,958
(audited)							
31 December 2014	28,335	99,138	(16,543)	35,869	146,799	25,512	172,311
Profit for the period	—	—	—	11,854	11,854	1,462	13,316
Total comprehensive income	—	—	—	11,854	11,854	1,462	13,316
Non-controlling interests arising from business combinations	—	—	—	—	—	1,488	1,488
Acquisition of additional interest in existing subsidiaries	—	—	1,254	—	1,254	(3,265)	(2,011)
Holding company establishment	47,665	(47,665)	—	—	—	—	—
Loan conversion	13,446	14,834	—	—	28,280	—	28,280
Share-based compensation	—	341	—	—	341	—	341
30 June 2015	89,446	66,648	(15,289)	47,723	188,528	25,197	213,725

Avante—Key Financial Information

The selected historical financial information set out below is audited, and sets out the total revenue, net profit and total assets for Avante for the two months ended 28 February 2014 and 2013 and the years ended 31 December 2013 and 2012.

	For the two months ended 28 February		For the year ended 31 December	
	28 February 2014	28 February 2013	2013	2012
	(audited) (000s of GEL)	(audited) (000s of GEL)	(audited) (000s of GEL)	(audited) (000s of GEL)
Total revenue	6,170	5,332	34,991	22,040
Net profit	501	(319)	2,560	1,169
Total assets(at end of period date)	35,278	32,223	33,912	29,725

Traumatology—Key financial information

The selected historical financial information set out below is audited, and sets out the total revenue, net profit and total assets for Traumatology for the the years ended 31 December 2014, 2013 and 2012.

	For the year ended 31 December		
	2014	2013	2012
	(audited) (000s of GEL)	(audited) (000s of GEL)	(audited) (000s of GEL)
Total revenue	8,030	7,522	5,620
Net profit	348	17	400
Total assets(at end of period date)	4,555	3,741	3,645

HTMC Hospital Selected Statement of Comprehensive Income

The selected historical financial information set out below is unaudited, and sets out the total revenue and EBITDA for HTMC Hospital for the year ended 31 December 2014 and the six months ended 30 June 2015

	30 June 2015	31 December 2014
	(unaudited)	
Total revenue	21,713,436	38,405,232
EBITDA	6,818,046	13,963,525

PART XII
OPERATING AND FINANCIAL REVIEW

This Part XII "Operating and Financial Review" should be read in conjunction with Part IV: "Presentation of Financial and Other Information", Part VIII: "Industry Overview", Part IX: "Our Business" and Part XXII: "Historical Financial Information". Prospective Investors should read the entire document and not just rely on the summary set out below. Unless otherwise stated, the financial information set out below has been extracted without material adjustment from the historical financial information set out in Part XXII: "Historical Financial Information".

The following discussion of the Group's results of operations and financial condition contains forward-looking statements. The Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this document, particularly under Part II: "Risk Factors".

Overview

We are the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. Our leadership position is underpinned by offering the most comprehensive range of inpatient and outpatient services targeting the mass market segment through our vertically integrated network of 34 hospitals and six ambulatory clinics, as at 30 June 2015.

Our operations are organised in specific geographic clusters to provide services to the broadest range of patients with (i) ambulatory clinics providing basic outpatient services, (ii) community hospitals offering broader outpatient and a range of multi-profile inpatient healthcare services, and (iii) referral hospitals offering a comprehensive range of complex and specialist services. The referral hierarchy within each geographic cluster provides patients with a complete treatment pathway, from local physicians via ambulatory clinics and community hospitals to larger general referral hospitals where more specialised treatments are provided. Our dedicated ambulance services help facilitate the movement of patients between hospitals.

We are the single largest market participant, accounting for 22.1% of total hospital bed capacity in the country, as of 30 June 2015, which is more than four times higher than our nearest competitor, Gudushauri-Chachava. Our market share by beds grew to 26.6% following the acquisition of HTMC Hospital in August 2015 (450 additional beds) and is expected to grow to 30.0% as a result of the renovation of recently acquired hospital facilities, scheduled for completion in 2016 and 2017 (approximately 500 additional beds). We have a market share of 14.0% by hospital revenue, as at 30 June 2015. We also have the widest geographic coverage network relative to our competitors, with facilities currently located in six regions covering three quarters of the 4.5 million population of Georgia.

We are also the largest provider of medical insurance in Georgia with a 38.1% market share based on net insurance premiums earned, as at 30 June 2015, over 12% larger than our nearest competitor. We offer a wide range of comprehensive private medical insurance policies that customers can opt for instead of relying on the coverage provided under the UHC and other state-funded healthcare programmes and have introduced products that "top up" or supplement the UHC coverage. Our products are offered as corporate packages to large employers and standalone policies for self-paying individuals. We had approximately 250,000 insurance customers as at 30 June 2015. Our business was established in 1990, and has operated as a subsidiary of Bank of Georgia since 2004. We have 25 years of experience in the medical insurance market, and have been providing healthcare services to patients since 2006.

Our business has grown rapidly in recent years, driven by significant organic expansion of our existing facilities and by selective acquisition and integration of a number of complementary businesses and assets. Our total revenue has increased from GEL 119.4 million in 2012 to GEL 196.3 million in 2014, our EBITDA from GEL 23.3 million to GEL 36.9 million and our number of beds from 1,041 to 2,140. In the first half of 2015, we had total revenue of GEL 108.8 million and EBITDA of GEL 23.6 million, of which our healthcare services business comprised 75.9% and 94.7%, respectively with the balance generated by our medical insurance business.

We employed a total of 8,631 people as at 30 June 2015, including 2,748 physicians and 2,364 nursing staff.

Key Factors Affecting Our Results of Operations

Our results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected our results in the past and that we expect to affect our financial results in the future. Factors other than those set forth below could also have a significant impact on our results of operations and financial condition in the future.

Economic and healthcare market conditions increasing demand for healthcare services and medical insurance

The following macroeconomic factors have contributed to the growth and development of the Georgian healthcare services and medical insurance market:

- *Improving economic conditions in Georgia.* Real GDP increased 6.4% in 2012, but growth slowed in 2013 to 3.3% due to uncertainties surrounding Georgian parliamentary and presidential elections. Real GDP increased by 4.7% in 2014 and it is forecast to grow at a compound annual growth rate of 3.9% from 2014 to 2019, according to the IMF. Accordingly, Georgia is expected to be among the world's fastest growing economies. Inflation has declined from a high of 11.2% in 2010 to 2.0% in 2014.
- *Increasing wealth.* The gradual increase in household incomes and the standard of living of the population has increased demand for healthcare services. Aggregate household income in Georgia increased from U.S.$651.2 million in 2010 to U.S.$887.2 million in 2013, according to Geostat. Challenges remain with almost 12% of the Georgian population living below the poverty line and an unemployment rate of approximately 12% (down from approximately 17% in 2008). However, management believes that, based on recent historical trends, household income will continue to increase.
- *Increasing access to healthcare.* In 2007 the government of Georgia launched a healthcare reform programme that resulted in the replacement of outdated Soviet-era hospitals through privatisation and provided incentives for the establishment of new private hospitals. By the end of 2013, approximately 150 new hospitals had been built with funding from private investors and international donors. In February 2013, the UHC was introduced to provide state-funded healthcare coverage in Georgia. See *Part VIII: "Industry Overview—Healthcare services market—Reform of the healthcaresector—Universal healthcare programme"*.
- *Increasing life expectancy.* Average life expectancy in Georgia is forecast to increase from 74 to 76 years over the next decade. The share of the Georgian population over the age of 60 is forecast to gradually increase from 19% in 2010 to 27% by 2050.
- *Increasing incidence of "lifestyle" diseases.* Adult morbidity and chronic diseases have become an increasing public health problem. Non-communicable diseases (NCD) are estimated to account for 91% of all deaths in Georgia, and most of these involve cardiovascular diseases.

We believe that these trends will continue to increase demand for healthcare services and medical insurance in Georgia.

Healthcare reform in Georgia facilitating increased access to healthcare

The Georgian healthcare industry has undergone a number of reforms and transformations during the last two decades. Favourable government policy has resulted in improved healthcare infrastructure and increased access to healthcare through a state-financed universal healthcare programme.

- *Infrastructure reform.* The renovation of healthcare infrastructure through privatisation and private investments into green-field healthcare facilities has improved overall access to healthcare in Georgia. From 2007 to 2013, more than 150 new hospitals were built with substantial participation of private investors and international donors. Approximately 60% of these are privately owned and the government mainly retained specialised healthcare facilities, such as tuberculosis clinics and healthcare facilities within, psychiatric and penal institutions. Bed capacity in Georgia is currently 2.6 beds per 1,000 people, which is similar to the levels in the United Kingdom and the United States.

  Notwithstanding the renovated infrastructure, medical technologies available to patients in Georgia are limited with substantial gaps in a number of fields, including oncology, and high-tech diagnostics, as well as gaps in the as their geographic across the country. Investments in technologies are expected to drive further increase in accessibility of healthcare for the population of Georgia.

- *Insurance and funding reforms.* A major step in the overhaul of the healthcare system in Georgia was taken with the introduction of the UHC in March 2013. The government's goal was to provide basic healthcare coverage to the entire population, including more than 2 million people who had never had medical insurance before and had purchased healthcare services on an out-of-pocket basis. As a result of the implementation of the UHC, approximately 92% of the population was covered by state healthcare programmes by the end of 2014 (*Source*: Georgia's Progress Report on Implementation of the ENP Action Plan and the EAP Roadmaps, October 2014 (the **Georgian Progress Report**)). At the same time, 12% of the population, or 535,000 Georgians, are estimated to have private medical insurance. Prior to the UHC, the government had implemented the State Insurance Programme (SIP) in 2007. This provided medical insurance coverage with no co-payment to approximately 0.8 million economically vulnerable citizens and teachers. In 2012, a second SIP was introduced, extending coverage with co-payments to approximately 2.1 million people including pensioners, children under five and children with disabilities, teachers and students. The government paid premiums on behalf of beneficiaries to the private insurance companies that administered the SIPs.

  In addition to the UHC, 20 disease-oriented (vertical) healthcare programmes have been implemented in Georgia. Their total budget in 2014 constituted GEL 126 million according to the Georgian Progress Report. Depending on the programme, a certain level of co-payment (generally 10% to 50%) is required from the patient with the rest paid by the government.

The increased access to healthcare under the UHC has resulted in additional demand for our healthcare services. However, the implementation of the UHC has negatively affected our medical insurance business, as the revenues from state medical insurance programmes ceased.

Expansion of our healthcare services operations

During the periods under review, we have increased our healthcare services business capacity through the acquisition and renovation, and new construction of healthcare facilities. The table below illustrates the growth in our business based on certain key performance indicators for the periods stated. All of the information in the following table (other than Revenue and EBITDA) is unaudited.

	For the six months ended 30 June		For the years ended 31 December			
	2015	2014	2014	2013	2012	2012-2014
	(thousands of GEL)					(% change
Number of referral hospitals	15	12	14	8	5	180.0%
Number of community hospitals	19	19	19	20	20	(5.0)%
Number of ambulatory clinics	6	5	6	4	3	100.0%
Number of beds	2,220	1,892	2,140	1,329	1,041	105.6%
Of which:						
in referral hospitals	1,759	1,431	1,679	853	565	197.2%
in community hospitals	461	461	461	476	476	(3.2)%
Revenue (thousands of GEL)	108,755	94,865	196,332	165,601	119,364	64.5%
EBITDA (thousands of GEL)	23,588	16,185	36,862	35,044	23,310	58.1%
EBITDA Margin (%)	21.3%	16.9%	18.6%	21.2%	19.5%	

Between 2012 and 2014, we increased our number of beds from 1,041 to 2,140, our total revenue by 64.5% and our EBITDA by 58.1% through a combination of organic growth and acquisitions. Of the 1,099 beds added during this period, 21 beds were added organically and 1,078 beds through acquisitions. Pursuant to our capital expenditure programme, we have invested approximately GEL 191.3 million between the beginning of 2012 and 30 June 2015 in acquisitions of new subsidiaries, capital expenditures for refurbishment and the construction of new facilities. To help fund these investments we incurred GEL 178.4 million of additional indebtedness. As a result, our expansion has significantly increased our depreciation and interest expense during the periods under review. In addition, the number of new facilities we acquired during the period under review has contributed significantly to the increase in our revenue and makes it harder to compare our results from period to period.

Payor mix

Healthcare services

We have a diversified revenue base. Our healthcare services revenue is generated from three primary payor sources: (i) state; (ii) private medical insurance companies (which mainly imply medical insurance provided by corporations to their employees); and (iii) out of-pocket and other (which includes co-payments). All of our facilities are able to accept each of these sources of payment.

In 2014, healthcare services revenue from state, private insurance companies and other payors accounted for 65.2%, 10.5% and 25.7% of the revenue generated by our healthcare services business, respectively. The following table details the evolution of our healthcare services revenue from each of these payor sources for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December			
	2015	2014	2014	2013	2012	2012-2014
	(audited)	(unaudited)	(audited)	(audited)	(audited)	% change
			(thousands of GEL)			
Total healthcare services revenue	**82,553**	**52,437**	**126,884**	**62,638**	**49,450**	**156.6%**
Of which:						
Healthcare services revenue from state	65,788	28,279	82,729	20,106	16,451	402.9%
Healthcare services revenue from insurance companies	1,512	8,247	13,348	23,236	8,915	49.7%
Healthcare services revenue from out-of-pocket and other	17,095	16,819	32,623	19,296	24,084	35.5%
Less: corrections & rebates	(1,842)	(908)	(1,816)	—	—	—

As management believe that a significant part of our future revenue and profit will be derived from state-funded healthcare programmes, we will remain sensitive to changes in such programmes (see *Part II:* "*Risk Factors—Our healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers*").

Medical insurance

Our medical insurance business received revenues from the government and from private organisations and individuals.

	For the six months ended 30 June		For the years ended 31 December			
	2015	2014	2014	2013	2012	2012-2014
	(audited)	(unaudited)	(audited)	(audited)	(audited)	% change
			(thousands of GEL)			
Total net insurance premiums earned	**26,202**	**42,428**	**69,448**	**102,963**	**69,914**	**(0.7)%**
Of which:						
State-funded healthcare programmes	—	22,252	27,910	62,683	33,099	(15.7)%
Private medical insurance products	26,202	20,176	41,538	40,280	36,815	12.8%

As government spending on healthcare was consolidated under the UHC, following the phasing out of the SIPs under which the government previously bought private medical insurance for the covered population, our medical insurance business revenue from the state decreased to nil in 2015.

Pricing and volume

Our revenues depend on the fees we charge for our products and services, as well as the volume of products and services sold.

Fees for healthcare services vary depending on, amongst other factors, the type of service we provide to patients, as well as on the healthcare facility and location. Our hierarchy of service levels helps us capture different customer segments through differentiated pricing. Referral and specialty clinics charge a premium compared to community hospitals and ambulatory clinics offering services at prices that are, on average, 10% to 15% lower than referral hospitals. This pricing policy also helps free up capacity at our referral hospitals for secondary and tertiary services. Our specialist ambulances help facilitate the movement of patients between our hospitals, improving utilisation of our facilities and medical personnel.

The volume of services rendered is affected by, amongst other factors, the type of healthcare facilities, mix and quality of available services, medical equipment, physical access to healthcare facilities, financial factors and the opening and acquiring of new healthcare facilities.

Premiums for medical insurance products vary depending on, amongst other factors: co-payment rates, number of members enrolled in case of group insurance, mix of treatments covered, list of exclusions, location of insured, sums insured, the list of accessible healthcare services providers and scheme of provider choices, as well as claims settlement procedures, customer demographics, and insurance periods. The volume of products sold is affected by, amongst other factors, the number of exclusive sales agents (selling retail insurance products) and account managers (selling group insurance products), general awareness of private medical insurance and our products, mix of distribution channels, fees for medical insurance products, attributes of medical insurance products, and macroeconomic factors including the rate of employment, GDP and the healthcare financing policy of the state. Changes in the mix of products we offer also impact our revenue and profits.

Efficiencies and cost management

Capturing economies of scale is a significant part of our growth strategy. We have centralised certain functions across our healthcare services facilities and our medical insurance business, and focussed on implementing other efficient cost management practices. Our centralised functions include finance, procurement and logistics, human resources administration and training, legal, sales and marketing, business development, clinical service development and coordination, public relations, information technologies and systems, call centre, clinical equipment engineering management, and clinical laboratories, as well as the development of policies and procedures. Our centralised administration provides additional cost benefits compared with our competitors, which generally have separate administration functions at each of their facilities. As Georgia's largest buyer of medicines and medical supplies with the ability to conduct centralised purchasing, coupled with our efficient purchasing practices implying tenders for each supply item, we were able to reduce prices of supplies on average by 20% within four months following the acquisition. During 2014, we acquired an additional 800 beds in inefficient hospitals and this had a negative impact on our costs. Management believes that in future periods, the continued implementation of its efficiency and cost management programme across all of our facilities will have a positive impact on our gross profit margins and EBITDA.

Fluctuations in Currency Exchange Rates

Fluctuations in the prevailing foreign currency exchange rates affect our financial position and cash flows. Our functional currency is GEL. Our exposure to foreign exchange risk arises primarily with respect to U.S. dollars and the euro. While all our revenues and expenses are in GEL, a significant portion of medicines and medical disposables that we purchase are imported and therefore prices are pegged to foreign currency (mostly U.S. dollar and/or euro). Furthermore, prices of almost all medical equipment that we purchase are also set in foreign currency (mostly U.S. dollar and/or euro). A significant portion of our borrowings drawn primarily to fund our expansion plans are denominated in U.S. dollars. As of 30 June 2015, we had GEL 195.5 million in total borrowings and debt securities issued, of which 39.0% were U.S. dollar-denominated and 61.0% were GEL-denominated. In the first six months of 2015, we incurred GEL 25.6 million in capital expenditure. Although we seek to minimise the effect of currency fluctuations, in particular through the use of foreign exchange forward and option contracts, such fluctuations may affect our results. For instance, in the year ended 31 December 2014, we recognised a GEL 2,494 thousand net foreign currency loss in our income statement due to exchange rate fluctuations. We also record our foreign exchange losses (or gains) that relate to non-operating cash flow items in order to reconcile our cash flow using the indirect method. For the year ended 31 December 2014, we recorded a GEL 4,479 thousand foreign-exchange loss for this measure. For the six months ended 30 June 2015 we reported a GEL 6,053 thousand foreign exchange gain relating to non-operating cash flow items.

Taxation

We currently benefit from an exemption under Georgian tax law for healthcare service providers that allows us to reduce the rate of corporate income tax that we pay to the extent that we re-invest the returns in our healthcare services facilities. We expect this benefit will be reduced as we complete our major renovation plans.

Key Income Statement Items

Below is a description of each of the line items appearing in our income statement.

Revenue includes revenue from our healthcare services business as well as revenue from the writing of insurance premiums. We recognise revenue when the amount of revenue can be reliably measured, or it is probable that future economic benefits will flow to the entity. Revenue is shown net of corrections, rebates, discounts, and after eliminating sales within the Group.

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services. This includes income received from state-funded healthcare programmes, private medical insurance companies, out-of-pocket financing by patients and other revenue streams (including revenue from other hospitals with which we have contractual relationships). Revenue is recognised on the provision of healthcare services to the patients concerned, and payment is received on terms agreed with the respective insurer, government body, municipality or hospital. The exception to this is out-of-pocket financing by patients, in which case payment is usually received in cash or by credit card.

Net insurance premiums earned comprises the gross value of insurance premiums written, in addition to the gross change in the unearned premium provision, minus all acquisition costs associated with the writing of premiums (on a net of reinsurance basis). Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods after the reporting date. Unearned premiums are computed on a monthly pro rata basis.

Costs of services includes the costs associated with the provision of healthcare services, and the net value of insurance claims incurred. The cost of healthcare services represents expenses directly related to the generation of revenue from the provision of healthcare services, including, but not limited to the salaries of clinical personnel, cost of medicines and other disposables, utilities, maintenance and cleaning. Insurance claims incurred comprises all claim losses occurring during the year, including the related handling costs and any adjustments to claims outstanding from previous years. 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.

Other operating income principally comprises the revenue derived from any gain from sales of property and equipment, rental income, together with the gain from the re-sale of medicines, revenue from factoring and other sources.

Salaries and other employee benefits refers to the salaries, bonuses, share-based compensation, and other benefits provided to all non-clinical personnel. This includes employees working exclusively in back office and other support functions, and those employed in the medical insurance business.

General and administrative expenses principally includes charges relating to rent, the purchase of office supplies, marketing and advertising costs, professional service fees, representative costs, expenditure on communication, bank fees and commissions, administrative utilities, travel expenses and other expenses.

Impairment of healthcare, insurance premium and other receivables relates to our assessment of the collectability of specific customer accounts. If we determine that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, the account receivable is included in a group of accounts receivable with similar credit risk characteristics and we collectively assess them for impairment.

Other operating expenses 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.

Depreciation and amortisation reflects depreciation on property and equipment and the amortisation of intangible assets. We engage an independent appraiser to determine the fair value of our land and office buildings. Fair value is determined by reference to market-based evidence and by applying valuation models recommended by the International Valuation Standards Committee. The most recent revaluation report for our buildings was published on 31 December 2013.

Interest income comprises interest income from amounts due from credit institutions, interest income from loans issued, and interest income from cash and cash equivalents.

Interest expense refers to the value of interest expense from borrowings undertaken by the Company.

Segment Information

For management purposes, we are organised into two operational segments: healthcare services (operated under the brand name Evex) and medical insurance (operated under the brand name Imedi L).

The following tables set out our results by segment for the periods indicated:

	For the six months ended 30 June 2015 (audited)			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
	(thousands of GEL)			
Revenue by segment				
Healthcare services revenue	86,577	—	(4,024)	82,553
Net insurance premiums earned	—	26,365	(163)	26,202
Revenue	86,577	26,365	(4,187)	108,755
Cost of healthcare services	(48,462)	—	2,253	(46,209)
Net insurance claims incurred	—	(21,872)	1,771	(20,101)
Costs of services	(48,462)	(21,872)	4,024	(66,310)
Gross profit	38,115	4,493	(163)	42,445
Other operating income	1,567	129	—	1,696
Salaries and other employee benefits	(10,837)	(1,928)	163	(12,602)
General and administrative expenses	(3,687)	(1,263)	—	(4,950)
Impairment of healthcare services, insurance premiums and other receivables	(1,737)	(109)	—	(1,846)
Other operating expenses	(1,076)	(79)	—	(1,155)
	(17,337)	**(3,379)**	**163**	**(20,553)**
EBITDA	**22,345**	**1,243**	**—**	**23,588**
Depreciation and amortisation	(4,600)	(289)	—	(4,889)
Interest income	397	1,110	(284)	1,223
Interest expense	(10,481)	(1,144)	284	(11,341)
Net gains from foreign currencies	4,880	569	—	5,449
Net non-recurring expense	(767)	—	—	(767)
Profit before income tax expense	**11,774**	**1,489**	**—**	**13,263**
Income tax benefit/(expense)	708	(655)	—	53
Profit for the period	**12,482**	**834**	**—**	**13,316**

	For the six months ended 30 June 2014 (unaudited)			
	Healthcare Services	**Medical Insurance**	**Intersegment transactions and balances**	**Total**
	(thousands of GEL)			
Revenue by segment				
Healthcare services revenue	65,728	—	(13,291)	52,437
Net insurance premiums earned	—	42,539	(111)	42,428
Revenue	**65,728**	**42,539**	**(13,402)**	**94,865**
Cost of healthcare services	(38,610)	—	8,808	(29,802)
Net insurance claims incurred	—	(37,637)	4,483	(33,154)
Costs of services	**(38,610)**	**(37,637)**	**13,291**	**(62,956)**
Gross profit	**27,118**	**4,902**	**(111)**	**31,909**
Other operating income	1,196	136	—	1,332
Salaries and other employee benefits	(7,320)	(2,692)	111	(9,901)
General and administrative expenses	(2,961)	(1,251)	—	(4,212)
Impairment of healthcare services, insurance premiums and other receivables	(833)	(262)	—	(1,095)
Other operating expenses	(1,798)	(50)	—	(1,848)
	(12,912)	**(4,255)**	**111**	**(17,056)**
EBITDA	**15,402**	**783**	—	**16,185**
Depreciation and amortisation	(3,397)	(310)	—	(3,707)
Interest income	154	1,418	(749)	823
Interest expense	(6,311)	(1,123)	749	(6,685)
Net (losses)/gains from foreign currencies	(2,017)	234	—	(1,783)
Net non-recurring income	1,333	—	—	1,333
Profit before income tax expense	**5,164**	**1,002**	—	**6,166**
Income tax expense	(465)	(230)	—	(695)
Profit for the period	**4,699**	**772**	**—**	**5,471**

	For the year ended 31 December 2014 (audited)			
	Healthcare services	Medical insurance	Intersegment transactions and balances	Total
	(thousands of GEL)			
Revenue by segment				
Healthcare services revenue	145,349	—	(18,465)	126,884
Net insurance premiums earned	—	69,759	(311)	69,448
Revenue	**145,349**	**69,759**	**(18,776)**	**196,332**
Cost of healthcare services	(83,298)	—	11,495	(71,803)
Net insurance claims incurred	—	(61,233)	6,970	(54,263)
Costs of services	**(83,298)**	**(61,233)**	**18,465**	**(126,066)**
Gross profit	**62,051**	**8,526**	**(311)**	**70,266**
Other operating income	2,722	153	—	2,875
Salaries and other employee benefits	(16,055)	(4,060)	311	(19,804)
General and administrative expenses	(6,933)	(2,516)	—	(9,449)
Impairment of healthcare, insurance premiums and other receivables	(4,209)	(925)	—	(5,134)
Other operating expenses	(1,785)	(107)	—	(1,892)
	(28,982)	**(7,608)**	**311**	**(36,279)**
EBITDA	**35,791**	**1,071**	—	**36,862**
Depreciation and amortisation	(6,998)	(632)	—	(7,630)
Interest income	297	2,257	(1,022)	1,532
Interest expense	(13,435)	(1,925)	1,022	(14,338)
Net (losses)/gains from foreign currencies	(2,820)	326	—	(2,494)
Net non-recurring income	578	—	—	578
Profit before income tax expense	**13,413**	**1,097**	—	**14,510**
Income tax expense	(1,145)	(101)	—	(1,246)
Profit for the year	**12,268**	**996**	**—**	**13,264**

	For the year ended 31 December 2013 (audited)			
	Healthcare services	Medical insurance	Intersegment transactions and balances	Total
	(thousands of GEL)			
Healthcare services revenue	93,370	—	(30,732)	62,638
Net insurance premiums earned	—	103,305	(342)	102,963
Revenue	**93,370**	**103,305**	**(31,074)**	**165,601**
Cost healthcare services	(52,387)	—	19,325	(33,062)
Net insurance claims incurred	—	(87,146)	11,633	(75,513)
Costs of services	**(52,387)**	**(87,146)**	**30,958**	**(108,575)**
Gross profit	**40,983**	**16,159**	**(116)**	**57,026**
Other operating income	2,477	435	—	2,912
Salaries and other employee benefits	(8,285)	(5,444)	116	(13,613)
General and administrative expenses	(3,955)	(2,525)	—	(6,480)
Impairment of healthcare, insurance premiums and other receivables	(2,576)	(894)	—	(3,470)
Other operating expenses	(1,086)	(245)	—	(1,331)
	(15,902)	**(9,108)**	**116**	**(24,894)**
EBITDA	**27,558**	**7,486**	—	**35,044**
Depreciation and amortisation	(5,218)	(683)	—	(5,901)
Interest income	343	5,192	(4,076)	1,459
Interest expense	(12,746)	(2,258)	4,076	(10,928)
Net (losses)/gains from foreign currencies	(4,156)	111	—	(4,045)
Profit before income tax expense	**5,781**	**9,848**	—	**15,629**
Income tax expense	(458)	(1,797)	—	(2,255)
Profit for the year	**5,323**	**8,051**	**—**	**13,374**

	For the year ended 31 December 2012 (audited)			
	Healthcare services	Medical insurance	Intersegment transactions and balances	Total
	(thousands of GEL)			
Healthcare services revenue	67,726	—	(18,276)	49,450
Net insurance premiums earned	—	70,231	(317)	69,914
Revenue	**67,726**	**70,231**	**(18,593)**	**119,364**
Cost of healthcare services	(41,932)	—	11,891	(30,041)
Net insurance claims incurred	—	(52,248)	6,652	(45,596)
Costs of services	**(41,932)**	**(52,248)**	**18,543**	**(75,637)**
Gross profit	**25,794**	**17,983**	**(50)**	**43,727**
Other operating income	1,705	1,865	(471)	3,099
Salaries and other employee benefits	(6,403)	(7,618)	292	(13,729)
General and administrative expenses	(3,109)	(2,353)	28	(5,434)
Impairment of healthcare, insurance premiums and other receivables	(1,969)	(644)	—	(2,613)
Other operating expenses	(924)	(1,017)	201	(1,740)
	(12,405)	**(11,632)**	**521**	**(23,516)**
EBITDA	**15,094**	**8,216**	—	**23,310**
Depreciation and amortisation	(3,324)	(500)	—	(3,824)
Interest income	1,410	4,666	(3,704)	2,372
Interest expense	(8,189)	(2,912)	3,704	(7,397)
Net (losses)/gains from foreign currencies	(1,091)	584	—	(507)
Profit before income tax expense	**3,900**	**10,054**	—	**13,954**
Income tax expense	(238)	(1,541)	—	(1,779)
Profit for the year	**3,662**	**8,513**	**—**	**12,175**

Discussion and Analysis of Our Performance

Key Performance Indicators

Certain key performance indicators (**KPIs**) are regularly reviewed by our directors in order to manage the financial and operating performance of the Group.

The following table sets out the Group's KPIs during the period under review. All of the information in the following table (other than Revenue for the Group, EBITDA for the Group, Revenue breakdown by key segments, EBITDA for key segments, Group cost of services, Group operating costs and Group rent expenditure for the full year 2014 and half year 2015) is unaudited.

#	KPI	For the six months ended 30 June 2015 (audited)	For the six months ended 30 June 2014 (unaudited)	For the year ended 31 December 2014 (audited)
		(thousands of GEL)		
	FINANCIAL KPIs			
1	**Revenue for the Group**	108,775	94,865	196,332
2	**EBITDA for the Group**(1)	23,588	16,185	36,862
	EBITDA Margin for the Group(3)	21.3%	16.9%	18.6%
3	**Revenue breakdown by key segments (Evex and Imedi L)**			
	Evex	86,577	65,728	145,349
	Imedi L	26,365	42,539	69,759
	Elimination(2)	(4,187)	(13,402)	(18,776)
4	**EBITDA for key segments (Evex and Imedi L)**(1)			
	Evex	22,345	15,402	35,791
	Imedi L	1,243	783	1,071
5	**EBITDA Margin for key segments (Evex and Imedi L)**(3)			
	Evex	25.3%	23.1%	24.3%
	Imedi L	4.7%	1.8%	1.5%
6	**Revenue by key Evex clusters (Referral hospitals, Community clinics and Ambulatory clinics)**			
	Referral hospitals	75,398	54,345	123,402
	Community clinics	8,660	6,177	14,124
	Ambulatory clinic	2,519	2,345	4,961
	Ambulance and rural primary care	—	2,860	2,862
7	**Group revenue breakdown by payment sources**			
	Evex			
	Healthcare revenue from state	65,788	28,279	82,729
	Healthcare revenue from insurance companies	5,536	21,538	31,813
	Healthcare revenue from out-of-pocket and other	17,095	16,819	32,623
	Less: Corrections & rebates(4)	(1,842)	(908)	(1,816)
	Imedi L			
	Insurance: State	—	22,252	27,910
	Insurance: Retail	2,209	1,523	3,607
	Insurance: Corporate	24,156	18,764	38,242
	Elimination(2)	(4,187)	(13,402)	(18,776)
8	**Group revenue breakdown by organic growth and M&A**			
	Organic growth(5)	55,839	45,362	86,622
	M&A(6)	30,412	14,454	52,199
	Capitation, Ambulance and rural primary care	326	5,912	6,528
	Insurance (Imedi L)	26,365	42,539	69,759
	Elimination(2)	(4,187)	(13,402)	(18,776)
9	**Healthcare revenue from each referral hospital**			
	Academian Z.Tskhakaia West Georgia National Centre of Interventional Medicine Ltd	15,263	12,221	25,886
	Iashvili Paediatric Tertiary Referral Hospital	11,652	7,612	19,923
	Batumi Regional Referral Hospital	7,151	6,959	13,588
	Childrens New Referral Hospital	8,436	4,097	12,277
	Zugdidi Regional Referral Hospital	6,703	6,037	11,786

# KPI	For the six months ended 30 June 2015	2014	For the year ended 31 December 2014
	(audited)	(unaudited)	(audited)
	(thousands of GEL)		
Caraps Speciality Referral Hospital	5,346	5,234	10,008
Kutaisi Referral Hospital	5,206	4,653	9,405
Batumi Paediatric Regional Referral Hospital	3,956	2,164	4,878
Telavi Referral Hospital	1,713	1,927	3,930
Sunstone Referral Hospital	2,658	—	2,734
Akhaltsikhe Referral Hospital	1,267	1,595	2,875
Traumatology Referral Hospital	4,078	—	2,427
Saint Nikolozi Surgery and Oncology Referral Hospital	869	718	1,609
New Life Referral Hospital	1,100	1,128	2,076
10 Group cost of services (COGS)			
Cost of salaries and other employee benefits	(29,569)	(19,333)	(46,504)
Cost materials and supplies	(12,148)	(6,024)	(15,636)
Cost of providers	(933)	(1,823)	(3,894)
Cost of utilities and other	(3,559)	(2,622)	(5,769)
Net insurance claims incurred	(20,101)	(33,154)	(54,263)
11 Group operating costs			
Salaries and employee benefits	(12,602)	(9,901)	(19,804)
General and Administrative Expenses	(4,950)	(4,212)	(9,449)
Impairment of Healthcare Services, Insurance Premiums and Other Receivables	(1,846)	(1,095)	(5,134)
Other Operating Expenses(7)	(1,155)	(1,848)	(1,892)
12 Group rent expenditure(8)	(690)	(1,205)	(2,353)
13 Group capex (maintenance)(9)	(3,828)	(1,617)	(4,190)
14 Group capex (growth)(10)	(21,751)	(6,087)	(36,451)

# KPI	As of/for the six months ended 30 June 2015	2014	As of/for the year ended 31 December 2014
	(unaudited)	(unaudited)	(unaudited)
NON-FINANCIAL KPIs			
15 Evex: Number of healthcare facilities(11)	40	36	39
16 Evex: Number of beds(12)	2,220	1892	2,140
17 Evex: Average number of referral hospital beds	1,679	1,238	1,413
18 Evex: Number of physicians	2667	2131	2,394
19 Evex: Number of nurses	2342	2004	2,264
22 Evex: Number of total FTE per hospital(13)	207	189	200
23 Evex: Hospital bed occupancy rate(14)	53%	54%	49.1%
24 Evex: Average length of stay (in days)	4.5	4.6	4.6
25 Evex: Mortality rate	2.6%	2.8%	2.8%
26 Wage cost inflation (Group level)	5%	3%	5%
27 Imedi L: Gross premium revenue growth	(38.0)%	(18.7)%	(32.5)%
28 Imedi L: Loss ratio(15)	83.0%	88.5%	87.7%
29 Imedi L: Expense ratio(16)	14.7%	10.7%	11.8%
30 Imedi L: Combined ratio(17)	97.7%	99.2%	99.5%
31 Imedi L: NEP/Equity(18)	1.4	3.0	3.9
32 Imedi L: Insurance renewal rate	92.0%	91.3%	91.9%

Notes:

(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.

(2) Eliminations are intercompany transactions between Imedi L and Evex..

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

(4) Corrections and rebates are corrections of invoices due to errors or faults by third parties

(5) Includes revenue growth resulting from entities which have not been fully consolidated in current and comparative financial periods

(6) Includes revenue growth resulting from entities which have been fully consolidated in current and comparative financial periods

(7) Other operating expenses are 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.

(8) The Group's rent expense comprises of operating lease contracts.

(9) The Group's maintenance capital expenditure are short-term expenditures. The Group's maintenance capex was GEL 2,747 thousand and 2,848 thousand in 2012 and 2013 respectively.

(10) The Group's expansion capital expenditure are longer term by nature and include acquisition of properties with longer useful lives.

(11) Defined as the number of referral hospitals, community hospitals and ambulatory clinics operated by the Company.

(12) Number of operated hospital beds as at 30 June 2015 excludes HTMC Hospital, amounting to 450 additional beds. Includes 80 beds at Deka Hospital that are currently leased out to and operated by a number of individual physicians, for which the Group receives rental income.

(13) FTE represent full time employees.

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

(15) Loss ratio is defined as net insurance claims divided by net insurance revenue.

(16) Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue.

(17) Combined ratio is the sum of loss ratio and expense ratio.

(18) NEP/Equity represents net insurance premiums earned by Imedi L divided by standalone Equity of Imedi L

Financial performance update

Management believes that the Group's performance between July and September 2015 reflected continued trends of its performance in the first half of 2015. In particular, revenue and costs of operations have continued to grow due to the consolidation of recent acquisitions (including HTMC Hospital), organic growth and expenses associated with ongoing investment into the healthcare services business.

For the six months ended 30 June 2015, compared to the six months ended 30 June 2014

The following table sets out the principal components of our consolidated net income for the periods indicated and the period-to-period changes.

	For the six months ended 30 June		
	2015	2014	2015-2014
	(audited) (thousands of GEL)	(unaudited) (thousands of GEL)	Change (%)
Healthcare services revenue	82,553	52,437	57.4%
Net insurance premiums earned	26,202	42,428	(38.2)%
Revenue	108,755	**94,865**	14.6%
Cost of healthcare services	(46,209)	(29,802)	55.1%
Net insurance claims incurred	(20,101)	(33,154)	(39.4)%
Costs of services	(66,310)	**(62,956)**	5.3%
Gross profit	42,445	**31,909**	33.0%
Other operating income	1,696	1,332	27.3%
Salaries and other employee benefits	(12,602)	(9,901)	27.3%
General and administrative expenses	(4,950)	(4,212)	17.5%
Impairment of healthcare, insurance premiums and other receivables	(1,846)	(1,095)	68.6%
Other operating expenses	(1,155)	(1,848)	(37.5)%
	(20,553)	**(17,056)**	20.5%
EBITDA	23,588	**16,185**	45.7%
Depreciation and amortisation	(4,889)	(3,707)	31.9%
Interest income	1,223	823	48.6%
Interest expense	(11,341)	(6,685)	69.6%
Net gains/(losses) from foreign currencies	5,449	(1,783)	(405.6)%
Net non-recurring (expense)/income	(767)	1,333	(157.5)%
Profit before income tax expense	13,263	**6,166**	115.1%
Income tax benefit/(expense)	53	(695)	(107.6)%
Profit for the period	13,316	**5,471**	143.4%

Revenue

Revenue increased by GEL 13,890 thousand, or 14.6%, from GEL 94,865 thousand for the six months ended 30 June 2014, to GEL 108,755 thousand for the six months ended 30 June 2015.

	For the six months ended 30 June		
	2015	2014	2015-2014
	(audited)	(unaudited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue:			
Healthcare services revenue from state	65,788	28,279	132.6%
Healthcare services revenue from insurance companies	1,512	8,247	(81.7)%
Healthcare services revenue from out-of-pocket and other	17,095	16,819	1.6%
Less: corrections & rebates	(1,842)	(908)	102.9%
Total healthcare services revenue	**82,553**	**52,437**	**57.4%**
Net insurance premiums earned:			
Gross premiums written, net of reinsurers' share	41,289	31,837	29.7%
Change in unearned premiums reserve, net of reinsurers' share	(13,638)	11,920	(214.4)%
Less: acquisition costs, net of reinsurers' share	(1,449)	(1,329)	9.0%
Total net insurance premiums earned	**26,202**	**42,428**	**(38.2)%**
Total revenue	**108,755**	**94,865**	**14.6%**

Healthcare services revenue

Healthcare services revenue increased by GEL 30,116 thousand, or 57.4%, from GEL 52,437 thousand for the six months ended 30 June 2014, to GEL 82,553 thousand for the six months ended 30 June 2015. During the period referred to above, we also recorded our healthcare services revenue by type of healthcare facility, the results of which are set out in the following table:

	For the six months ended 30 June		
	2015	**2014**	**2015-2014**
	(audited)	**(unaudited)**	
	(thousands of GEL)		**Change (%)**
Healthcare services revenue from referral hospitals	71,899	42,856	67.8%
Healthcare services revenue from community hospitals	8,253	4,871	69.4%
Healthcare services revenue from ambulatory clinics	2,401	1,850	29.8%
Healthcare services revenue from ambulance and rural primary care	—	2,860	(100.0)%
Total healthcare services revenue	**82,553**	**52,437**	**57.4%**

Healthcare services revenue increased in the six months ended 30 June 2015 compared to the six months ended 30 June 2014. Of this increase, 23.9% was attributable to organic growth and 33.5% was attributable to additional revenue generated by the newly acquired facilities of Avante (February 2014), Sunstone (May 2014) and Traumatology (September 2014), and the remainder of the increase was primarily driven by increased government spending on healthcare following the adoption of UHC.

Net insurance premiums earned

Net insurance premiums earned decreased by GEL 16,226 thousand, or 38.2%, from GEL 42,428 thousand for the six months ended 30 June 2014, to GEL 26,202 thousand for the six months ended 30 June 2015.

During the period referred to above, we also recorded the value of net insurance premiums earned by type of payor for the product, the results of which are set out in the following table:

	For the six months ended 30 June		
	2015	**2014**	**2015-2014**
	(audited)	**(unaudited)**	
	(thousands of GEL)		**Change (%)**
Net insurance premiums earned	**26,202**	**42,428**	**(38.2)%**
Of which:			
from state-funded medical insurance products	—	22,252	(100.0)%
from private medical insurance products	26,202	20,176	29.9%
Of which:			
Corporate	23,993	18,653	28.6%
Retail	2,209	1,523	45.0%

The decrease in the net insurance premiums earned in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to the phasing out of SIPs, under which the state purchased medical insurance products from private insurers for the benefit of those covered by the programme.

Cost of healthcare services

The cost of healthcare services increased by GEL 16,407 thousand, or 55.1%, from GEL 29,802 thousand for the six months ended 30 June 2014, to GEL 46,209 thousand for the six months ended 30 June 2015.

During the period referred to above, we also recorded our costs of healthcare services by type of healthcare facility, the results of which are set out in the following table:

	For the six months ended 30 June		
	2015	**2014**	**2015-2014**
	(audited)	**(unaudited)**	**Change**
	(thousands of GEL)		**(%)**
Cost of healthcare services	**46,209**	**29,802**	**55.1%**
Of which:			
from referral hospitals	40,085	22,800	75.8%
from community hospitals	4,797	3,458	38.7%
from ambulatory clinics	1,327	849	56.3%
from ambulance and rural primary care	—	2,695	(100.0)%

The increase in the cost of healthcare services in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to additional costs from the acquisitions of Avante, Sunstone, and Traumatology among referral hospitals, and to a lesser extent organic growth of our community hospitals. The rate of increase in the cost of healthcare services generally and, in particular, from referral hospitals has slowed in comparison with previous periods due to synergy gains following ongoing integration.

Net insurance claims incurred

Net insurance claims incurred decreased by GEL 13,053 thousand, or 39.4%, from GEL 33,154 thousand for the six months ended 30 June 2014, to GEL 20,101 thousand for the six months ended 30 June 2015. The following table sets out the value of net insurance claims incurred by the type of products for the periods indicated:

	For the six months ended 30 June		
	2015	**2014**	**2015-2014**
	(audited)	**(unaudited)**	**Change**
	(thousands of GEL)		**(%)**
Net insurance claims incurred	**20,101**	**33,154**	**(39.4)%**
Of which:			
from state-funded medical insurance products	—	19,150	(100.0)%
from private medical insurance products	20,101	14,004	43.5%
Of which:			
Corporate	18,775	13,591	38.1%
Retail	1,327	413	221.3%

The decrease in net insurance claims incurred in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to the cancellation of state funded medical insurance products in connection with the phasing out of SIPs.

Gross profit

Gross profit increased by GEL 10,536 thousand, or 33.0%, from GEL 31,909 thousand as of 30 June 2014, to GEL 42,445 thousand as of 30 June 2015. The following table sets out our gross profit by segment for the periods indicated:

	For the six months ended 30 June		
	2015	2014	2015-2014
	(audited)	(unaudited)	(unaudited)
	(thousands of GEL)		Change (%)
Total gross profit	**42,445**	**31,909**	**33.0%**
Of which:			
Healthcare services	36,344	22,635	60.6%
Medical insurance	6,101	9,274	(34.2)%

In respect of gross profit attributed to healthcare services, during the period referred to above we recorded our gross profit by type of facility, the results of which are set out in the table below:

	For the six months ended 30 June		
	2015	2014	2015-2014
	(audited)	(unaudited)	(unaudited)
	(thousands of GEL)		Change (%)
Total gross profit attributed to healthcare services	**36,344**	**22,635**	**60.6%**
Of which:			
from referral hospitals	31,814	20,056	58.6%
from community hospitals	3,456	1,413	144.6%
from ambulatory clinics	1,074	1,001	7.3%
from ambulance and rural primary care	—	165	(100.0)%

In respect of gross profit attributed to medical insurance, during the period referred to above we also recorded our gross profit by type of products, the results of which are set out in the table below:

	For the six months ended 30 June		
	2015	2014	2015-2014
	(audited)	(unaudited)	(unaudited)
	(thousands of GEL)		Change (%)
Total gross profit attributed to medical insurance	**6,101**	**9,274**	**(34.2)%**
Of which:			
from state-funded medical insurance products	—	3,102	(100.0)%
from private medical insurance products	6,101	6,172	(1.2)%
Of which:			
Corporate	5,218	5,062	3.1%
Retail	882	1,110	(20.5)%

The increase in the gross profit in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to the increase in healthcare services revenue, which was only partially offset by a decline in the lower margin insurance business.

Other operating income

Other operating income increased by GEL 364 thousand, or 27.3%, from GEL 1,332 thousand for the six months ended 30 June 2014, to GEL 1,696 thousand for the six months ended 30 June 2015.

The increase in other operating income in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to gains from the reversal of a provision in connection with a previous acquisition.

Salaries and other employee benefits

Salaries and other employee benefits increased by GEL 2,701 thousand, or 27.3%, from GEL 9,901 thousand for the six months ended 30 June 2014, to GEL 12,602 thousand for the six months ended 30 June 2015.

The increase in salaries and other employee benefits in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to additional headcount resulting from our acquisitions of Avante, Sunstone and Traumatology, as well as organic growth. Our total number of employees increased by 1,546 employees from 30 June 2014 to 30 June 2015.

General and administrative expenses

General and administrative expenses increased by GEL 738 thousand, or 17.5%, from GEL 4,212 thousand for the six months ended 30 June 2014, to GEL 4,950 thousand for the six months ended 30 June 2015.

The increase in general and administrative expenses in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily attributable acquisitions, organic growth and increased audit expenses resulting from audits performed on several group companies.

Impairment of healthcare, insurance premiums and other receivables

Impairment of healthcare, insurance premiums and other receivables increased by GEL 751 thousand, or 68.6%, from GEL 1,095 thousand for the six months ended 30 June 2014, to GEL 10,172 thousand for the six months ended 30 June 2015.

The increase in the impairment of healthcare, insurance premiums and other receivables in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to growth in our healthcare services business as well as acquisitions.

Other operating expenses

Other operating expenses decreased by GEL 693 thousand, or 37.5%, from GEL 1,848 thousand for the six months ended 30 June 2014, to GEL 1,155 thousand for the six months ended 30 June 2015.

The decrease in other operating expenses in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to a lower level of loss on sales of surplus medicines to third parties in the first half of 2015.

Depreciation and amortisation

Depreciation and amortisation increased by GEL 1,182 thousand, or 31.9%, from GEL 3,707 thousand for the six months ended 30 June 2014, to GEL 4,889 thousand for the six months ended 30 June 2015.

The increase in depreciation and amortisation in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to additional depreciation and amortisation resulting from acquisitions and purchases of new property and equipment.

Interest income

Interest income increased by GEL 400 thousand, or 48.6%, from GEL 823 thousand for the six months ended 30 June 2014, to GEL 1,223 thousand for the six months ended 30 June 2015.

The increase in interest income between the six months ended 30 June 2014, and the six months ended 30 June 2015 was primarily due to an increase in our interest-earning deposits.

Interest expense

Interest expense increased by GEL 4,656 thousand, or 69.6%, from GEL 6,685 thousand for the six months ended 30 June 2014, to GEL 11,341 thousand for the six months ended 30 June 2015.

The increase in interest expense in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to an increase in borrowings and the issuance of debt securities to finance acquisitions and capital expenditures and also the impact of an increase in the National Bank of

Georgia refinancing rate on our floating interest rate borrowings which have reference rates linked to this refinancing rate.

Net gains/(losses) from foreign currencies

Net losses from foreign currencies decreased by GEL 7,232 thousand, or 405.6%, from a loss of GEL 1,783 thousand for the six months ended 30 June 2014, to a gain of GEL 5,449 thousand for the six months ended 30 June 2015.

The decrease in net losses from foreign currencies in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to the fact that we started hedging our currency exposure by using derivative financial instruments.

Profit for the period

Profit for the period increased by GEL 7,845 thousand, or 143.4%, from GEL 5,471 thousand for the six months ended 30 June 2014, to GEL 13,316 thousand for the six months ended 30 June 2015.

The following table sets forth our profit for the period by segment:

	For the six months ended 30 June		
	2015	**2014**	**2015-2014**
	(audited)	**(unaudited)**	
	(thousands of GEL)		**Change**
			(%)
Profit for the period	**13,316**	**5,471**	**143.4%**
Of which:			
Healthcare services	12,482	4,699	165.6%
Medical insurance	834	772	8.0%

Healthcare services

The increase in the healthcare services segment profit in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to the acquisition of new healthcare facilities and the development of existing healthcare facilities undertaken during this period, as well as the Group's hedging of its currency position, using derivative financial instruments.

Medical insurance

The increase in the medical insurance segment profit in the six months ended 30 June 2015 compared to the six months ended 30 June 2014 was primarily due to drop in the loss ratio of the medical insurance segment from 88.5% to 83%, as well as the cancellation of state-funded insurance products.

Years Ended 31 December 2014 and 2013

The following table sets out the principal components of our consolidated net income for the periods indicated and the period-to-period changes.

	For the years ended 31 December		
	2014	**2013**	**2014-2013**
	(audited)	**(audited)**	
	(thousands of GEL)		**Change**
			(%)
Healthcare services revenue	126,884	62,638	102.6%
Net insurance premiums earned	69,448	102,963	(32.6)%
Revenue	**196,332**	**165,601**	**18.6%**
Cost of healthcare services	(71,803)	(33,062)	117.2%
Net insurance claims incurred	(54,263)	(75,513)	(28.1)%
Costs of services	**(126,066)**	**(108,575)**	**16.1%**
Gross profit	**70,266**	**57,026**	**23.2%**
Other operating income	2,875	2,912	(1.3)%
Salaries and other employee benefits	(19,804)	(13,613)	45.5%
General and administrative expenses	(9,449)	(6,480)	45.8%
Impairment of healthcare, insurance premiums and other receivables	(5,134)	(3,470)	48.0%
Other operating expenses	(1,892)	(1,331)	42.1%
Operating expenses	**(36,279)**	**(24,894)**	**45.7%**
EBITDA	**36,862**	**35,044**	**5.2%**
Depreciation and amortisation	(7,630)	(5,901)	29.3%
Interest income	1,532	1,459	5.0%
Interest expense	(14,338)	(10,928)	31.2%
Net losses from foreign currencies	(2,494)	(4,045)	(38.3)%
Net non-recurring income	578	—	—
Profit before income tax expense	**14,510**	**15,629**	**(7.2)%**
Income tax expense	(1,246)	(2,255)	(44.7)%
Profit for the year	**13,264**	**13,374**	**(0.8)%**

Revenue

Revenue increased by GEL 30,731 thousand, or 18.6%, from GEL 165,601 thousand in 2013 to GEL 196,332 thousand in 2014 due to strong growth in both healthcare services revenue and net insurance premiums earned. The following table sets out our revenue by segment for the periods indicated:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue:			
Healthcare services revenue from state	82,729	20,106	311.5%
Healthcare services revenue from insurance companies	13,348	23,236	(42.6)%
Healthcare services revenue from out-of-pocket and other	32,623	19,296	69.1%
Less: corrections & rebates	(1,816)	—	—
Total healthcare services revenue	**126,884**	**62,638**	**102.6%**
Net insurance premiums earned:			
Gross premiums written, net of reinsurers' share	42,294	101,295	(58.2)%
Change in unearned premiums reserve, net of reinsurers' share	29,984	4,840	519.5%
Less: acquisition costs, net of reinsurers' share	(2,830)	(3,172)	(10.8)%
Net insurance premiums earned	**69,448**	**102,963**	**(32.6)%**
Total revenue	**196,332**	**165,601**	**18.6%**

Healthcare services revenue

Healthcare services revenue increased by GEL 64,246 thousand, or 102.6% , from GEL 62,638 thousand in 2013 to 126,884 thousand in 2014. During the period referred to above, we also recorded our healthcare services revenue by type of healthcare facility, the results of which are set out in the following table:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue from referral hospitals	107,410	40,511	165.1%
Healthcare services revenue from community hospitals	12,294	7,618	61.4%
Healthcare services revenue from ambulatory clinics	4,318	2,951	46.3%
Healthcare services revenue from ambulance and rural primary care	2,862	11,558	(75.2)%
Total healthcare services revenue	**126,884**	**62,638**	**102.6%**

The increase in healthcare services revenue was due to acquisitions and increased government spending on healthcare. Out of total growth of 102.6%,12.9%, was attributable to organic growth and 89.7% was attributable to the acquisition of six hospitals (with a total of 790 beds) during 2014. Average organic revenue growth during 2012-2014 years was 23.6%.

Revenue from community hospitals increased due to organic growth and the introduction of the UHC. Revenue from referral hospitals, our main source of healthcare services revenue, increased as a result of both acquisitions and organic growth. The decline in revenue from ambulance and rural primary care services was due to the impact of the full handover of these services to the state as part of the UHC in the beginning of 2014.

As a result of the introduction of the UHC, revenue from state increased by GEL 62,623 thousand, or 311.5%, in 2014. However, the UHC decreased revenue from private insurance companies by GEL 9,888 thousand or 42.6%. Healthcare services revenue from out-of-pocket and other increased by GEL 13,327 thousand, or 69.1%, in 2014 mainly as a result of the fact that the UHC places coverage limits on medical treatments and has certain exclusions. Any charges in excess of the limit for services financed by the UHC must be covered by patients themselves.

Net insurance premiums earned

The value of net insurance premiums earned decreased by GEL 33,515 thousand, or 32.6%, from GEL 102,963 thousand in 2013 to GEL 69,448 thousand in 2014. During the period referred to above, we also recorded the value of net insurance premiums earned by type of products, the results of which are set out in the following table:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	Change
	(thousands of GEL)		(%)
Net insurance premiums earned	**69,448**	**102,963**	**(32.6)%**
Of which:			
from state-funded medical insurance products	27,910	62,683	(55.5)%
from private medical insurance products	41,538	40,280	3.1%
Of which:			
Corporate	37,931	37,218	1.9%
Retail	3,607	3,062	17.8%

The growth in our healthcare services revenues was partially offset by the decline in net insurance premiums earned as a result of the implementation of the UHC and the resulting phasing out of SIPs. As a result of the UHC, our net insurance premiums earned decreased by GEL 33,515 thousand, or 32.6%. However, our private medical insurance has shown resilience notwithstanding challenges posed by the implementation of and competition from the UHC. Revenue from private medical insurance products increased by GEL 1,258 thousand, or 3.1%, with approximately 222,000 people holding our medical insurance policies as at the end of 2014.

Cost of healthcare services

The cost of healthcare services increased by GEL 38,741 thousand, or 117.2%, from GEL 33,062 thousand in 2013 to GEL 71,803 thousand in 2014. During the period referred to above, we recorded our costs of healthcare services by type of healthcare facility, the results of which are set out in the following table:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	Change
	(thousands of GEL)		(%)
Cost of healthcare services	**71,803**	**33,062**	**117.2%**
Of which:			
from referral hospitals	58,844	17,585	234.6%
from community hospitals	8,131	3,949	105.9%
from ambulatory clinics	2,133	1,163	83.4%
from ambulance and rural primary care	2,695	10,364	(74.0)%

The increase in the cost of healthcare services from 2013 to 2014 was primarily attributable to the overall growth in healthcare services business as a result of the acquisitions and organic growth outlined above. The increase in costs slightly outpaced growth in net healthcare services revenue as a result of inefficiencies brought in through acquisition of the new hospitals. While the integration of the acquired healthcare facilities is ongoing and partially completed, including centralisation of the back-office functions, we expect significant further synergy gains to be made in 2015 as management shifts its focus from acquisition to integration mode.

Approximately two thirds of the growth in the cost of healthcare services comes from an increase in payroll costs, which increased by GEL 25,855 thousand, which was primarily due to increased headcount from recent acquisitions. Since the end of 2013 the headcount of our healthcare services business has increased by 1,342 employees and reached 7,658 full-time employees as of 31 December 2014.

Net insurance claims incurred

The value of net insurance claims incurred decreased by GEL 21,250 thousand or 28.1%, from GEL 75,513 thousand in 2013 to GEL 54,263 thousand in 2014. The following table sets out the value of net insurance claims incurred by the type of products for the periods indicated:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Net insurance claims incurred	**54,263**	**75,513**	**(28.1)%**
Of which:			
from state-funded medical insurance products	25,313	46,533	(45.6)%
from private medical insurance products	28,950	28,980	(0.1)%
Of which:			
Corporate	28,020	28,170	(0.5)%
Retail	930	810	14.9%

This decrease in net insurance claims incurred from 2013 to 2014 was primarily attributable to a decline in our medical insurance business as a result of the implementation of the UHC and the phasing out of SIPs. Although the UHC shifted revenue from state-funded insurance away from private insurance companies, this shift did not immediately result in an elimination of associated costs, due to ongoing net insurance claims from unexpired policies. On the other hand, margins on private medical insurance products have improved as evidenced by a decrease in net insurance claims incurred on private medical insurance products of 0.1% as compared to a 3.1% increase in the premiums earned on such private insurance products.

Gross profit

Gross profit increased by GEL 13,240 thousand, or 23.2%, from GEL 57,026 thousand in 2013 to GEL 70,266 thousand in 2014. The following table sets out our gross profit by segment for the periods indicated:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Total gross profit	**70,266**	**57,026**	**23.2%**
Of which:			
Healthcare services	55,081	29,576	86.2%
Medical insurance	15,185	27,450	(44.7)%

In respect of gross profit attributed to healthcare services, during the period referred to above we recorded our gross profit by type of facility, the results of which are set out in the table below:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Total gross profit attributed to healthcare services	**55,081**	**29,576**	**86.2%**
Of which:			
from referral hospitals	48,566	22,926	111.8%
from community hospitals	4,163	3,669	13.5%
from ambulatory clinics	2,185	1,788	22.2%
from ambulance and rural primary care	167	1,194	(86.0)%

In respect of gross profit attributed to medical insurance, during the period referred to above we also recorded our gross profit by type of products, the results of which are set out in the table below:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Total gross profit attributed to medical insurance	**15,185**	**27,450**	**(44.7)%**
Of which:			
from state-funded medical insurance products	2,597	16,150	(83.9)%
from private medical insurance products	12,588	11,300	11.4%
Of which:			
Corporate	9,911	9,048	9.5%
Retail	2,676	2,252	18.9%

The increase in gross profit from 2013 to 2014 was primarily attributable to the GEL 64,246 thousand, or 102.6%, increase in healthcare services revenue. The cost of healthcare services increased by GEL 38,741 thousand or 117.2%, resulting in a GEL 25,505 thousand increase in gross profit from our healthcare services business. However, as discussed above, the increase in gross profit from our healthcare services business was partially offset by the GEL 33,515 thousand, or 32.6%, decrease in net insurance premiums earned and the GEL 21,250 thousand, or 28.1%, decrease in net insurance claims incurred.

Other operating income

Other operating income decreased by GEL 37 thousand, or 1.3%, from GEL 2,912 thousand in 2013 to GEL 2,875 thousand in 2014. This increase was primarily attributable to income from equipment sold, revenue from sale of surplus medicines to third-party healthcare service providers, as well as rental income, which increased as a result of the acquisition of rentable spaces as a result of business combinations that were entered into during 2014, which were rented out during the year.

Salaries and other employee benefits

The cost of salaries and other employee benefits increased by GEL 6,191 thousand, or 45.5%, from GEL 13,613 thousand in 2013 to GEL 19,804 thousand in 2014. This increase was primarily driven by recent acquisitions of clinics, which resulted in an increase in headcount of our healthcare services business by 1,342 employees, reaching 7,658 full-time employees as of 31 December 2014.

General and administrative expenses

General and administrative expenses increased by GEL 2,969 thousand, or 45.8%, from GEL 6,480 thousand in 2013 to GEL 9,449 thousand in 2014. This increase was primarily attributable to overall growth in the healthcare services business both due to acquisitions and organic growth. There were increases in almost all types of general and administrative expenses including, maintenance, rent, office supply and marketing and advertising expenses.

Impairment of healthcare, insurance premiums and other receivables

The impairment of healthcare, insurance premiums and other receivables increased by GEL 1,664 thousand, or 48.0%, from GEL 3,470 thousand in 2013 to GEL 5,134 thousand in 2014. This increase was primarily attributable to the growth in receivables from healthcare services which increased by GEL 5,902 thousand, or 53.3%, in 2014 excluding receivables from the state.

Other operating expenses

Other operating expenses increased by GEL 561 thousand, or 42.1%, from GEL 1,331 thousand in 2013 to GEL 1,892 thousand in 2014. This increase was primarily attributable to the loss associated with the sale of surplus medicines to third party healthcare service providers, which is explained by overall growth in the number of clinics and hospitals we owned in 2014.

Depreciation and amortisation

Depreciation and amortisation increased by GEL 1,729 thousand, or 29.3%, from GEL 5,901 thousand in 2013 to GEL 7,630 thousand in 2014. This increase was primarily attributable to the acquisition of property and equipment during 2014 as a result of both business combinations and the direct acquisitions of properties.

Interest income

Interest income increased by GEL 73 thousand, or 5.0%, from GEL 1,459 thousand in 2013 to GEL 1,532 thousand in 2014. This increase was primarily attributable to an increase in income from amounts due from credit institutions of GEL 157 thousand. This was mainly as a result of the increased deposit placements in banks during 2014 as compared to 2013. The increase in interest income from amounts due from credit institutions was partially offset by a decrease in interest income from cash and cash equivalents and loans issued by GEL 43 thousand and GEL 41 thousand, respectively.

Interest expense

Interest expense increased by GEL 3,410 thousand, or 31.2%, from GEL 10,928 thousand in 2013 to GEL 14,338 thousand in 2014. This increase was primarily attributable to additional borrowings in 2014 mainly to finance acquisitions of healthcare facilities during the year.

Net losses from foreign currencies

Net losses from foreign currencies decreased by GEL 1,551 thousand, or 38.3%, from GEL 4,045 thousand in 2013 to GEL 2,494 thousand in 2014. This decrease was primarily attributable to the fact that in 2014 we entered into a foreign exchange forward contract to manage our exposure to fluctuations in the U.S. dollar and GEL exchange rates. Despite the fact that we had larger net liability exposure to the U.S. dollar in 2014 compared to 2013, the negative effect of the appreciation of the U.S. dollar was mitigated by the appreciation of derivative financial assets resulting from the fact that net losses from foreign currencies decreased in 2014 as compared to 2013.

Profit for the year

For the reasons described above, profit for the year decreased by GEL 110 thousand or 0.8%, from GEL 13,374 thousand in 2013 to GEL 13,264 thousand in 2014.

The following table sets forth our profit for the year by segment:

	For the years ended 31 December		
	2014	2013	2014-2013
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Profit for the year	**13,264**	**13,374**	**(0.8)%**
Of which:			
Healthcare services	12,268	5,323	130.5%
Medical insurance	996	8,051	(87.6)%

Healthcare services

The increase in the healthcare services segment profit between 2013 and 2014 was primarily due to the acquisitions discussed above and the organic growth of our healthcare services business.

Medical insurance

The decrease in the medical insurance segment profit between 2013 and 2014 was primarily due to the acquisitions discussed above and the decline in our medical insurance business as a result of the implementation of the UHC.

Years Ended 31 December 2013 and 2012

The following table sets out our consolidated net income for the periods indicated and the period-to-period changes.

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue	62,638	49,450	26.7%
Net insurance premiums earned	102,963	69,914	47.3%
Revenue	**165,601**	**119,364**	**38.7%**
Cost of healthcare services	(33,062)	(30,041)	10.1%
Net insurance claims incurred	(75,513)	(45,596)	65.6%
Costs of services	**(108,575)**	**(75,637)**	**43.5%**
Gross profit	**57,026**	**43,727**	**30.4%**
Other operating income	2,912	3,099	(6.0)%
Salaries and other employee benefits	(13,613)	(13,729)	(0.8)%
General and administrative expenses	(6,480)	(5,434)	19.2%
Impairment of healthcare, insurance premiums and other receivables	(3,470)	(2,613)	32.8%
Other operating expenses	(1,331)	(1,740)	(23.5)%
Operating expenses	**(24,894)**	**(23,516)**	**5.9%**
EBITDA	**35,044**	**23,310**	**50.3%**
Depreciation and amortisation	(5,901)	(3,824)	54.3%
Interest income	1,459	2,372	(38.5)%
Interest expense	(10,928)	(7,397)	47.7%
Net losses from foreign currencies	(4,045)	(507)	697.8%
Profit before income tax expense	**15,629**	**13,954**	**12.0%**
Income tax expense	(2,255)	(1,779)	26.8%
Profit for the year	**13,374**	**12,175**	**9.8%**

Revenue

Revenue increased by GEL 46,237 thousand, or 38.7%, from GEL 119,364 thousand in 2012 to GEL 165,601 thousand in 2013 due to strong growth in both healthcare services revenue and net insurance premiums earned. The following table sets out our revenue by segment for the periods indicated:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue:			
Healthcare services revenue from state	20,106	16,451	22.2%
Healthcare services revenue from insurance companies	23,236	8,915	160.6%
Healthcare services revenue from out-of-pocket and other	19,296	24,084	(19.9)%
Less: corrections & rebates	—	—	—
Total healthcare services revenue	**62,638**	**49,450**	**26.7%**
Net insurance premiums earned:			
Gross premiums written, net of reinsurers' share	101,295	93,221	8.7%
Change in unearned premiums reserve, net of reinsurers' share	4,840	(20,614)	(123.5)%
Less: acquisition costs, net of reinsurers' share	(3,172)	(2,693)	17.8%
Net insurance premiums earned	**102,963**	**69,914**	**47.3%**
Total revenue	**165,601**	**119,364**	**38.7%**

Healthcare services revenue

Healthcare services revenue increased by GEL 13,188 thousand, or 26.7%, from GEL 49,450 thousand in 2012 to GEL 62,638 thousand in 2013. During the period referred to above, we also recorded our healthcare services revenue by type of healthcare facility, the results of which are set out in the following table:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Healthcare services revenue from referral hospitals	40,511	26,529	52.7%
Healthcare services revenue from community hospitals	7,618	8,583	(11.2)%
Healthcare services revenue from ambulatory clinics	2,951	5,923	(50.2)%
Healthcare services revenue from ambulance and rural primary care	11,558	8,415	37.3%
Total healthcare services revenue	**62,638**	**49,450**	**26.7%**

This increase was primarily attributable to an increase in healthcare services revenue from referral hospitals of GEL 14.0 million, or 52.7%, as well as an increase in healthcare services revenue from ambulance and rural primary care by GEL 3.1 million, or 37.3%. The increase in healthcare services revenue from referral hospitals was driven by the Group's acquisition of three new referral hospitals in 2013, which increased the number of its referral hospitals from five to eight. On the other hand, the increase in revenue from ambulance and rural primary care was caused by the fact that the state program was fully operational in 2013 unlike 2012 when it was in place only operational for part of the year. The increase in healthcare services revenue from referral hospitals was partially offset by a decrease in revenue from ambulatory clinics of GEL 3.0 million, or 50.2%, resulting from the non-renewal in 2013 of a contract with a Georgian insurance company, under which their insured customers had previously used the Group's ambulatory clinics.

Net insurance premiums earned

The value of net insurance premiums earned increased by GEL 33,049 thousand, or 47.3%, from GEL 69,914 thousand in 2012 to GEL 102,963 thousand in 2013. During the period referred to above, we also recorded the value of net insurance premiums earned by type of products, the results of which are set out in the following table:

	For the years ended 31 December		
	2013	**2012**	**2013-2012**
	(audited)	**(audited)**	
	(thousands of GEL)		**Change (%)**
Net insurance premiums earned	**102,963**	**69,914**	**47.3%**
Of which:			
from state-funded medical insurance products	62,683	33,099	89.4%
from private medical insurance products	40,280	36,815	9.4%
Of which:			
Corporate	37,218	34,196	8.8%
Retail	3,062	2,619	16.9%

This increase was primarily attributable to two main factors. First, in September 2012, the Georgian government implemented an insurance programme that covered pensioners, students and children which was in place through September 2014. The insurance programme operated only for three months in 2012 and for the full year in 2013. Secondly, we acquired Insurance Company Imedi L in April 2012, which generated insurance revenues for only eight months in 2012 and for the full year in 2013.

Cost of healthcare services

The cost of healthcare services increased by GEL 3,021 thousand, or 10.1%, from GEL 30,041 thousand in 2012 to GEL 33,062 thousand in 2013. During the period referred to above, we recorded our costs of healthcare services by type of healthcare facility, the results of which are set out in the following table:

	For the years ended 31 December		
	2013	**2012**	**2013-2012**
	(audited)	**(audited)**	
	(thousands of GEL)		**Change (%)**
Cost of healthcare services	**33,062**	**30,041**	**10.1%**
Of which:			
from referral hospitals	17,585	14,243	23.5%
from community hospitals	3,949	5,222	(24.4)%
from ambulatory clinics	1,163	3,679	(68.4)%
from ambulance and rural primary care	10,364	6,897	50.3%

The increase in the cost of healthcare services from 2012 to 2013 was attributable to an increase in the cost of healthcare services from referral hospitals of GEL 3.3 million, or 23.5%, as well as an increase in the cost of healthcare services from ambulance and rural primary care by GEL 3.5 million, or 50.3%. The increase in referral hospital costs resulted from the Group's acquisition of three new referral hospitals in 2013, as discussed above. On the other hand, the increase in the cost of healthcare services from ambulance and rural primary care was caused by the fact that the state program was fully operational in 2013 unlike 2012 when it was only in place for part of the year. This increase in the cost of healthcare services was partially offset by a decrease in the cost of healthcare services from ambulatory clinics resulting from the non-renewal in 2013 of a contract with a Georgian insurance company, under which their insured customers had previously used the Group's ambulatory clinics as well as a decrease in cost of healthcare services from community hospitals.

Net insurance claims incurred

The value of net insurance claims incurred increased by GEL 29,917 thousand, or 65.6%, from GEL 45,596 thousand in 2012 to GEL 75,513 thousand in 2013. The following table sets out the value of net insurance claims incurred by the type of products for the periods indicated:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Net insurance claims incurred	**75,513**	**45,596**	**65.6%**
Of which:			
from state-funded medical insurance products	46,533	13,924	234.2%
from private medical insurance products	28,980	31,672	(8.5)%
Of which:			
Corporate	28,170	31,104	(9.4)%
Retail	810	568	42.6%

This increase was primarily attributable to growth in the medical insurance business as a result of the SIP programme for covered pensioners, students and children as well as our acquisition of Insurance Company Imedi L. However, SIP had a higher loss ratio than our private medical insurance products, which resulted in insurance claims increasing by more than premiums in 2013.

Gross profit

Gross profit increased by GEL 13,299 thousand, or 30.4%, from GEL 43,727 thousand in 2012 to GEL 57,026 thousand in 2013. The following table sets out our gross profit by segment for the periods indicated:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Total gross profit	**57,026**	**43,727**	**30.4%**
Of which:			
Healthcare services	29,576	19,409	52.4%
Medical insurance	27,450	24,318	12.9%

In respect of gross profit attributed to healthcare services, during the period referred to above we recorded our gross profit by type of facility, the results of which are set out in the table below:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	(audited)
	(thousands of GEL)		Change (%)
Total gross profit attributed to healthcare services	**29,576**	**19,409**	**52.4%**
Of which:			
from referral hospitals	22,926	12,287	86.6%
from community hospitals	3,669	3,361	9.2%
from ambulatory clinics	1,788	2,244	(20.3)%
from ambulance and rural primary care	1,194	1,518	(21.3)%

In respect of gross profit attributed to medical insurance, during the period referred to above we also recorded our gross profit by type of products, the results of which are set out in the table below:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Total gross profit attributed to medical insurance	**27,450**	**24,318**	**12.9%**
Of which:			
from state-funded medical insurance products	16,150	19,175	(15.8)%
from private medical insurance products	11,300	5,143	119.7%
Of which:			
Corporate	9,048	3,092	192.7%
Retail	2,252	2,051	9.8%

The increase in gross profit from 2012 to 2013 was primarily attributable to higher healthcare services revenue and by growth in net insurance premiums earned.

Other operating income

Other operating income decreased by GEL 187 thousand, or 6.0%, from GEL 3,099 thousand in 2012 to GEL 2,912 thousand in 2013. This decrease was primarily attributable to revenues from factoring operations, which decreased by GEL 512 thousand in 2013.

Salaries and other employee benefits

The cost of salaries and other employee benefits decreased by GEL 116 thousand, or 0.8%, from GEL 13,729 thousand in 2012 to GEL 13,613 thousand in 2013. This decrease was primarily attributable to cost optimisation after the acquisition of Imedi L in 2012. Duplicate staff positions were eliminated and staff responsibilities were made more efficient.

General and administrative expenses

General and administrative expenses increased by GEL 1,046 thousand, or 19.2%, from GEL 5,434 thousand in 2012 to GEL 6,480 thousand in 2013. This increase was primarily attributable to our overall growth in 2013 both due to acquisitions and organic growth. There were increases in almost all types of general administrative expenses including office supply, marketing and advertising expenses and utilities.

Impairment of healthcare, insurance premiums and other receivables

The impairment of healthcare, insurance premiums and other receivables increased by GEL 857 thousand, or 32.8%, from GEL 2,613 thousand in 2012 to GEL 3,470 thousand in 2013. This increase was primarily attributable to the growth in receivables from healthcare services, which increased by GEL 4,133 thousand, or 59.5%, in 2014 in line with healthcare services revenue, excluding government receivables.

Other operating expenses

Other operating expenses decreased by GEL 409 thousand, or 23.5%, from GEL 1,740 thousand in 2012 to GEL 1,331 thousand in 2013. This decrease was primarily attributable to higher one-off expenses incurred in 2012 in connection with the acquisition of Insurance Company Imedi L and the cost optimisation of its operations.

Depreciation and amortisation

Depreciation and amortisation increased by GEL 2,077 thousand, or 54.3%, from GEL 3,824 thousand in 2012 to GEL 5,901 thousand in 2013. This increase was primarily attributable to acquisition of property and equipment during 2013 both as a result of business combinations and direct property acquisitions, as well as the completion of assets under construction and commencement of depreciation of such assets.

Interest income

Interest income decreased by GEL 913 thousand, or 38.5%, from GEL 2,372 thousand in 2012 to GEL 1,459 thousand in 2013. This decrease was primarily attributable to a GEL 329 thousand decrease in income from credit institutions, mainly resulting from lower deposits with banks during 2013 as compared to 2012. In addition, the decrease in interest income was also caused by a GEL 316 thousand decrease in interest income from loans issued and a GEL 268 thousand decrease in interest income from cash and cash equivalents.

Interest expense

Interest expense increased by GEL 3,531 thousand, or 47.7%, from GEL 7,397 thousand in 2012 to GEL 10,928 thousand in 2013. This was primarily attributable to new borrowings entered into in 2013 mainly in order to finance the acquisition of clinics and healthcare facilities during the year.

Net losses from foreign currencies

Net losses from foreign currencies increased by GEL 3,538 thousand, or 697.8%, from GEL 507 thousand in 2012 to GEL 4,045 thousand in 2013. This increase was primarily attributable to the fact that in 2013, the U.S. dollar appreciated by 4.8% against the GEL, while there were only minor exchange rate changes in 2012.

Profit for the year

For the reasons described above, profit for the year increased by GEL 1,199 thousand, or 9.8%, from GEL 12,175 thousand in 2012 to GEL 13,374 thousand in 2013.

The following table sets forth our profit for the year by segment:

	For the years ended 31 December		
	2013	2012	2013-2012
	(audited)	(audited)	
	(thousands of GEL)		Change (%)
Profit for the year	13,374	12,175	9.8%
Of which:			
Healthcare services	5,323	3,662	45.4%
Medical insurance	8,051	8,513	(5.4)%

Healthcare services

The increase in the healthcare services segment profit between 2012 and 2013 was primarily due to the acquisitions and organic growth of healthcare services business outlined above.

Medical insurance

The decrease in the medical insurance segment profit between 2012 and 2013 was primarily due to the aforementioned increase in the loss ratio from government insurance programmes which resulted in a decreased profit margin in 2013.

Liquidity and Capital Resources

Our primary source of liquidity for our operations is cash provided by our operating activities, although we also partially fund our operations from third-party debt.

Our medical insurance business is regulated by the State Insurance Supervisory Service and the National Bank of Georgia, and we are fully compliant with the insurance reserve and capital requirements imposed by these bodies. Amounts and maturities in respect of insurance contract liabilities are based on management's best estimate founded on statistical techniques and past experience. We believe that the current level of our liquidity is sufficient to meet our present obligations and settle liabilities in a timely manner. See *Part XVII:* "*Regulatory Overview—Additional regulations applicable to insurance businesses*" for a discussion of our insurance regulatory requirements.

Amounts and liabilities in respect of insurance contracts are based on management's best estimate according to statistical techniques and past experience. Management believes that the current level of the Company's liquidity is sufficient to meet its present obligations and settle liabilities in a timely manner.

Analysis of consolidated cash flows

The following table summarises our cash flows for the years ended 31 December 2014, 2013 and 2012.

	For the six months ended 30 June		For the years ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Net cash flows from operating activities before income tax	19,509	8,296	10,773	17,931	8,504
Net cash flows from operating activities	19,044	7,500	8,446	16,020	7,558
Net cash flows used in investing activities	(54,515)	(53,773)	(86,018)	(13,824)	(64,799)
Net cash flows from (used in) financing activities	26,897	48,166	105,924	(6,141)	64,131
Effect of exchange rates	1,274	537	(39)	18	(43)
Net increase (decrease) in cash and cash equivalents	(7,300)	2,430	28,313	(3,927)	6,847
Cash and cash equivalents, beginning	32,784	4,471	4,471	8,398	1,551
Cash and cash equivalents, end	25,484	6,901	32,784	4,471	8,398

Net cash flows from operating activities

Net cash flows from operating activities increased by GEL 11,544, or 153.9%, from GEL 7,500 thousand in the six months ended 30 June 2014 to GEL 19,044 thousand in the six months ending 30 June 2015. The increase was primarily attributable to significantly higher operating profit from healthcare services in the first half of 2015.

Net cash flows from operating activities decreased by GEL 7,574 thousand, or 47.3%, from GEL 16,020 thousand in 2013 to GEL 8,446 thousand in 2014, having increased by GEL 8,462 thousand, or 112.0%, from GEL 7,558 thousand in 2012.

The decrease in net cash flows from operating activities from 2013 to 2014 was attributable to the increase in total salaries and other employee benefits paid during 2014. This increased by GEL 4,683 thousand, or 33.8%, mainly due to the increased headcount of our healthcare services business. The GEL 7,792 thousand decrease in net insurance premiums received, net of related claims paid, which resulted from the introduction of the UHC was offset by the GEL 5,247 thousand increase in healthcare services revenue received, net of the related cost of healthcare services paid.

The increase in net cash flows from operating activities from 2012 to 2013 was primarily attributable to the GEL 8,073 thousand increase in net insurance premiums received, net of related claims paid, which was a result of the 2012 adoption of SIP. The insurance programme operated for only three months in 2012 and for the full year in 2013. In addition the acquisition of Insurance Company Imedi L generated insurance revenues for only eight months in 2012, while it generated insurance revenues for the full year in 2013. Cash flows from operating activities also increased due to an increase in income from healthcare services received net of related cost of healthcare services paid which increased by GEL 3,312 thousand both due to business combinations and organic growth.

Net cash flows used in investing activities

Net cash used in investing activities increased by GEL 742 or 1.4%, from GEL 53,773 thousand in the six months ended 30 June 2014 to GEL 54,515 thousand in the six months ended 30 June 2015. The increase resulted from higher investment in new and existing subsidiaries and in property and equipment in the six months ended 30 June 2015 compared to the same period of 2014. Acquisitions in the six months ended 30 June 2014 included our purchase of the 49% minority stake in My Family Clinic, an existing subsidiary in which the Group held a 51% interest, for GEL 29,826 thousand.

Net cash flows used in investing activities increased by GEL 72,194 thousand, or 522.2%, from GEL 13,824 thousand in 2013 to GEL 86,018 thousand in 2014, having increased by GEL 50,975 thousand, or 78.7%, from GEL 64,799 thousand in 2012.

The increase in net cash flows used in investing activities from 2013 to 2014 was primarily attributable to cash flows related to: (i) the acquisition of an additional equity interest in existing subsidiaries for cash consideration of GEL 30,005 thousand in 2014; (ii) the acquisition of a subsidiary, net of cash acquired, for a consideration of GEL 22,631 thousand in 2014, which was an increase of GEL 19,153 thousand as compared to 2013; and (iii) the purchase of property and equipment for GEL 30,006 thousand in 2014, which was an increase of GEL 18,074 thousand as compared to 2013. In April 2014 we acquired the remaining 49% interest in our subsidiary My Family Clinic; 80% of shares in Avante, a healthcare company operating in Georgia; 100% of shares in Traumatology, a healthcare company operating in Georgia and property and equipment from Sunstone Medical, which owned a hospital in East Tbilisi.

The increase in net cash flows from investing activities from 2012 to 2013 was primarily attributable to two factors: a GEL 48,482 thousand, or 79.7%, decrease in cash outflows for the purchase of property and equipment; and GEL 6,035 thousand, or 63.4%, decrease in cash outflows for the acquisition of subsidiaries, net of cash acquired. Cash outflows for the acquisition of subsidiaries in 2012 mainly resulted from acquisition of Imedi L.

Net cash flows from (used in) financing activities

Net cash flows from financing activities decreased by GEL 21,269 thousand or 44.2%, from GEL 48,166 thousand in the six months ended 30 June 2014 to GEL 26,897 in the six months ended 30 June 2015. The decrease resulted froma GEL 49,335 thousand reduction in proceeds from the issuance of ordinary shares as the Group issued equity securities in the six months ended 30 June 2014 but not in the comparable period of 2015; and a GEL 5,123 increase in interest paid due to higher interest rates in 2015; and a GEL 3,103 thousand decrease in borrowings net of debt repayments. These decreases in cash flows from financing activities were partially offset by a GEL 34,247 thousand increase in debt securities issued as the Group issued bonds in the six months ended 30 June 2015 but not in the comparable period of 2014.

Net cash flows used in financing activities increased by GEL 112,065 thousand, or 1,824.9% from negative GEL 6,141 thousand in 2013 to GEL 105,924 thousand in 2014, having decreased by GEL 70,272 thousand, or 109.6%, from GEL 64,131 thousand in 2012.

The increase in net cash flows from financing activities from 2013 to 2014 was primarily attributable to proceeds of GEL 78,679 thousand from a capital contribution from our sole shareholder, BGH, and proceeds from borrowings, which increased by GEL 45,358 thousand in 2014 compared to 2013. This increase was partially offset by a GEL 9,347 thousand increase in interest expense paid.

We had cash flows from financing activities of GEL 64,131 thousand in 2012 and cash flows used in financing activities of negative GEL 6,141 thousand in 2013. The period-to-period decrease was primarily attributable to no share issuances in 2013 while in 2012 we received cash proceeds of GEL 31,413 thousand from a capital contribution from our sole shareholder, BGH. In addition, proceeds from borrowings were only GEL 20,741 thousand as compared to GEL 44,662 thousand in 2012.

Liabilities and Indebtedness

The Company's working capital facilities are renewable annually and are repayable upon demand and include overdrafts. As at 30 June 2015, the Company also had GEL 162.5 million of term loans outstanding, of which approximately GEL 30.7 million were current and due within one year and approximately GEL 131.8 million were non-current. As at 30 June 2015, the Company had debt securities issued amounting in aggregate to U.S.$15.0 million. In the six months ended 30 June 2015, the Company repaid GEL 35.3 million of total net borrowings.

Capital Expenditure

Historically, our healthcare services segment has required substantial capital investment and expenditure to build or refurbish our hospitals and ambulatory clinics and to buy and maintain expensive medical equipment.

The complex nature of the procedures we perform at our hospitals requires us to invest in technologically sophisticated equipment, such as radiology equipment and scopes used in minimally invasive surgeries. This equipment is generally very expensive and forms a major component of our annual capital expenditure budget. In addition, because we are committed to maintaining the highest standards of care, we are continuously upgrading and replacing this equipment as new technologies become available. This could make our existing equipment obsolete earlier than anticipated.

The table below sets out a breakdown of our capital expenditure for the first six months of 2015 and 2014, and years 2014, 2013 and 2012.

	For the six months ended 30 June		For the years ended 31 December		
	2015	2014	2014	2013	2012
	(audited)	(unaudited)	(audited)	(audited)	(audited)
	(thousands of GEL)				
Property type					
Land and office buildings	—	—	—	807	1,800
Hospitals and clinics	5,588	3,975	27,427	6,190	96
Furniture and fixtures	637	474	1,229	648	1,847
Computers	2,032	489	1,221	524	381
Medical equipment	14,699	2,031	6,029	11,285	10,536
Motor vehicles	450	334	998	566	428
Leasehold improvements	709	320	742	1,110	91
Assets under construction	1,464	81	2,995	7,414	24,985
Total	**25,579**	**7,704**	**40,641**	**28,544**	**40,164**

In addition, the long term investment in acquisitions for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012 were GEL 28,189 thousand, GEL 22,631 thousand, GEL 3,478 thousand and GEL 9,513 thousand, respectively.

Our committed capital expenditure as at 31 December 2014 related to construction contracts for hospitals in Samtskhe and the oncology centre in Kutaisi, and amounted to GEL 12.0 million. Our committed capital expenditure as at 30 June 2015 related to the development of hospitals in Samtskhe and the establishment of a oncology centre at Kutaisi Referral Hospital and amounted to GEL 16.7 million. We expect to fund these capital expenditures from the unutilised proceeds of previously issued debt securities.

On 3 August 2015, we acquired a 50% interest in GNCo, which owns HTMC Hospital. Under the terms of the acquisition we are obliged to pay U.S.$12,100,000 within three business days following the request of the seller after registration of the transfer of interest to Evex Medical Corporation, provided that certain other conditions precedent listed in the share purchase agreement are duly complied with. The Group paid an initial instalment of U.S.$1,100,000 on 17 August 2015 and an instalment of U.S.$1,000,000 on 25 September 2015. The Group paid a further instalment of U.S.$2,000,000 from cash on 30 October 2015. The seller has not yet requested payment of the balance of the U.S.$12,100,000. The remainder of the purchase price is not payable until 31 December 2015. We expect to pay U.S.$15 million from the proceeds of the Offering.

In addition, we expect to incur capital expenditure over the next two to three years to renovate and develop our recently acquired healthcare facilities (in particular, the Deka and Sunstone hospitals) and enlarge our network of ambulatory clinics. Our total estimated capital expenditure for the next three years (2016-2018) is approximately U.S.$65 million, including the committed capital expenditure as at 30 June 2015 described above. This amount excludes only regular maintenance capital expenditure that we fund using net cash proceeds from operating activities. We estimate regular maintenance capital expenditure of approximately GEL 5-7 million over this period. We plan to use U.S.$65 million of the net proceeds of the Offering for these capital expenditure projects.

Contractual Obligations

The table below summarises the maturity profile of our financial liabilities as of 30 June 2015, and 31 December 2014 based on undiscounted future cash outflow.

	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
As at 30 June 2015					
Accounts payable	9,576	—	—	—	**9,576**
Accruals for employee compensation	12,981	—	—	—	**12,981**
Debt securities issued	—	3,204	36,928	—	**40,132**
Borrowings	12,464	20,941	134,414	28,160	**195,979**
Other financial liabilities	11,316	—	—	—	**11,316**
Total undiscounted financial liabilities	**46,337**	**24,145**	**171,342**	**28,160**	**269,984**

	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
As at 31 December 2014[(1)]					
Accounts payable	8,591	—	—	—	8,591
Accruals for employee compensation	9,740	—	—	—	9,740
Borrowings	12,547	33,926	136,592	29,756	212,821
Other financial liabilities[(2)]	7,446	—	—	—	**7,446**
Total undiscounted financial liabilities	**38,324**	**33,926**	**136,592**	**29,756**	**238,598**

(1) For earlier periods, please see Note 36 to the 2014 Historical Financial Information for the Group

(2) Other financial liabilities comprises payables for purchase of property and equipment, insurance claims payable, payable for collection services and pay for professional services.

Operating Lease Commitments

The following table sets out our operating lease commitments at the dates indicated:

	As at 30 June 2015	As at 31 December 2014
	(audited)	**(audited)**
Operating lease commitments:		
—Not later than 1 year	1,898	990
—Later than 1 year but not later than 5 years	13,187	1,127
Total operating lease commitments	**15,085**	**2,117**

Contingent Liabilities

We had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. For a discussion of our committed capital expenditure see "*—Liquidity and Capital Resources—Capital expenditure*."

Off-Balance Sheet Arrangements

As of 30 June 2015, other than operating lease commitments and committed capital expenditure (as described above), we are not a party to any off-balance sheet obligations or arrangements.

Seasonality

Our results are affected by seasonality to a certain extent. The first quarter of the calendar year is slower than the other three quarters owing to a reduced number of procedures scheduled during winter holidays.

Qualitative and Quantitative Data About Market Risk

As part of our overall risk management, we use derivatives and other instruments to manage exposures resulting from changes of insurance liabilities risks, interest rates, foreign currencies and credit risks. We actively use credit terms and credit limit systems on both sides, accounts receivable as well as accounts payable to mitigate the risk of excessive or high risk exposures. For a full discussion of our risk management policies, see Note 36 to the 2014 Historical Financial Information for the Group.

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 we face 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.

We primarily use our loss ratio and our combined ratio to monitor insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is the sum of loss ratio and expense ratio. Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue.

Credit risk

Credit risk is the risk that we will incur a loss because our customers, clients or counterparties failed to discharge their contractual obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, we establish and regularly monitor credit terms by types of debtors, which is a proactive tool for managing credit risk.

We have established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service, ageing of receivables, etc. Counterparty limits are established in combination with credit terms.

The credit quality review process allows us to assess the potential losses of risks to which we are exposed and take corrective action.

Liquidity risk

Liquidity risk is the risk that we will be unable to meet our 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 an assessment of expected cash flows and the availability of high turnover of receivables to ensure the shortest possible days-sales-outstanding ratio.

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.

We do not have floating interest rate instruments and we are therefore not exposed to cash flow interest risk. In addition, interest rate fluctuations do not affect our equity.

Currency risk

We are exposed to effects of fluctuation in the prevailing foreign currency exchange rates on our financial position and cash flows. Our principal transactions are carried out in GEL and our exposure to foreign exchange risk arises primarily with respect to U.S. Dollars. Our financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group, GEL. Most of our operations are denominated in GEL too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from U.S. Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in U.S. Dollars and the foreign currency swap contracts with our counterparties.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. We cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, we are 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.

Recent and Prospective Changes in Accounting Policies

To the best of our knowledge, there are no material accounting standards applicable to us that will require a prospective change in any of our accounting policies.

We expect no material impact from the adoption of the amendments on the financial position or performance.

Critical Accounting Policies

For a summary of our critical accounting policies, see Note 3 to the 2014 Historical Financial Information for the Group.

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 year. 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 year are discussed below.

Impairment of receivables from healthcare services

Our accounts receivable mostly comprise receivables from healthcare services. The impairment provision for accounts receivable is based on our assessment of the collectability of specific customer accounts. If there is a sign of deterioration in a major customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria for defining the signs of such deterioration is the customers' debt services quality measured by the number 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, we determine whether or not there is an objective evidence of an impairment. If yes, then the proper provision rate is applied which reflects credit risk associated with that particular category of debt services. If not, then respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, again based on the number of days overdue, which practically implies immaterial amount of overdue days.

Management's judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and our 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 carrying amount of allowance for impairment of healthcare and other receivables as at 31 December 2014 was GEL 5,157 thousand (2013: GEL 3,563 thousand; 2012: GEL 2,352 thousand).

Impairment of insurance premiums and reinsurance receivables

We regularly review our insurance premiums and reinsurance receivables to assess impairment. For accounting purposes, we use an incurred loss model for the recognition of losses on the impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Model and approach to 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 receivable from healthcare services described above.

Current income tax recognition

The current income tax charge paid by the Company is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date, 31 December each year. The Company's management undertakes an assessment to determine the likely portion of profit from the current reporting period that we will reinvest in our core business activities during the next three years. This assessment is based on the medium term business plan (for the three years following the current reporting period) prepared by management.

Claims liability arising from insurance contracts

Estimates have to be made concerning insurance contracts for both the expected ultimate cost of claims reported at the reporting date and 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 2014 was GEL 1,603 thousand (2013: GEL 3,263 thousand; 2012: GEL 1,671 thousand).

PART XIII
CAPITALISATION AND INDEBTEDNESS

The table below sets out the capitalisation and indebtedness of the Group as of 30 June 2015.

The information has been extracted without material adjustment from the Historical Financial Information for the Group, as included in *Part XXII: "Historical Financial Information"* as of 30 June 2015.

	As at 30 June 2015
	(audited)
	(thousands of GEL)
Total current debt	
Guaranteed	3,114
Secured	23,901
Unguaranteed/unsecured	3,813
	30,828
Total non-current debt (excluding current portion of long-term debt)	
Guaranteed	12,145
Secured	119,618
Unguaranteed/unsecured	32,928
	164,691
Shareholders' equity	
Share capital	89,446
Additional paid-in capital	66,648
Other reserves	(15,289)
Retained earnings	47,723
Non-controlling interests	25,197
Total capitalisation	**213,725**

Guaranteed debt comprises borrowings on which the Group has obtained third party guarantees on repayment in case of default.

Secured debt comprises borrowings under which the Group has pledged real estate collateral as a security for loan.

Unguaranteed/unsecured debt comprises blank loans which have neither collateral nor third party guarantee.

On 25 September 2015, the Group entered into a bridge loan agreement pursuant to which JSC BGEO Group, a wholly-owned subsidiary of BGH, provided a term loan of the GEL equivalent of U.S.$1 million to the Group in order to finance the payment of a further instalment of the purchase price for the Group's acquisition of GNCo (see *Part XV: "Related Party Transactions—Bridge loan provided by JSC BGEO Group."*) Other than the bridge loan agreement with JSC BGEO Group, there has been no material change in the capitalisation of the Group since 30 June 2015.

The following table shows our net indebtedness as of 30 September 2015 and has been extracted without material adjustment from our management accounts that have been prepared using policies that are consistent with those used for preparing the Historical Financial Information for the Group as disclosed in *Part XII: "Operating and Financial Review"*.

	As at 30 September 2015
	(unaudited) (thousands of GEL)
Cash on hand	144
Current and on-demand accounts with banks	10,514
Time deposits with banks	16,132
Cash and bank deposits	**26,790**
Current bank debt	719
Current portion of non-current debt	35,702
Current financial indebtedness	36,421
Net current financial indebtedness	**9,631**
Non-current bank debt	152,117
Debt securities issued	34,819
Non-current financial indebtedness	**186,936**
Net financial indebtedness	**196,567**

The information as of 30 September 2015 is unaudited.

As at 30 September 2015 the Group has no contingent or indirect indebtedness.

PART XIV
USE OF PROCEEDS

It is expected that the gross proceeds from the Offering will be approximately U.S.$100 million, or approximately U.S.$110 million if the underwriters exercise their Over-allotment Option in full. The Company estimates that the net proceeds from the Offering will be approximately U.S.$95 million, or approximately U.S.$105 million if the underwriters exercise their Over-allotment Option in full, after deducting the underwriting commissions and expenses payable by the Company. The Company estimates that the costs of the Offering will be approximately U.S.$5 million.

The Company expects to receive net proceeds of approximately U.S.$95 million through the issue of new Shares pursuant to the Offering.

The Company will use the net proceeds from the Offering as follows:

Renovation and development of recently acquired healthcare facilities

The Company intends to allocate U.S.$26.8 million to the renovation and development of two healthcare facilities in Tbilisi, which the Group recently obtained as part of the acquisitions of Deka and Sunstone Medical.

Finance current expansion plans

The Company intends to allocate U.S.$38.0 million to enlarge the Group's network of ambulatory clinics and to undertake other projects in pursuit of organic growth.

Payment of the purchase price for the Group's acquisition of a 50% interest in GNCo

The Company intends to allocate U.S.$15.0 million to fund the remaining purchase price for the Group's acquisition of a 50% interest in GNCo, which owns HTMC Hospital. See *Part XVI: "Material contracts—Acquisition of a 50% interest in GNCo."*

Repay existing debt

The Company intends to allocate U.S.$15.2 million to reduce indebtedness. Of this amount, the Company intends to allocate approximately U.S.$13.9 million to repay indebtedness of the Group to Bank of Georgia. The Company also intends to allocate approximately U.S.$1.3 million to repay indebtedness of the Group to VTB. This is expected to give the Company greater financial flexibility to drive the future growth of the business and improve the Group's overall leverage and its debt to EBITDA ratio.

The Company will not receive any portion of the proceeds from the sale of the Over-allotment Shares (if any) on behalf of the Selling Shareholder.

PART XV
RELATED PARTY TRANSACTIONS

Save as disclosed in the Historical Financial Information for the Group as included in *Part XXII*: "*Historical Financial Information*" and as set out below, there were no related party transactions entered into by the Company or any member of the Group during the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 through the period to the publication of this Prospectus.

Demerger Agreement

In 2014, GHG merged all of its wholly-owned healthcare subsidiaries under one legal entity and spun off its property and casualty insurance (**P&C**) division. In order to accomplish this, on 31 July 2014 Insurance Company Imedi L, Evex Medical Corporation and Insurance Company Aldagi entered into an agreement (the **Demerger Agreement**, as amended on 1 August 2014 and 27 November 2014) on the separation of the assets and liabilities associated with the insurance and healthcare service business. Following the demerger, Insurance Company Imedi L acquired the health, term life and travel insurance business and the associated assets and liabilities, Evex Medical Corporation acquired the healthcare services business and the associated assets and liabilities and Insurance Company Aldagi continues to operate the P&C and pension business.

The Demerger Agreement established a separation committee including representatives of each of the parties to review and support the implementation of the demerger. The committee was established for a period of one year only. The Demerger Agreement regulates the novation of existing contractual arrangements and shared contracts, among other things, and contains mutual indemnification provisions whereby the parties remain jointly liable for obligations incurred before the demerger and agree to indemnify each other for any loss suffered if the liability has been assigned to another party. The Demerger Agreement is governed by Georgian law.

Loan agreement between Insurance Company Aldagi and My Family Clinic

On 5 May 2011, My Family Clinic (which was subsequently merged with Evex Medical Corporation), entered into a loan agreement with Insurance Company Aldagi BCI, the legal predecessor of Insurance Company Aldagi, under which Insurance Company Aldagi agreed to provide an interest-bearing loan to My Family Clinic of up to GEL 10 million. The loan agreement was for an initial term of up to 31 December 2012 but on 31 January 2012 the maturity date was extended to 20 January 2020 and the facility was increased to U.S.$15 million. The loan agreement provides that funds can be drawn in instalments in GEL, U.S. dollars or euro and the interest rate was fixed at 14% per annum. Principal is repayable together with accrued interest in equal instalments every six months from 20 January 2013. The loan agreement is governed by Georgian law. Following the demerger described above, the loan was assigned to Insurance Company Imedi L by way of legal succession.

Loan agreements with Bank of Georgia

On 7 September 2010, My Family Clinic entered into a general credit line agreement with Bank of Georgia under which Bank of Georgia extended a credit line of U.S.$10 million (or its equivalent in other currencies) with a term of 240 months. Borrowings under the credit line bear interest at rates from 10% to 24% per annum for loans and from 1% to 14% per annum for documentary operations.

On 6 September 2010, Insurance Company Aldagi, Unimedi Adjara, Unimedi Samtskhe and Unimedi Kakheti entered into a General Credit Facility Agreement with Bank of Georgia (as amended on 12 March 2014), whereby the bank agreed to provide these entities with a credit line for up to U.S.$35 million or its equivalent in any other currency, on general commercial terms and rates of interest.

Total borrowings by the Group from related parties amounted to GEL 94.1 million as at 30 June 2015 (equivalent to approximately 48% of total borrowings and debt securities issued) and GEL 92.7 million, GEL 50.7 million and GEL 45.4 million as of 31 December 2014, 2013 and 2012, respectively.

Members of the Group have granted security over real estate and the shares of three subsidiaries of Evex Medical Corporation to secure the indebtedness to Bank of Georgia described above, the fair value of which was GEL 100.5 million as of 30 June 2015. These arrangements are at arm's length and on normal commercial terms.

The Company intends to allocate approximately U.S.$13.9 million to repay indebtedness of the Group to Bank of Georgia from the proceeds of the Offering. See *Part XIV: "Use of Proceeds."*

Sales of Imedi L medical insurance by Bank of Georgia to its SOLO Clients

On 2 February 2015, Insurance Company Imedi L and Bank of Georgia entered into a service agreement whereby Bank of Georgia, acting as the agent of Insurance Company Imedi L, is granted the authority to find customers for Insurance Company Imedi L's medical insurance products and direct these to Insurance Company Imedi L in return for commission from premiums earned from medical products sold. Bank of Georgia is only entitled to offer insurance products to its SOLO clients (a premium service package offered by the Bank to its medium and high-income clients). Pursuant to the service agreement, Bank of Georgia collects all necessary documentation and information from prospective clients and transfers these to Insurance Company Imedi L. Insurance Company Imedi L is obliged to submit quarterly information to Bank of Georgia regarding clients who have concluded medical insurance agreements with Insurance Company Imedi L through Bank of Georgia. Bank of Georgia is entitled to receive commission from Imedi L in the amount of 7% of the premiums sold to clients introduced by Bank of Georgia. The agreement has an initial term of one year and will be extended automatically unless the parties agrees to terminate it at least 14 days prior to the termination date. The service agreement is governed by Georgian law.

Company payroll services undertaken by Bank of Georgia

On 6 August 2014, Insurance Company Imedi L and Bank of Georgia entered into an agreement for the provision of payroll services in respect of Insurance Company Imedi L's employees. Pursuant to the agreement, the salaries of Insurance Company Imedi L's employees are deposited into bank accounts opened and maintained at the Bank of Georgia. The agreement regulates a number of procedural issues including the receipt of employee details from Insurance Company Imedi L, terms and conditions for opening bank accounts for Insurance Company Imedi L's employees and the distribution of information regarding the payroll services agreement. The agreement also sets out the tariffs, interest rates and bank charges envisaged for Insurance Company Imedi L's employees for various banking products (for example, requesting a MasterCard CL and Visa Electron is free, whereas requesting a MasterCard Standard CL and Visa Classic costs GEL 10). Overdrafts are only available to individuals for the duration of their employment with Insurance Company Imedi L. Insurance Company Imedi L is obliged to notify Bank of Georgia upon the termination of any relevant employment agreement. The payroll services agreement has no fixed initial term. Insurance Company Imedi L is authorised to terminate the agreement on the provision of 90 days prior notice to Bank of Georgia. Any notice of termination must contain the exact termination date and the reasons for termination. The payroll services agreement is governed by Georgian law.

On 29 January 2015, additional subsidiaries of the Company (Unimedi Samtskhe, Unimedi Kakheti and Unimedi Adjara) entered into payroll services agreements with Bank of Georgia on substantially the same terms as those set out above. All agreements are governed by Georgian law.

IT systems shared with Bank of Georgia

The Group shares certain IT systems with Bank of Georgia, such as Active Directory, Mail Exchange Server, Microsoft Lync, Microsoft TMG Internet Proxy, Microsoft Security Essentials, MacAfee DLP, Physical Server Hosting, Website/Intranet Hosting, internet services, IT support and certain telephony systems. On 25 August 2015 the Group entered into an agreement with Bank of Georgia pursuant to which Bank of Georgia will continue, until the end of 2016, to provide the shared IT systems to the Group on the same terms as they have been provided during the six months prior to the date of the agreement. These services are provided free of charge. The agreement is governed by Georgian law. The Group is currently in the process of migrating its data centre from Bank of Georgia's platform to its own platform and expects that all of the systems will be operated independently from the Bank of Georgia within 12 months. See *Part IX: "Our Business—Our Healthcare services—Hospital IT systems"*.

Guarantee from Bank of Georgia

Bank of Georgia has guaranteed the loan agreement from ING Bank to Imedi L described in *Part XVI: "Material Contracts—Loan agreement with ING Bank"*. In consideration for the provision of this guarantee the Group pays a fee to Bank of Georgia in an amount equal to 6% of the outstanding amount per annum on a monthly basis.

Banking services provided by Bank of Georgia

The Group maintains cash on deposit with Bank of Georgia, on which interest income is paid at market rates.

Foreign exchange forward contract with Insurance Company Aldagi

On 1 November 2014, the Group entered into a foreign exchange forward contract with Insurance Company Aldagi in order to manage its exposure resulting from fluctuations in foreign exchange currency rates. The notional amount of the contract was U.S.$17.3 million as at 30 June 2015. The fair value of the contract was GEL 7,011 thousand as at 30 June 2015. Prior to this, in 2013 the Group had entered into a foreign exchange option contract with Bank of Georgia in order to manage its exposure resulting from fluctuations in foreign currency exchange rates. The notional amount of the contract was U.S.$33 million as of 31 December 2013. As at 31 December 2013, the fair value of derivative asset position was GEL 982 thousand, net of a credit valuation adjustment attributable to derivative counterparty default risk.

Medical insurance provided by Imedi L

The Group provides medical insurance coverage to employees of Bank of Georgia and other companies of the Bank of Georgia group in the ordinary course of business and on arm's length terms.

The Group generated revenue from insurance premiums earned attributable to related parties amounting to GEL 1.1 million in the first half of 2015, GEL 2.0 million in 2014, GEL 1.7 million in 2013 and GEL 1.3 million in 2012.

Property insurance provided by Insurance Company Aldagi

Insurance Company Aldagi provides property insurance to the Group in the ordinary course of business and on arm's length terms.

Relationship Agreement

The Relationship Agreement entered into between the Company, the Selling Shareholder and BGH is described in *Part XVI: "Material Contracts—Relationship Agreement."*

Share Contribution Agreement

The Share Contribution Agreement is described in *Part XX: "Additional Information—Reorganisation"*.

Co-management services provided by Galt & Taggart

Galt & Taggart, a subsidiary of Bank of Georgia, became party to the Underwriting Agreement described at "*Part XVII: Information on the Offering—Underwriting Arrangements*" on 9 November. Galt & Taggart is acting as a manager in the Offering, but will not be underwriting the Offering. Galt & Taggart is entitled to receive a percentage of the discretionary compensation allocated to the Co-Lead Managers in return for its provision of co-management services.

Bridge loan provided by JSC BGEO Group

On 25 September 2015, the Group entered into a bridge loan agreement pursuant to which JSC BGEO Group, a wholly-owned subsidiary of BGH, provided a term loan of the GEL equivalent of U.S.$1 million to the Group in order to finance the payment of a further instalment of the purchase price for the Group's acquisition of GNCo (see *Part XVI: "Material contracts—Acquisition of a 50% interest in GNCo."*). The bridge loan has a term of three months and bears interest at a rate of 14% per annum. No collateral has been provided to secure the Group's obligations under the bridge loan agreement.

PART XVI
MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the Company or any member of the Group, and (b) at any time and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this document:

Loan Agreement with ING Bank

On 11 August 2011, Insurance Company Aldagi entered into an amended and restated export credit facility agreement with ING Bank The facility agreement was originally granted to Insurance Company Aldagi and subsequently assigned to Insurance Company Imedi L after the spin-off of Evex Medical Corporation and Insurance Company Imedi L from Insurance Company Aldagi. Under the agreement ING Bank extended an export credit facility in the amount of U.S.$12.2 million, maturing on 13 September 2019 to cover payments due to a contractor for the refurbishment of four healthcare facilities. The loan bears interest at a margin of 1.90% above U.S. dollar LIBOR plus a mandatory cost element. The facility agreement contains change of control provisions relating to Insurance Company Imedi L as borrower and Bank of Georgia as guarantor. It also contains certain customary covenants and undertakings including undertakings by the borrower to provide periodic reports on its financial condition, maintain solvency and comply with applicable regulatory norms. The borrower is obliged to maintain a debt reserve account at ING Bank in an amount determined according to a formula set out in the agreement. The facility agreement is governed by English law and disputes are subject to arbitration under LCIA rules.

Loan agreements with TBC Bank

On 1 February 2012, My Family Clinic (which was subsequently merged with Evex Medical Corporation), entered into a general credit line agreement with TBC Bank, pursuant to which TBC Bank agreed to provide a credit line of up to U.S.$30 million (or its equivalent in any other currency) with the maturity date of 1 February 2042. The credit line agreement provides for certain negative covenants, including restrictions on a change of control, among others.

On 14 February 2012, My Family Clinic entered into a loan agreement under this credit line with TBC Bank for an amount of U.S.$4 million at 13% interest per annum maturing on 1 February 2022 to fund the payment of fees for construction services to Block Georgia. The loan is secured by a pledge over immovable property and medical equipment owned by subsidiaries of the borrower and a corporate guarantee. It is a condition of the loan agreement that any loans extended by Insurance Company Aldagi to the borrower should be subordinated to TBC Bank. The loan agreement contains certain negative covenants restricting the disposal of the secured property, capital investments and the distribution of dividends, *inter alia*.

On 26 June 2014, My Family Clinic entered into a loan agreement under this credit line with TBC Bank for an amount of up to GEL 20.1 million bearing interest at a fixed rate of 6.35% plus a floating refinancing rate set by the National Bank of Georgia at the end of each month. The loan agreement contains certain negative covenants and undertakings by the borrower to maintain certain levels of cash with TBC Bank. The loan matures on 1 February 2022. The loan was issued to refinance another loan obtained by My Family Clinic from TBC Bank.

Acquisition of Traumatology

On 30 September 2014, Evex Medical Corporation acquired a 100% interest in Traumatology, a hospital located in the western part of Tbilisi. The interest was acquired from a number of individual shareholders for a total consideration of U.S.$3.6 million of which U.S.$3,060,000 was payable within seven business days from the date of registration of transfer of title to the shares to the buyer with the balance to be paid one calendar year from such date; Evex Medical Corporation retains the right to offset any outstanding liability of the sellers from the above amount. The purchase price will be adjusted if, prior to payment of the final instalment, any undisclosed financial or tax liabilities of the target company are discovered, or the calculation of the asset value of the company proves to be materially inaccurate, or any of the sellers' representations and warranties proves to be false or misleading. The right to offset is triggered if the aggregate additional financial exposure of the buyer exceeds GEL 80,000. The sellers represented and warranted to Evex Medical Corporation that the target company's privatisation obligations under its privatisation agreement with the Ministry of Economy and Sustainable Development of Georgia had been duly complied with, with an obligation under Section 3.1.3 of the private agreement being contiguously observed. The share purchase agreement is governed by Georgian law.

Acquisition of Tbilisi School of Managers

On 16 September 2014, Evex Medical Corporation acquired a 100% interest in Tbilisi School of Managers from Freeland Holding. The purchase price was U.S.$4,691,450, of which U.S.$4,375,000 (basic compensation) was payable within five business days from the date of registration of transfer of title to the interest to the buyer with U.S.$16,450 deducted from the aggregate purchase price to cover the indebtedness of the shareholder owed to the company. The remaining U.S.$300,000 was payable in instalments by August 2015 with the buyer retaining the right to offset if any undisclosed financial or tax liability of the company is discovered or the calculation of the asset value of the company proves to be materially inaccurate, or any representation or warranty proves to be false or misleading. The share purchase agreement is governed by Georgian law.

Acquisition of Avante

In early 2014, Unimedi Kakheti acquired a 100% interest in the capital of Avante from several individual shareholders. The acquisition was carried out in two stages. On 19 February 2014, Unimedi Kakheti purchased an 80% interest in Avante from three individual shareholders for a total consideration of U.S.$11.2 million, followed by the acquisition of the remaining 20% on 5 March 2014 for a total consideration of U.S.$2.8 million. Of the total purchase price, U.S.$4 million was deferred and was paid by 13 May 2015, while the remainder was payable immediately upon acquisition. Unimedi Kakheti retains the right to set-off any undisclosed financial liabilities of the target company (as well as any of its key subsidiaries) from the final instalment of the purchase price. Both share purchase agreements are governed by Georgian law.

Acquisition of 49% equity interest in My Family Clinic

On 15 April 2014, Insurance Company Aldagi acquired 2,713,740 ordinary shares of My Family Clinic (representing 49% of all of the issued shares) from Block Invest and as a result became the sole shareholder of My Family Clinic. The purchase price was U.S.$17 million payable in three instalments. The final instalment of the purchase price was paid on 28 February 2015. The agreement is governed by Georgian law.

Contract for construction works

On 27 June 2012, Unimedi Kakheti and Unimedi Adjara entered into an agreement for construction and reconstruction works with Block Georgia. The agreement related to the construction and/or reconstruction and renovation of several hospitals owned and operated by Unimedi Kakheti and Unimedi Adjara in different regions of Georgia. The contract was governed by Georgian law and the total contractual price payable was GEL 8,320,426. All construction work in respect of the hospitals owned by JSC Unimedi Adjara was completed by 29 January 2013, while construction work commissioned by JSC Unimedi Kakheti was performed by another contractor, G.Z., by the agreement of the parties. The total commission paid to Block Georgia for the work performed amounted to GEL 5,325,441, while the commission payable to G.Z. was set at GEL 2,909,829.94.

Share Contribution Agreement

The Share Contribution Agreement is described in *Part XX: "Additional Information—Reorganisation"*.

Relationship Agreement

On 23 October 2015, the Company entered into the Relationship Agreement with the Selling Shareholder and BGH which will, conditional only on Admission, regulate the degree of control that BGH and its associates may exercise over the management and business of the Group. The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable at all times of carrying on their business independently of BGH and its associates. The Relationship Agreement will take effect on Admission and will continue until the earlier of (i) the Shares ceasing to be admitted to listing on the Official List and (ii) BGH, together with its associates, ceasing to own or control (directly or indirectly) 20 per cent. or more of the voting share capital of the Company. If BGH ceases to be a controlling shareholder (within the meaning of paragraph 6.1.2A of the Listing Rules), it may terminate the Relationship Agreement by giving one month's written notice to the Company.

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

- conduct all transactions, agreements or arrangements entered into between the Company or any of its subsidiaries (on the one hand) and BGH and its associates (on the other) on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing the Company or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the Shareholders (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 paragraph 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving BGH.

The Relationship Agreement entitles BGH to appoint one person to be a non-executive director of the Company. BGH will retain the right to appoint one non-executive director of the Company for so long as it (together with its associates) holds at least 20 per cent. of the voting share capital of the Company.

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

Notwithstanding BGH's right to nominate one person as non-executive director of the Board (as described in the paragraph above), the Directors believe that, together with the Company's conflicts policy, the provisions of the Listing Rules relating to "related party transactions" and the provisions of the Companies Act relating to conflicts of interest, the terms of the Relationship Agreement will enable the Company and its subsidiaries to carry on business independently from BGH and ensure that all transactions and relationships between the Company and BGH are, and will be, at arm's length and on, in the reasonable opinion of the Directors, normal commercial terms.

Underwriting Agreement

The Underwriting Agreement is described in "*Part XVII: Information on the Offering—Underwriting Arrangements*".

Acquisition of Deka

In June 2015, Evex Medical Corporation acquired a 95% interest in Deka. Deka owns a hospital with a potential 350 bed capacity located on 2.4 hectares of land in a prime location in Tbilisi. The interest was acquired from one individual shareholder for a total consideration of U.S.$12 million. Of the total consideration, Deka undertook to direct U.S.$1,699,800 to cover the outstanding debt of Deka owed to Cartu Bank. The remainder was transferred to the seller with a further obligation to issue this amount to PP LLC in the form of subordinated and convertible loan. The transfer of the 95% interest was conditional on obtaining a letter of consent from the Competition Agency of Georgia. However, on 10 June 2015, the Competition Agency of Georgia notified Evex Medical Corporation that the acquisition did not require clearance and that the mandatory reporting obligation was not triggered. The remaining 5% interest in Deka was pledged by the seller in favour of Evex Medical Corporation to secure the performance of other obligations set forth in the share purchase agreement. The purchase price became due and payable one business day after the registration of the above pledge with the Public Registry of Georgia. In the event that any representations and warranties in the share purchase agreement turn out to be inaccurate, false or misleading within eighteen months from the date of the transfer of interest, the seller is obliged to reimburse any additional costs incurred by the Evex Medical Corporation that cumulatively exceed GEL50,000. The seller also represented and warranted to Evex Medical Corporation that the target company's privatisation obligations under its privatisation agreement with the Ministry of Economy and

Sustainable Development of Georgia had been duly complied with, whilst the obligation to maintain the medical profile of the facility is continuously observed. The share purchase agreement is governed by the Georgian law.

Acquisition of a 50% interest in GNCo

On 3 August 2015, Evex Medical Corporation acquired a 50% ownership interest in GNCo from two individual shareholders, as provided under the memorandum of understanding executed between the parties on 30 May 2015. GNCo owns the entire issued share capital of High Technology Medical Centre, which owns HTMC Hospital, a major and well-established 450 bed referral hospital in Tbilisi. The purchase price for the interest was set at U.S.$17,100,000, of which U.S.$12,100,000 is payable within three business days following the request of the seller after registration of the transfer of interest to Evex Medical Corporation, provided that certain other conditions precedent listed in the share purchase agreement were duly complied with. The Group paid an initial instalment of U.S.$1,100,000 on 17 August 2015 and an instalment of U.S.$1,000,000 on 25 September 2015. The Group paid a further instalment of U.S.$2,000,000 from cash on 30 October 2015. The seller has not yet requested payment of the balance of the U.S.$12,100,000. The remainder of the purchase price is not payable until 31 December 2015. In the event that any of the sellers' representations and warranties are found to be materially incorrect within twelve months, or the balance sheet value of the company is substantially less than originally stated, or certain creditor liabilities are revealed that the sellers failed to disclose at the time of the transaction, the sellers are jointly liable for the compensation of any damages incurred, provided that the aggregate value of such damages exceeds GEL 700,000. On the same date the parties entered into a shareholders' agreement, under which they agreed on the key terms for the ongoing management of GNCo following the acquisition, including pre-emptive and tag-along rights and deadlock provisions. According to the shareholders' agreement, if the shareholders do not reach agreement on certain pre-defined issues at two consecutive shareholder meetings, or in respect of issues related to the approval of certain related party transactions, at one shareholder meeting (which the Group believe is a remote contingency), either party has the right to initiate the deadlock procedure. Following the initiation of the deadlock procedure, the other party may be required to sell and Evex Medical Corporation may be required to purchase the remaining 50% interest in GNCo held by the other party within 90 days. The price payable for the interest held by the other party is calculated by reference to a pre-agreed formula set out in the shareholders' agreement, depending on which party has initiated the deadlock procedure or when the procedure is initiated. In the event that Evex Medical Corporation seeks to exercise its rights to require the other Shareholder to sell the remaining interest in GNCo, the Company may be required to seek the approval of its Shareholders.If the other shareholder seeks to exercise its rights to require Evex Medical Corporation to purchase its remaining interest in GNCo, the Company may not need to seek the approval of its Shareholders. The other party has no right to acquire the 50% interest in GNCo held by Evex Medical Corporation. The share purchase agreement and the shareholder agreement are both governed by Georgian law.

PART XVII
INFORMATION ON THE OFFERING

Summary of the Offering

Pursuant to the Offering, the Company intends to issue 38,681,820 Shares, raising proceeds of approximately £63 million, net of underwriting commissions and other estimated fees and expenses of approximately £3 million. The Company will not receive any portion of the proceeds from the sale of the Over-allotment Shares (if any) on behalf of the Selling Shareholder.

The Shares will represent approximately 29% of the Company's expected issued ordinary share capital immediately following Admission.

3,868,180 Over-allotment Shares are being made available by the Selling Shareholder pursuant to the Over-allotment Option described below.

The Offering Price per Share is £1.70.

The Company's expected market capitalisation at the Offering Price at Admission will be £218 million (based on the number of Shares in issue at Admission, excluding Shares held by Sanne Fiduciary Services Limited as trustee of the Group's employee benefit trust).

Certain restrictions that apply to the distribution of this document and the Shares being issued and sold under the Offering in jurisdictions outside the United Kingdom are described below.

The Offering is fully underwritten by the Joint Global Coordinators and is subject to satisfaction of the conditions set out in the Underwriting Agreement, including Admission occurring and becoming effective by no later than 8.00 a.m. (London time) on the Closing Date or such later time and/or date as the Company and Joint Global Coordinators may agree, and to the Underwriting Agreement not having been terminated in accordance with its terms.

When admitted to trading, the Shares will be registered with ISIN number GB00BYSS4K11 and SEDOL number BYSS4K1, and will trade under the symbol "GHG". Admission is expected to take place and unconditional dealings in the Shares are expected to commence on the London Stock Exchange on 12 November 2015.

Immediately following Admission, 22% of the issued ordinary share capital of the Company will be held in public hands (within the meaning of paragraph 6.1.19 of the Listing Rules), based on the total number of Shares excluding Shares held by Sanne Fiduciary Services Limited as trustee of the Group's employee benefit trust. Immediately following Admission, BGH will (through the Selling Shareholder) own 68% in each case assuming no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to approximately 65% if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option.

The Shares being issued pursuant to the Offering will, on Admission, rank pari passu in all respects with the existing Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. The Shares will be freely transferable and sold as described below.

Reasons for the Offering and Use of Proceeds

The Company believes that the Offering will

- enable access to capital markets if necessary for future growth;
- enhance the Group's profile with investors, business partners and customers;
- further enhance the ability of the Group to attract and retain consultants, key management and employees;
- diversify the shareholder base of the Group;
- enable the Group to reduce its outstanding debt; and
- enable the Selling Shareholder to partially monetise its holding, and establish a liquid market for the shares it holds in the Company going forward.

The Company intends to use the net proceeds from the Offering for the purposes set out in *Part XIV: "Use of Proceeds"*.

Bookbuilding and allocation

The rights attaching to the Shares will be uniform in all respects and they will form a single class for all purposes. The Shares allocated under the Offering have been underwritten, subject to certain conditions, by the Joint Global Coordinators as described in "*—Underwriting arrangements*".

Allocations under the Offering will be proposed by the Joint Global Coordinators and the Company will have the right to amend the proposed allocations at its discretion (acting reasonably). All Shares issued or sold pursuant to the Offering will be issued or sold, payable in full, at the Offering Price. The Offering Price has been determined by the Joint Global Coordinators in consultation with the Company. Liability for UK stamp duty and stamp duty reserve tax is described in *Part XVIII: "Taxation of the Shares"*.

Dealings and Admission

The Offering is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature. Certain conditions are related to events which are outside of the control of the Company as well as outside the control of the Directors and the Joint Global Coordinators. The offer cannot be terminated once unconditional dealing in the shares have commenced. Further details of the Underwriting Agreement are described in "*—Underwriting arrangements*".

Application has been made to the FCA for the Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will take place and unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 12 November. Settlement of dealings from that date will be on a three-day rolling basis. Prior to Admission, it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange on 9 November. The earliest date for such settlement of such dealings will be 12 November. All dealings in the Shares prior to the commencement of unconditional dealings will be on a "conditional basis", will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offering Price for the Shares sold or issued to such investor in such manner as shall be directed by the Joint Global Coordinators.

It is expected that Shares allocated to investors in the Offering will be delivered in uncertificated form and settlement will take place through CREST on Admission. No temporary documents of title will be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the person concerned.

Over-allotment and Stabilisation

In connection with the Offering, Citigroup Global Markets Limited as Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Shares or effect other stabilising transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such stabilisation transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice.

In connection with the Offering, the Stabilising Manager may, for stabilisation purposes, over-allot Shares up to a maximum of 10% of the total number of Shares comprised in the Offering. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Shares effected by it during the stabilising period, the Selling Shareholder has granted to it the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Shares up to a maximum of 10% of the total number of shares comprised in the Offering at the Offering Price. The Over-allotment Option is exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank pari passu in all respects with the Shares, including for all dividends and other distributions declared, made or paid on the Shares, will be purchased on the same terms and conditions as the Shares being issued or sold in the Offering and will form a single class for all purposes with the other Shares.

In no event will measures be taken to stabilise the market price of the Shares above the Offering Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilising transactions conducted in relation to the Offering.

It is expected that the sale of additional Shares by the Selling Shareholder to purchasers procured by the Stabilising Manager or to the Stabilising Manager pursuant to the exercise of the Over-allotment Option, will be effected by means of an "on exchange" transaction for the purposes of the rules of the London Stock Exchange.

CREST

With effect from Admission, the Articles will permit the holding of Shares under the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. Settlement of transactions in the Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Shares in the Offering may elect to receive Shares in uncertificated form, if that investor is a system member (as defined in the CREST Regulations) with regard to CREST.

Selling Restrictions

The distribution of this document and the offer of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of Shares contained in this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or purchase any of the Shares to any person in any jurisdiction to whom it is unlawful to make such offer of solicitation in such jurisdiction.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), an offer to the public of any Shares (including by means of a resale or other transfer) may not be made in that Relevant Member State, other than the offer in the United Kingdom contemplated in this document (this document having been approved by the FCA (being the competent authority in the United Kingdom) and which will be published in the United Kingdom in accordance with the Prospectus Directive as implemented in the United Kingdom), except that an offer to the public in that Relevant Member State of the Shares may be made at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- by the Company to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Sponsors for any such offers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an "'offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented, acknowledged and agreed that the Shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale. the Company, the Selling Shareholder, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the prior consent of the Joint Global Coordinators, be permitted to acquire Shares in the Offering.

United Kingdom

This document and any other materials in relation to the Shares described herein are only being distributed to, and are only directed at, persons in the United Kingdom who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**) or (ii) high net worth entities or other persons falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as **relevant persons**). The Shares are only available to, and any invitation, offer or agreement to subscribe or otherwise acquire such Shares will be engaged in only with, relevant persons. This document and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or its contents.

United States

The Shares have not been and will not be registered under the U.S. Securities Act or under any applicable securities laws or regulations of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except to persons reasonably believed to be QIBs. The Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S. In addition, until 40 days after the commencement of the Offering of the Shares an offer or sale of Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the U.S. Securities Act. The Underwriting Agreement provides that the Underwriters may directly or through their respective United States broker-dealer affiliates arrange for the offer and resale of Shares within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the U.S. Securities Act.

The Company, the Selling Shareholder, the Underwriters and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Australia

This document (a) does not constitute a document or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia (**Corporations Act**); (b) does not purport to include the information required of a document under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission (**ASIC**), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (c) may not be provided in Australia other than to select investors (**Exempt Investors**) who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act. The Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Shares, each subscriber or purchaser of Shares represents and warrants to the Company, the Selling Shareholder, the Underwriters and their affiliates that such subscriber or purchaser is an Exempt Investor. As any offer of Shares under this document, any supplement or the accompanying document or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Shares each subscriber or purchaser of Shares undertakes to the Company, the Selling Shareholder, the Underwriters that such subscriber or purchaser will not, for a period of 12 months from the date of issue or purchase of the Shares, offer, transfer, assign or otherwise alienate those Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Japan

The Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the **FIEL**). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance documents under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this document nor any other offering or marketing material relating to the offering, the Company, the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (**FINMA**), and the offer of Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (**CISA**). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

Turkey

The issuance of the Shares has not been approved by the Turkish Capital Markets Board and the Shares are not being publicly offered or sold in Turkey. This document is not intended to be a public offering, advertisement, promotion or solicitation of the Shares or any interests therein. No transaction that may be deemed as a public offering or otherwise as a sale of the Securities (or beneficial interests therein) in Turkey by may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time), there is no restriction on the purchase or sale of the Shares (or beneficial interests therein) by residents of Turkey, provided that they purchase or sell such Shares (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to Capital Markets Board regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing the Shares (or beneficial interests therein) and transfer the purchase price through banks.

Israel

In the State of Israel this document shall not be regarded as an offer to the public to purchase Shares under the Israeli Securities Law, 5728 - 1968 (the **ISL**), which requires a prospectus to be published and authorised by the Israel Securities Authority, unless it complies with certain provisions of Section 15 of the ISL, including, *inter alia*, if: (i) the offer is made, distributed or directed to not more than 35 investors, subject to certain conditions (**Addressed Investors**); or (ii) the offer is made, distributed or directed to certain qualified investors defined in the First Addendum of the ISL, subject to certain conditions (**Qualified Investors**).

Qualified Investors shall not be taken into account in the count of the Addressed Investors and may be offered to purchase securities in addition to the 35 Addressed Investors. The Company and/or the Joint Global Coordinators do not and will not take any action that would require them to publish a prospectus in accordance with and subject to the ISL. The Company and/or the Joint Global Coordinators have not and will not distribute this document or make, distribute or direct an offer to subscribe for Shares to any person within the State of Israel, other than to Qualified Investors and up to 35 Addressed Investors.

Qualified Investors may have to submit written evidence that they meet the definitions set out in of the First Addendum to the ISL. In particular, the Company may request, as a condition to be offered Shares, that Qualified Investors will each represent, warrant and certify to the Company and/or to anyone acting on its behalf: (i) that it is an investor falling within one of the categories listed in the First Addendum to the ISL; (ii) which of the categories listed in the First Addendum to the ISL regarding Qualified Investors is applicable to it; (iii) that it will abide by all provisions set out in the ISL and the regulations promulgated thereunder in connection with the offer to be issued Shares; (iv) that Shares that it will be issued are, subject to exemptions available under the ISL: (a) for its own account; (b) for investment purposes only; and (c) not issued with a view to resale within the State of Israel, other than in accordance with the provisions of the ISL; and (v) that it is willing to provide further evidence of its Qualified Investor status. Addressed Investors may have to submit written evidence in respect of their identity and may have to sign and submit a declaration containing, *inter alia*, the Addressed Investor's name, address and passport number or Israeli identification number.

Ukraine

Under Ukrainian law, the Shares are securities of a foreign issuer. The Shares are not eligible for initial offering and public distribution in Ukraine. Neither the issue of the Shares nor this prospectus has been, or is intended to be, registered with the National Commission for Securities and Stock Market of Ukraine. The information in this document is not an offer, or an invitation to solicit offers, to sell, exchange or otherwise transfer the Securities in Ukraine.

Russian Federation

Neither the Shares nor this document have been, or are intended to be, registered with the Central Bank of Russia or any other state bodies that may from time to time be responsible for such registration. Each of the Managers has represented and agreed that the Shares will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent permitted under Russian law.

South Africa

In South Africa, the Offering will only be made by way of private placement to persons falling within the exemptions set out in Section 96 1(a) of the Companies Act, No. 71 of 2008 (as amended) (the **South African Companies Act**)(**Qualifying Investors**) and this document is only being made available to such Qualifying Investors. This Offering does not constitute an offer for the sale of or subscription for, or the solicitation of an offer to buy and subscribe for, shares to the public as defined in the South African Companies Act and will not be distributed to any person in South Africa in any manner which could be construed as an offer to the public in terms of the South African Companies Act and should any person who is not a Qualifying Investor receive this document they should not and will not be entitled to acquire any Shares or otherwise act thereon. This document does not, nor is it intended to, constitute a prospectus prepared and registered under the South African Companuies Act.

Transfer Restrictions

Each purchaser of securities of the Company in the United States will be deemed to have represented and agreed as follows:

(i) The purchaser (a) is a qualified institutional buyer, or QIB, as defined in Rule 144A, or a broker-dealer acting for the account of a QIB, (b) is acquiring such securities for its own account or for the account of a QIB, and (c) is aware that the securities are restricted within the meaning of the Securities Act and may not be deposited into any unrestricted depositary facility, unless at the time of such deposit such shares are no longer restricted.

(ii) The purchaser is aware that such securities have not been and will not be registered under the Securities Act and are being offered in the United States only to QIBs in a transaction not involving any public offering in the United States within the meaning of the Securities Act.

(iii) The purchaser understands and agrees that such securities may not be offered, sold, pledged or otherwise transferred, except (a) to a person that the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) outside the United States in accordance with Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act, or (d) pursuant to an effective registration statement under the Securities Act.

Underwriting arrangements

The Company has entered into an underwriting agreement dated 9 November 2015 with the Directors, the Selling Shareholder and the managers, pursuant to which, subject to certain conditions, the managers have agreed to procure subscribers and/or purchasers for the Offering Shares at the Offering Price and failing which, to themselves subscribe for and/or purchase, the Offering Shares at the Offering Price.

The underwriting agreement contains, among other things, the following provisions:

(a) The Company, the Directors and the Selling Shareholder have each given certain customary representations, warranties and undertakings to the managers, including, among others, warranties in relation to the information contained in this document and other documents prepared in connection with the Offering and warranties in relation to the business of the Group.

(b) The Company and the Selling Shareholder have each agreed to indemnify the managers against certain liabilities, including in respect of the accuracy of information contained in this document and losses arising from a breach of the underwriting agreement. The liability of the Company under the underwriting agreement is unlimited as to time and amount.

(c) The Company, the Directors and the Selling Shareholder have each agreed to pay the managers a commission of 2.20% of an amount equal to the Offering Price multiplied by the aggregate number of Offering Shares to be issued or sold in connection with the Offering. The Company may pay an additional incentive fee of 0.80% of the gross proceeds of the Offering (including shares sold pursuant to the Over-allotment Option).

(d) The obligations of the Company and the obligations of the Selling Shareholder and the managers are conditional upon certain conditions that are typical for an agreement of this nature. These conditions include, among others, that Admission occur not later than 8:00 a.m. on 12 November 2015 or such later date as the Company and the managers may agree.

(e) The Selling Shareholder has granted the Stabilisation Agent the Over-allotment Option pursuant to which the Stabilisation Agent may require the Selling Shareholder to sell Over-allotment Shares of up to 10% of the aggregate number of Shares at the Offering Price to cover over-allotments and cover short positions resulting from stabilising transactions. The Over-allotment Option may be exercised, in whole or in part, at any time during the period of 30 calendar days after the commencement of unconditional dealings in the Shares.

(f) The underwriting agreement entitles the managers to terminate the Offering (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Offering and these arrangements will lapse and any monies received in respect of the Offering will be returned to applicants without interest.

(g) The Company has undertaken to pay or cause to be paid, (together with any applicable VAT) certain costs, charges, fees and expenses relating to the Offering. In addition, we have agreed to reimburse the managers in respect of all costs and expenses incurred in connection with the Offering.

(h) The underwriting agreement is governed by English law.

(i) Galt & Taggart is acting as a manager in the Offering, but will not be underwriting the Offering.

Lock-up arrangements

The Company has entered into lock-up arrangements pursuant to the terms of the underwriting agreement, whereby it has agreed that it will not, without the prior written consent of the Joint Global Coordinators, issue, offer, sell, contract to sell, pledge or otherwise dispose of any Ordinary Shares for a period commencing on the date of the underwriting agreement and ending 180 days after Admission.

Each of the Selling Shareholder, Nikoloz Gamkrelidze and Irakli Gilauri have entered into lock-up arrangements, either pursuant to the terms of the underwriting agreement or otherwise pursuant to separate lock-up deeds, whereby they have agreed that they will not, without the prior written consent of the Joint Global Coordinators, offer, sell, contract to sell, pledge or otherwise dispose of any Ordinary Shares that they hold, directly or indirectly, for a period commencing on the date of the underwriting agreement and ending 180 days after Admission.

The restrictions on the ability of Nikoloz Gamkrelidze, Irakli Gilauri and the Selling Shareholder to transfer their Ordinary Shares are subject to certain usual and customary exceptions, including exceptions for gifts transfers for estate planning purposes; transfer to trusts for the benefit of each of Nikoloz Gamkrelidze and Irakli Gilauri or their families; transfers to members of the Shareholders' group; or the acceptance of, or provision of, an irrevocable undertaking to accept, a general offer made to all shareholders on equal terms.

Withdrawal rights

In the event that we are required to publish any supplementary prospectus prior to Admission, applicants who have applied for Shares in the Offering shall have at least two clear business days following the publication of the relevant supplementary prospectus within which to withdraw their offer to acquire Shares in the Offering in its entirety. The right to withdraw an application to acquire Shares in the Offering in these circumstances will be available to all investors in the Offering. If the application is not withdrawn within the stipulated period, any offer to apply for Shares in the Offering will remain valid and binding.

Investors wishing to exercise statutory withdrawal rights after the publication of any supplementary prospectus must do so by lodging a written notice of withdrawal (which must include the investor's name, address and number of shares applied for) by hand (during normal business hours only) at the registered office of the Company or by facsimile (during normal business hours only) so as to be received no later than two business days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is deposited with or received by the Company after expiry of such period will not constitute a valid withdrawal.

PART XVIII
TAXATION OF THE SHARES

United Kingdom Tax Considerations

*The following statements are intended to apply only as a general guide to current UK tax law and to the current published practice of HM Revenue & Customs (**HMRC**) as at the date of this document, both of which are subject to change, possibly with retrospective effect. They relate only to certain limited aspects of the UK taxation treatment of holders of Shares and (except to the extent stated otherwise) are intended to apply only to shareholders who are resident and, in the case of individual shareholders, domiciled, in and only in the United Kingdom for UK tax purposes, who hold the shares as investments (other than in an individual savings account) and who are the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the Shares. The statements below may not apply to certain classes of shareholders, such as (but not limited to) traders, dealers in securities, insurance companies, collective investment schemes, persons connected with depositary arrangements and clearance services and persons who have (or are deemed to have) acquired the Shares by reason of an office or employment.*

Shareholders or prospective shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and disposition of the Shares, or who are subject to taxation in a jurisdiction other than the United Kingdom, should consult their own tax advisers.

Taxation of dividends

Withholding for or on account of UK tax

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

Individuals

An individual shareholder who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against the shareholder's total income tax liability. Such an individual shareholder's liability to income tax is calculated on the aggregate of the dividend and the tax credit (the **gross dividend**) which will be regarded as the top slice of the individual's income. The tax credit will be equal to 10% of the gross dividend (i.e., the tax credit will be one-ninth of the amount of the net cash dividend received).

An individual shareholder who is liable to income tax at the basic rate will be subject to income tax on the gross dividend at the rate of 10% of the gross dividend, so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend.

An individual shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5%, but will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such shareholder will have to account for additional income tax equal to 22.5% of the gross dividend (which is also equal to 25% of the net cash dividend received).

An individual shareholder liable to income tax at the additional rate will be subject to income tax on the gross dividend at 37.5%, but will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such shareholder will have to account for additional income tax equal to 27.5% of the gross dividend (which is also equal to approximately 30.6% of the net cash dividend received).

It was announced in the Budget on 8 July 2015 that the government intends to abolish the dividend tax credit from April 2016 and introduce a new dividend tax allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Companies

Shareholders within the charge to corporation tax which are "small companies" (for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 (**CTA 2009**)) will generally not be subject to UK corporation tax on any dividend received from the Company.

Other shareholders within the charge to UK corporation tax will not be subject to UK tax on dividends received from the Company so long as the dividends fall within an exempt class and certain conditions are met. For example, dividends paid on "ordinary shares" that are not "redeemable" (as those terms are used in Chapter 3 of Part 9A CTA 2009), and dividends paid to a person holding less than 10% of the issued share capital of the payer (or any class of that share capital) should generally fall within an exempt class. The exemptions are not comprehensive and are subject to anti-avoidance rules. If the conditions for exemption are not, or cease to be, satisfied, or such a shareholder elects for an otherwise exempt dividend to be taxable, the shareholder will be subject to UK corporation tax on dividends received from the Company. Corporation tax is charged on dividends at the rate applicable to that corporate shareholder.

No payment of tax credit

UK resident shareholders who are not liable to tax on dividends paid by the Company, including UK pension funds, will not be entitled to reclaim the tax credit attaching to any dividend paid by the Company.

Non-UK resident shareholders

Non-United Kingdom resident shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company, although this will depend on the existence and terms of any double taxation convention between the United Kingdom and the jurisdiction in which such shareholder is resident. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under applicable local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

Taxation of capital gains

A disposal or deemed disposal of shares in the Company by a shareholder may, depending on the shareholder's circumstances and subject to any available exemptions and reliefs, give rise to a chargeable gain or an allowable loss for capital gains tax (**CGT**) purposes.

Individuals

For individual shareholders, the principal factors that will determine the CGT position on a disposal, part disposal or deemed disposal of shares in the Company are (i) the extent to which the shareholder realises any other capital gains in the year in which the disposal is made; (ii) the extent to which the shareholder has incurred capital losses in that or earlier tax years; and (iii) the level of the annual allowance of tax-free gains in that tax year (the **annual exemption**). The annual exemption for the 2015/16 tax year is £11,100. If, after all allowable deductions, an individual shareholder's taxable income for the year exceeds the basic rate income tax limit, a taxable chargeable gain accruing on a disposal or deemed disposal of shares in the Company would be taxed at 28%. Otherwise, such a gain may be taxed at 18% or 28% or a combination of both rates.

Companies

A disposal, part disposal or deemed disposal of shares in the Company by a shareholder within the charge to UK corporation tax may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemptions or reliefs. Corporation tax is charged on chargeable gains at the rate applicable to that company.

Shareholders within the charge to UK corporation tax will, for the purposes of computing gains but not losses, be allowed to claim an indexation allowance which applies to reduce capital gains to the extent that such gains arise due to inflation.

Non-UK resident shareholders

Individuals who are temporarily non-UK resident may, in certain circumstances, be subject to tax in respect of gains realised whilst they are not resident in the United Kingdom.

A disposal of shares in the Company by a shareholder who is not resident in the United Kingdom for tax purposes, but who carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment and has used, held or acquired shares in the Company for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment may, depending on that shareholder's particular circumstances, give rise to a chargeable gain or allowable loss for CGT purposes.

Stamp duty and Stamp Duty Reserve Tax (SDRT)

General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of shares in registered form by the Company.

An agreement to transfer shares in the Company will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Instruments transferring shares in the Company will generally be subject to stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next multiple of £5). Stamp duty is, in general, payable by the purchaser. An exemption from stamp duty is available on an instrument transferring shares in the Company where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

If a duly stamped transfer document completing an agreement to transfer shares in the Company is produced within 6 years of the agreement becoming unconditional, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for repayment is made, and any outstanding liability to SDRT will be cancelled.

Shares held through CREST

Paperless transfers of shares in the Company within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. No stamp duty or SDRT will arise on a transfer of shares in the Company into the CREST system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (normally at a rate of 0.5%) will arise.

Depositary receipt systems and clearance services

Where shares in the Company are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services, or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5% of the amount of value of the consideration given or, in certain circumstances, the value of the shares transferred. Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise, will strictly be accountable by the clearance service or depositary receipt system or their nominee, as the case may be, but will in practice be payable by the participants in the clearance service or depositary receipt system. Transfers within the clearance service and transfers of depositary receipts are then generally made free of SDRT or stamp duty. Clearance services may opt, provided certain conditions are satisfied, for the normal rates of stamp duty or SDRT to apply to issues or transfers of shares into, and to transactions within, such services instead of the 1.5% charge generally applying on the initial issue or transfer of shares into the clearance service and instead of the exemption from stamp duty on transfers of shares whilst in the service.

Following the European Court of Justice decision in C569/07 HSBC Holdings plc and Vidacos Nominees Limited v The Commissioners for Her Majesty's Revenue & Customs and the First-tier Tax Tribunal decision in HSBC Holdings plc and The Bank of New York Mellon Corporation v The Commissioners for Her Majesty's Revenue & Customs, HMRC has confirmed that the 1.5% SDRT charge is no longer payable when new shares are issued to a clearance service or depositary receipt system.

Inheritance tax

Shares in the Company will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Special rules also apply to close companies and to trustees of settlements who hold shares in the Company, potentially bringing them within the charge to inheritance tax. Holders of shares in the Company should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any shares in the Company through a trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country, or if they are in any doubt as to their United Kingdom inheritance tax position.

United States Federal Income Tax Considerations

HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a description of certain U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Ordinary Shares. This description addresses only the U.S. federal income tax considerations of U.S. Holders (as defined below) that are initial purchasers of Ordinary Shares pursuant to the Offering and that will hold such Ordinary Shares as capital assets. This description does not purport to address all material U.S. federal income tax consequences of the ownership of Ordinary Shares and does not address aspects of U.S. federal income taxation that may be applicable to investors that are subject to special tax rules, including without limitation: banks, financial institutions or insurance companies; real estate investment trusts, regulated investment companies or grantor trusts; dealers or traders in securities, commodities or currencies; tax-exempt entities, including "Section 401" pension plans; individual retirement accounts and other tax deferred accounts; persons that receive Ordinary Shares as compensation for the performance of services; persons that will hold Ordinary Shares as part of a "hedging", "conversion" or constructive sale transaction or as a position in a "straddle" for U.S. federal income tax purposes; certain U.S. expatriates; "dual resident" corporations; persons that are resident in or have a permanent establishment in the United Kingdom; persons that have a "functional currency" other than the U.S. dollar; or holders that own (directly, indirectly or constructively) ten per cent or more, by voting power or value, of the equity interests of the Company.

Further, this description does not address state, local, non-U.S. or other tax laws, nor does it address the 3.8% Medicare tax on net investment income, the alternative minimum tax or the U.S. federal gift and estate tax consequences of the acquisition, holding or disposition of Ordinary Shares. This description, furthermore, does not address the tax consequences of owning options or warrants or similar instruments on Shares, or any tax consequences applicable to the holder of an equity interest in a holder of Shares.

This description is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), its legislative history, final, temporary and proposed regulations promulgated thereunder, published rulings and court decisions, as well as on the Income Tax Convention Between the United States of America and the United Kingdom (the **Treaty**), in each case as in effect on the date of this Offering Memorandum, all of which are subject to change (or to changes in interpretation), possibly with retroactive effect. The Company has not requested, and does not intend to request, a ruling from the U.S. Internal Revenue Service (**IRS**) with respect to matters addressed herein.

U.S. Holders

For the purposes of this summary, a **U.S. Holder** is a beneficial owner of an Ordinary Share that is, for U.S. federal income tax purposes: a citizen or individual resident of the United States; a corporation created or organised in or under the laws of the United States or any political subdivision thereof, including the District of Columbia; an estate, the income of which is subject to U.S. federal income tax regardless of its source; or a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Ordinary Shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax adviser as to the U.S. federal income tax consequences of acquiring, holding, or disposing of Ordinary Shares.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING OR DISPOSING OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Taxation of U.S. Holders

Taxation of Distributions

Subject to the discussion below under "—Passive Foreign Investment Company", U.S. Holders will include in gross income as foreign-source dividend income, when actually or constructively received by the U.S. Holder, the gross amount of any cash or the fair market value of any property distributed by the Company in respect of Ordinary Shares to the extent such distribution is paid out of the Company's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Ordinary Shares and thereafter as capital gain. However, the Company does not intend to compute (or to provide U.S. Holders with information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders should assume that any distribution by the Company with respect to Ordinary Shares will be reported as ordinary dividend income. Dividends paid by the Company will not be eligible for the dividends received deduction generally allowed to U.S. corporate shareholders in respect of dividends received from other U.S. corporations.

Dividends received from a "qualified foreign corporation" by non-corporate U.S. Holders are eligible for preferential U.S. federal income tax rates, subject to certain minimum holding period requirements and other limitations. Since the Company will be publicly traded on the London stock exchange and should therefore be a "qualified person" under the Treaty, the Company should be considered a qualified foreign corporation. Accordingly, dividends paid by the Company likely will be eligible for the preferential tax rate. However, the determination of whether a dividend qualifies for the preferential rates must be made at the time the dividend is paid and will depend upon the trading volume in the Company's Ordinary Shares. **U.S. Holders should consult their own tax advisors with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.**

If the Company pays a dividend in a currency other than U.S. dollars, any such dividend will be included in the gross income of the U.S. Holder in an amount equal to the U.S. dollar value of such currency on the date of receipt determined at the spot foreign currency/U.S. dollar exchange rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars at that time. U.S. Holders will have a tax basis in the foreign currency received equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible to the date the foreign currency received is converted into U.S. dollars will be treated as ordinary income or loss from U.S. sources. If dividends received in foreign currency are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Sale or Exchange of Shares

Subject to the discussion below under "—Passive Foreign Investment Company," upon a sale or other disposition of Shares, a U.S. Holder will recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realised and the U.S. Holder's adjusted tax basis (determined in U.S. dollars) in such Shares. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if the U.S. Holder's holding period for such Shares exceeds one year, and will be income or loss from sources within the United States for foreign tax credit limitation purposes. Generally, for U.S. Holders who are individuals (as well as certain trusts and estates), long term capital gains are subject to U.S. federal income tax at preferential rates. The deductibility of capital losses is subject to substantial limitations.

With respect to the sale or exchange of Ordinary Shares, the amount realised generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder. If Shares are traded on an "established securities market", a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. Holder will have a tax basis in the amount of foreign currency received equal to the U.S. dollar amount realised. Any currency exchange gain or loss realised on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if the foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognise any gain or loss on such conversion.

Passive Foreign Investment Company

A non-U.S. corporation will be treated as a "passive foreign investment company," or a PFIC, with respect to a U.S. Holder for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

- at least 75.0 per cent of its gross income for the taxable year is "passive income"; or
- at least 50.0 per cent of the quarterly average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of passive income.

Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents (other than certain royalties and rents derived in the active conduct of a trade or business) and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25.0 per cent interest (by value) is taken into account. Based upon the Company's financial statements and its existing operations and assets, the Company does not believe that it has been a PFIC in prior tax years and does not anticipate being treated as a PFIC for the current year or in the future. However, as PFIC status is an annual determination that depends upon the composition of the Company's income and assets and the market value of the Company's assets, there can be no assurance that the Company will not be treated as a PFIC for any future taxable year. Changes in the nature of the Company's income or assets, the manner and rate at which the Company utilises the proceeds of the Offering, or a decrease in the trading price of the Ordinary Shares may cause the Company to be treated as a PFIC in a future taxable year.

If the Company were a PFIC in any year during a U.S. Holders' holding period for the Ordinary Shares, the Company would generally continue to be treated as a PFIC for each subsequent year during which the U.S. investor owned the Ordinary Shares, and similar rules could apply to the Company's subsidiaries that are or become PFICs.

If the Company were a PFIC, a direct (and in certain cases, indirect) U.S. Holder would be subject to special rules with respect to (i) any gain realised on the sale or other disposition of the Shares and (ii) any "excess distribution" by the Company to the U.S. Holder in respect of the Ordinary Shares (generally, any distributions to the U.S. Holder in respect of the Shares during a single taxable year that total more than 125.0 per cent of the average annual distributions received by the U.S. Holder in respect of the Ordinary Shares during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the

Ordinary Shares). Under these rules, (a) the gain or excess distribution would be allocated rateably over the U.S. Holder's holding period for the Ordinary Shares, (b) the amount allocated to the taxable year in which the gain or excess distribution was realised or to any year before the Company became a PFIC would be taxable as ordinary income, (c) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for ordinary income for that year and (d) an interest charge, generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each prior year described in (c).

Special rules apply for calculating the amount of the foreign tax credit available with respect to excess distributions by a PFIC.

The above results may be eliminated or mitigated if a U.S. Holder of a PFIC timely makes a valid qualified electing fund (**QEF**) election or mark-to-market election. In order for a U.S. Holder to make a QEF election, the Company would be required to provide such U.S. Holder with certain information. As the Company does not expect to provide U.S. Holders with the required information, prospective investors should assume that a QEF election will not be available.

A mark-to-market election is available to a U.S. Holder only if the Ordinary Shares are considered "marketable stock." Generally, stock will be considered marketable stock if it is "regularly traded" on a "qualified exchange" within the meaning of the applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. A qualified exchange includes a non-U.S. securities exchange that is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in U.S. Treasury regulations. It is unclear whether the London Stock Exchange would be treated as a "qualified exchange" for these purposes. If the Company's stock qualifies as "marketable stock," a U.S. Holder who elects mark-to-market treatment will not be subject to the PFIC rules described above. In general, such U.S. Holder will be required to recognise in such year gain or loss on the difference between the fair market value of the Ordinary Shares and the U.S. Holder's adjusted basis in such Shares. Any such gain or loss will be taxable as ordinary income or loss. A U.S. Holder would also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its Ordinary Shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). A U.S. Holder's basis in its Ordinary Shares will be adjusted to reflect any such income or loss amounts. For purposes of this rule, if a U.S. Holder makes a mark-to-market election with respect to its Shares, it will be treated as having a new holding period in its Ordinary Shares beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. The mark-to-market election would be inapplicable to any subsidiaries of the Company that were PFICs since their Ordinary Shares would not be marketable stock. **U.S. Holders should consult their own tax advisers regarding the availability of the mark-to-market election.**

Notwithstanding any elections made with regard to the Ordinary Shares, dividends received from the Company will not be eligible for taxation at the preferential tax rates generally applicable to dividends received from a qualified foreign corporation. Instead, a U.S. Holder must include the gross amount of any such dividend paid by the Company out of the Company's accumulated earnings and profits (as determined for U.S. federal income tax purposes) in its gross income, and it will be subject to tax at rates applicable to ordinary income. Moreover, Ordinary Shares will be treated as stock in a PFIC if the Company is a PFIC at any time during the period in which Ordinary Shares are held, even if the Company is not currently a PFIC.

If the Company were a PFIC, a U.S. Holder of the Ordinary Shares would be required to file an annual information return on IRS Form 8621 "Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund." **U.S. Holders are urged to consult their own tax advisers regarding the filing of IRS Form 8621.**

U.S. Holders should consult their own tax advisers concerning the U.S. federal income tax consequences of holding the Ordinary Shares if the Company were treated as a PFIC.

U.S. Backup Withholding Tax and Information Reporting

Payments of dividends and other proceeds with respect to Ordinary Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may also apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding**. U.S. Holders should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

Backup withholding is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability and may be entitled to a refund, provided the required information is furnished to the IRS in a timely manner.

Disclosure Requirements for Specified Foreign Financial Assets

Certain U.S. Holders who hold any interest in "specified foreign financial assets" including the Ordinary Shares, during such Holder's taxable year must attach to the U.S. federal income tax return for such year, certain information with respect to each asset if the aggregate value of all of these assets exceeds $50,000 at the end of the taxable year or $75,000 at any time during the taxable year (or, for certain individuals living outside the United States and married individuals filing joint returns, certain higher thresholds). The Ordinary Shares are expected to constitute foreign financial assets subject to these requirements unless the Shares are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). A taxpayer subject to these rules who fails to furnish the required information is subject to a penalty of $10,000, and an additional penalty may apply if the failure continues for more than 90 days after the taxpayer is notified of such failure by the IRS; however, these penalties may be avoided if the taxpayer demonstrates a reasonable cause for the failure to comply. **U.S. Holders should consult their own tax advisors regarding any obligation that they may have to furnish information to the IRS as a result of holding the Shares.**

Georgian Tax Considerations

The analysis below is a general overview of certain Georgian tax implications related to Shares in the Company prepared in accordance with Georgian tax legislation. As with other areas of Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. However, certain stability and assurance in relation with low likelihood of increasing currently effective tax rates and magnifying the tax burden of the taxpayer is currently laid down in the Constitution of Georgia (amended as of 2010) and the so called "Liberty Act" (Organic Law of Georgia on Economic Liberty adopted in July, 2011, effective since 31 December 2013). Under the aforementioned legislative acts increasing the upper threshold of effective tax rates is possible only on the basis of a referendum set by the government of Georgia. This, however, does not exclude the possibility of amending the Tax Code in such a manner, that would subsequently result in taxation of below cases in the different ways from those elaborated herein below.

Each holder of the Shares should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with its acceptance of the Offering, holding and sale of the Shares.

Except where otherwise expressly stated, the analysis below is based on the assumption that the Company is a UK resident for taxation purposes.

Taxation of dividends

Provided that the Company is a UK resident for taxation purposes, pursuant to the Tax Code of Georgia, payments of dividends on the Shares to the Company's shareholders (whether they are individuals or legal entities, resident or non-resident) will not be subject to taxation in Georgia.

As a company that is incorporated in the United Kingdom, the Company will be the resident in the United Kingdom for tax purposes under the United Kingdom domestic law. It is noteworthy to consider that in order to be reviewed as a non-resident of Georgia, pursuant to the Treaty on Avoidance of Double Taxation between the United Kingdom and Georgia (the Treaty), the Company's place of its management (i.e. venue from where management and the company's affairs are conducted), in terms of location and structure, should be located outside of Georgia.

If in future, whether as a result of change of law or the practice of relevant tax authority or the renegotiation of the Treaty, or as a result of any change in the management of the Company and its location, the Company becomes or be regarded as having been, resident for tax purposes of Georgia, this shall entail taxation of dividends paid by the Company at the flat rate of 5%. Provided that the Shares are considered to be publicly traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% at the end of the reporting year or the year before, dividends paid in respect of such Shares will not be subject to taxation in Georgia. However, as noted above, there are no clear guidelines on how the free float is determined. In addition, relief from Georgian taxation of dividends may be available too non-resident holders (whether legal entities or individuals) pursuant to the applicable double taxation treaties.

Taxation of Shares

Subject to the aforementioned provision of the Tax Code stating that income from realisation of the shares of the company, more than 50% assets value of which is derived from the value of immovable property located in Georgia is considered as Georgian source income, capital gain from sale of the Shares shall result in taxation of capital gain (if any) with a 15% tax rate.

Value Added Tax

Sale (supply) of the Shares is exempt from Value Added Tax in Georgia.

PART XIX
REGULATORY OVERVIEW

Set forth below is a general overview of the regulatory framework under which the Group's business in Georgia operates.

The healthcare sector in Georgia is subject to regulation under Georgian law, particularly relating to the establishment and operation of private healthcare facilities. In order to operate a hospital, a permit must be obtained. No prior approvals are needed to open and operate an ambulatory clinic. However, where a clinic delivers high risk healthcare services (such as dental services, surgery, genecology, emergency, and medical radiology) prior notice must be sent to the State Regulation Agency for Medical Activities (the **Medical Activities Regulation Agency**).

Key Regulatory Authorities

Healthcare Sector

The healthcare sector is subject to regulation and supervision by the Georgian Ministry of Labour, Health and Social Affairs and a number of agencies operating under the auspices of the Ministry.

The Ministry of Labour, Health and Social Affairs is the primary healthcare authority responsible, among other things, for the development of the state's healthcare policy and the general regulatory framework of the healthcare sector.

The Medical Activities Regulation Agency is responsible for the general regulation and supervision of the healthcare sector, including overseeing audits of medical organisations and issuing medical permits and licenses.

The Medical Mediation Service provides an alternative dispute resolution forum for disputes between healthcare providers and their patients.

The Social Service Agency is responsible for implementation of a wide range of social programmes, including in the fields of healthcare and social welfare.

The NCDC is a government entity whose primary functions include: the provision of public healthcare programmes; supervising and implementing measures for the prevention of infectious diseases; medical statistics; and issuing scientific research grants. The NCDC is obliged to be prepared at all times for the implementation of emergency measures in the event of epidemics. The NCDC does not provide healthcare directly, but rather formulates policies and measures to address fundamental public healthcare issues.

Insurance Sector

The State Insurance Supervisory Service is the state regulatory authority authorised to supervise and regulate insurance companies in Georgia. The State Insurance Supervisory Service is responsible for issuing insurance licenses and supervising the compliance of licensed operators with the applicable regulatory requirements. The State Insurance Supervisory Service operates as a legal entity of public law under the auspices of the Georgian government. The State Insurance Supervisory Service is entitled to revoke the insurance license of any insurance provider on grounds specified by the law, including on the ground of insolvency of the insurance provider (that is, where the aggregate book-value of the insurance provider's assets is less than its liabilities).

The UHC

For a summary of the UHC, see *Part VIII: "Industry Overview—Healthcare Services Market—Recent Reforms—Universal Healthcare Programme"*.

Regulated Activities in the Healthcare and Insurance Industries

The following healthcare and medical insurance related activities are subject to regulation:

Healthcare

- licensing of medical and pharmaceutical services;
- registration and certification of medical products, including pharmaceutical substances;
- advertising and marketing of medical products and services;
- management of personal data and maintenance of medical records;
- certification of medical workers;
- storage and disposal of medical and hazardous waste and healthcare activities; and
- quality of healthcare services.

Insurance activities

- capital adequacy requirements for insurance providers;
- reporting, transparency and accountability of insurance providers;
- "fit and proper" criteria for senior management and significant shareholders (direct and indirect holders of 10% or more of the capital) of insurance companies;
- minimum requirements for certain types of insurance contracts (such as non-state pension insurance); and
- principles of dispute resolution with consumers.

Licensing of healthcare facilities

Medical activities are subject to licensing and permit requirements in accordance with Georgian law. The permit and licensing requirements may vary depending on the medical activities involved.

A permit is required to operate a hospital, while a license is required to provide ambulance services and medical forensics. No permit or license is required to operate an ambulatory clinic, unless it provides "high risk" healthcare services (such as dental services, surgery, gynaecology, emergency services, venereology (the treatment of sexually transmitted diseases), medical radiology, dialysis, infectious disease-related services, phthisiatry or endoscopy), in which case the operator must notify the Medical Activities Regulation Agency of commencement of such activities in accordance with the requirements of applicable legal framework.

Healthcare facilities are subject to both periodic and random inspections by the Medical Activities Regulation Agency to ensure their continued compliance with the terms of the relevant licence or permit.

In addition, medical personnel are subject to certification in Georgia. Certified physicians who are found to have committed malpractice will generally have their certificates revoked or temporarily suspended. The Professional Development Council under the Georgian Ministry of Labour, Health and Social Affairs is empowered to grant and revoke medical certificates.

Licensing of insurance companies

Insurance companies must obtain a licence to carry out insurance activities in Georgia. Insurance licenses are obtained from the State Insurance Supervisory Service. Three types of licenses are available to insurance providers:

- Life Insurance Licenses, to provide pension insurance and life assurance (both contributory and refundable);
- Non-Life Insurance Licenses, to provide all other types of insurance, including medical insurance; and
- Reinsurance Licenses, which are mandatory for providers of reinsurance activities.

As a medical insurance provider, we are required to maintain a non-life insurance licence.

Environmental Considerations

The healthcare sector is subject to laws, regulations and other legal requirements relating to the protection of the environment, particularly as regards the management and disposal of hazardous substances and medical waste.

If a company violates environmental regulations or causes material harm to the environment, it may be liable for any damage caused by hazardous substances to the health and life of humans, the environment, objects of cultural significance and property and economic interests. Non-compliance with the emission and discharge limits and violation of other environmental violations, depending on the seriousness of the violation, may result in full revocation or suspension of the environmental impact permit or other applicable licenses or permits, as well as imposition of administrative or criminal liability.

The Company does not have insurance for this potential environmental liability.

Healthcare services which use ionizing/electromagnetic radiation (such as Rentgenology diagnostics, Cat Lab, CT, MRI) are subject to control by the Georgian Ministry of Environmental Protection and Natural Resources and are also subject to licensing. Almost all of the Company's ambulatory clinics and hospitals use ionizing/electromagnetic radiation as part of their healthcare services offering and have such licenses in place.

Health and safety

Construction permits are required to build hospitals and health and safety regulations require hospitals to have emergency exits and display safety information on the walls.

Any company or individual that is found to have breached industrial health and safety rules may incur administrative liability and if the breach causes harm, may also be required to compensate the person so harmed for lost earnings and other damages.

Regulation of Competition

The Law of Georgia on Competition, dated 8 May 2012, as amended (the **Competition Law**), establishes the principles of free and fair competition without undue restrictions as the basis of the development of free trade and competitive markets.

The Competition Law regulates, among other things, the acquisition of control of Georgian companies. In particular, advance notice must be served on the Competition Agency of Georgia in respect of potential concentrations, such as, acquisition of control (whether direct or indirect) over an economic agent by a person who already controls at least one economic agent, provided that annual turnover (based on financial statements of the previous year) or assets of respective economic agents both on a standalone and consolidated basis exceeds thresholds determined by the Competition Agency. For these purposes, "control" means owning either: (i) an economic agent and/or a power to make full or partial use of its assets; or (ii) a power to materially affect the composition of such economic agent's management bodies or decisions, through the ownership of voting securities (by contract or otherwise).

The Competition Law prohibits the abuse of dominant positions in the market. In addition, it restricts economic agents from entering into contractual arrangements that have the effect of limiting competition in the market, including arrangements, which: (a) directly or indirectly fix purchase or selling prices or any other trading conditions; (b) limit production, markets, technical development, or investment; (c) share markets or sources of supply; (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts; or (f) establish coordinated public procurement conditions for economic agents, if such coordination materially impairs the rights of contracting organisation.

The Competition Agency of Georgia has been established since March 2014 and is not yet very active. In the event that this Agency does start to enforce its rights more actively or uses its administrative discretion to limit concentrations on the market, it may negatively impact the Group's expansion plans and limit the ability of the latter to continue acquiring new entities. Securities market transactions are exempt from the scope of the Competition Law to the extent that they do not affect and/or significantly restrict competition in Georgia. As such, the Offering, Admission and related transactions are not affected by the Competition Law and should not be subject to prior anti-trust clearance from the Competition Agency of

Georgia. In the unlikely event that the Competition Agency of Georgia determines otherwise, this transaction would be subject to the Competition Law.

Employment Law

Employment, including the employment of the medical staff, is governed by the Georgian labour code.

Employment contracts

Under the labour code, employers can hire employees under permanent or, in limited cases, fixed-term employment contracts. Employers can hire employees under fixed-term contracts for less than one year only in certain exceptional instances such as where the employee carries out a specific project or performs seasonal work (such as seasonal hotel employment). In all other cases the employment contracts must be for at least one year or for an indefinite term. If a fixed-term contract is renewed for several consecutive terms with the effect that the contractual relationship extends for more than 30 months, it is treated as having been concluded for an indefinite term. An employment contract for more than three calendar months must be written. An employer may terminate an employment contract only on the basis of the specific grounds listed in the labour code. Termination (severance) pay is determined based on the manner and grounds for termination and can either amount to at least one month or at least two months' salary, except in certain cases (such as where the employee resigns, the contract expires or gross misconduct has been committed) where no compensation is payable. Where an employer terminates an employment contract on grounds not attributable to the employee, the latter is entitled to one month's notice and no less than one month's salary as severance pay. However, if the employer wishes to dismiss the employee with immediate effect, the termination notice must be given three days prior to the intended termination date and the amount of compensation is equal to no less than two months' salary.

Any termination of an employment contract by an employer that is inconsistent with the labour code may be set aside by a court, and the employee may be reinstated. Where an employee is reinstated by the court, the employer must compensate the employee for any unpaid salary for the period between the date of wrongful termination and reinstatement.

Strikes

The labour code defines a strike as a refusal of the workers to perform their employment duties with the intention of settling a labour dispute. One of the distinctive features of the labour code of Georgia is that it allows a strike based on an individual labour dispute, as well as a collective dispute, effectively meaning that a single employee is entitled to go on strike. However, the legislation also requires that certain pre-strike procedures be observed by employees in order for a strike to be deemed legitimate

There have been no strikes by any employees of the Group.

Trade unions

Georgian law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members.

Some of our healthcare employees are members of the medical, pharmacy and social workers' professional union and a small number of employees are members of other, associated trade unions.

Collective labour agreements

Collective labour agreements may be concluded between one or more employers or employers' unions, on the one part, and one or more workers' unions, on the other. There is no obligation on an employer to enter into any such agreement; however, employers must enter into negotiations aimed at concluding such an agreement in good faith if such negotiations are initiated by the other party. Currently the Group is not a party to any collective labour agreements.

Additional regulations applicable to insurance businesses

Reserve Requirements

Under implementing legislation adopted by the State Insurance Supervisory Service, insurance providers must keep insurance reserves (which are offsetting assets to cover future liabilities if they are required to pay out under any insurance policy). Insurance providers that provide non-life insurance and life insurance (other than contributory and refundable life insurance and private pension insurance) must keep a reserve for unearned premium (**UPR**), a reported, but not settled claims reserve (**RBNS**) and a reserve for incurred, but not reported claims (**IBNR**). Insurance providers that provide contributory and refundable life insurance must keep a life insurance reserve. Insurance providers who provide insurance for private pension liabilities must keep a private pension insurance reserve.

Additional regulations specify the types of assets that can be used as insurance reserves, the structure of such reserves, the conditions for investing these assets and the mandatory ratio between the insurance provider's net undertakings and equity for individual types of insurance product.

Any breach of applicable ratios and regulatory requirements may result in the imposition of sanctions on insurance providers. In addition, insurance providers may not declare or pay dividends or reduce their capital if they are, or would be immediately after such declaration, payment or reduction, in breach of ratios and regulatory requirements applicable to insurance providers.

Regulatory Capital

The minimum regulatory capital requirement for insurance providers is currently set by the State Insurance Supervisory Service) at GEL 2,200,000 for a life insurance license; GEL 2,000,000 for a non-life insurance license and GEL 2,200,000 for a reinsurance license. Insurance providers must keep at least 80% of their minimum capital in cash on deposit with a banking institution licensed in Georgia and free from any encumbrances.

Reporting Requirements

All insurance providers are subject to inspection by the State Insurance Supervisory Service. The State Insurance Service may examine an insurance provider's accounts, books, documents and other records and may require its officers and employees to provide any and all information and documents upon their request. Insurance providers are required to submit annual external audit reports together with their audited annual IFRS financial statements and other financial and statistical reports to the State Insurance Supervisory Service in the required format on a regular basis.

Corporate Governance

Under the Law of Georgia on Insurance (the **Insurance Law**), all directors, members of supervisory boards and significant shareholders of insurance providers must meet the "fit and proper" requirements set by the law and such compliance is a precondition for issuing a valid insurance activities licence. In particular, a person may not be appointed as a director or a supervisory board member, or be a significant shareholder, if they: (a) have been declared legally incapable by a court; (b) have been convicted of any grave or especially grave crime, including the legalisation of illicit income, terrorism financing or any other economic crime; (c) do not have relevant education and/or experience; or (d) are a director or a member of the supervisory board of another insurance provider (except where this other insurance provider is controlling or controlled by such insurance company). For these purposes, the term "significant shareholder" means any person who holds either directly or indirectly a Significant Interest (as defined in *Part XIX*: "*Additional Information—Articles of Association—Ownership Restrictions and Related Reporting Obligations*" below) in an insurance company.

Pursuant to the Insurance Law, a person who intends to acquire shares in a Georgian insurance provider and who, as a result of the relevant acquisition, would hold either directly or indirectly 10% or more of the authorised or paid-up issued share capital of the insurance provider must obtain prior approval from the Insurance State Supervision Service of Georgia (**ISSSG**). Generally, the ISSSG should issue or deny its consent within ten days from the date of submission of the application. In case the ISSSG fails to provide the response within the term of 10 days, the consent is deemed to be issued.

A transaction by which a person directly or indirectly acquires 10% or more of the authorised share capital or paid-up issued share capital of a Georgian insurance provider without submission of an application to the ISSSG or despite the ISSSG's refusal, is deemed to be null and void.

There are certain reporting obligations related to the ownership of a Significant Interest of a Georgian insurance provider. Pursuant to the Insurance Law, insurance providers may be required to submit to the ISSSG information on the legal and beneficial holders of 10% or more of the capital of the insurance providers.

See also *Part XIX*: "*Additional Information—Articles of Association—Ownership Restrictions and Related Reporting Obligations*" for related provisions in the Articles of Association.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating the Elimination of the Legalisation of Illegal Income (the **AML Law**), imposes controls over the movement of funds within Georgia. The Financial Monitoring Service (**FMS**) monitors and supervises anti-money laundering measures and issues orders setting out additional measures and reporting requirements. The FMS operates as an independent body under the auspices of the Georgian government. The FMS conducts its activities in close cooperation with MONEYVAL (the anti-money laundering body of the Council of Europe, of which Georgia is a member) and in accordance with the Financial Action Task Force's (**FATF**) recommendations and EU directives (although Georgia is not a member of FATF or the EU). In addition, following amendments to the Georgian Criminal Code between 2006 and 2008, all material elements of money laundering and terrorist financing crimes are explicitly covered under Georgian criminal legislation, including in relation to legal persons.

Under the AML Law and applicable FMS regulations, all insurance providers are obliged to monitor all suspicious transactions, irrespective of their value, and certain types of transactions listed in the AML Law and the relevant regulation if the value of such transaction or group of linked transactions exceeds GEL 30,000 (or the foreign currency equivalent) and report such transactions to the FMS. If the FMS receives a report of a transaction that it believes may be related to the laundering of illicit income or financing terrorism, the report must be forwarded to the appropriate departments of the Prosecutor General's Office and the Georgian Ministry of Internal Affairs.

In addition, the State Insurance Supervisory Service is also authorised to carry out on-site audits of insurance providers' compliance with anti-money laundering regulations. It reports breaches of anti-money laundering regulations to the FMS.

Insolvency, Liquidation and Compulsory Administration of Insurance Companies

The State Insurance Supervisory Service is entitled to revoke the insurance license of any insurance provider on grounds specified by the law, including insolvency and breach of applicable regulatory requirements by the insurance provider, among others. Upon revocation of its license(s), the insurance provider is liquidated in accordance with the procedure set out in the Insurance Law and implementing regulations. If, however, the license is revoked on the ground of insolvency or if it is later established in the course of liquidation proceedings that the company is insolvent, then the State Insurance Supervisory Service shall commence insolvency proceedings instead of liquidation proceedings.

The State Insurance Supervisory Service is authorised to supervise the conduct of the insurance provider's insolvency and liquidation procedures. During the insolvency process, all claims are settled in the following order of priority: first: expenses incurred in connection with the appointment of the bankruptcy manager and performance of its obligations, as well as any obligations incurred by the insurance provider following revocation of the insurance license; second: secured creditors (except for those secured by tax lien); third: claims arising out of life insurance and private pension insurance contracts, the amount of life insurance liabilities for contributory and refundable types of life insurance being the amount of the life insurance reserve; fourth: claims arising out of accident insurance contracts; fifth: all other claims arising out of other insurance contracts; sixth: indebtedness to the state budget, including claims secured by tax liens; and seventh: all other claims against the insurance provider and belatedly submitted claims.

If the funds available are insufficient to cover all claims listed in the above categories in full, the claims of each creditor in a given category are paid on pro-rata basis (except for claims under the first category which are payable in full) and the claims of creditors in each subsequent category are paid only after satisfaction in full of the claims ranking ahead.

If there is a threat of breach of applicable regulatory ratios and requirements or non-performance of insurance obligations by the insurance provider or significant deterioration of its financial standing, the State Insurance Supervisory Service may appoint a compulsory administrator who meets the qualification requirements applicable to the insurance company administrators. With the consent of the State Insurance Supervisory Service, the compulsory administrator is authorised to reorganise the insurance provider's corporate structure and transfer all or any part of the insurance provider's assets and liabilities to another legal entity. The compulsory administrator has authority to take such action as may be required to improve of the financial condition of the insurance provider, including by way of the sale thereof or authorising or suspending payments. The compulsory administrator is also authorised to propose to the regulator such changes to the constitution of the insurance provider's senior management as he/she believes are necessary. Compulsory administration terminates upon (i) the expiry of term of the appointment; or (ii) termination of the appointment by the State Insurance Supervisory Service; or (iii) revocation of the insurance license.

Insolvency of Healthcare Providers

Healthcare providers are subject to general insolvency proceedings set forth in the Law of Georgia on Insolvency Proceedings.

The test of insolvency applicable to a Georgian healthcare provider would be inability of the healthcare provider to pay its debts when they fall due. Insolvency proceedings may be initiated if the borrower is insolvent or will or may become insolvent in near future unless adequate measures are taken to prevent the its possible insolvency. Insolvency proceedings may be commenced either by healthcare provider itself or by its creditors, if certain statutorily prescribed preconditions are met.

Pursuant to the Law of Georgia on Insolvency Proceedings, the relief available to a financially distressed business entity, including a healthcare provider, may be: (i) bankruptcy with ensuing liquidation (deregistration from the entrepreneurial registry); or (ii) a rehabilitation (equivalent to reorganisation/restructuring in other jurisdictions); or (iii) termination of insolvency proceedings. The latter option will be available if there are no grounds for insolvency or such grounds have been eradicated after the commencement of the insolvency proceedings or if the debtor is able to pay outstanding debts without undermining the interests of other creditors.

In the case of bankruptcy, the assets will be sold at an auction organised by the National Bureau of Enforcement and the creditors will be satisfied according to the applicable statutory ranking set forth below:

First rank—procedural expenses and the fees payable to the National Bureau of Enforcement;

Second rank—post insolvency liabilities incurred following the date of receipt of the petition for insolvency by the court, including tax liabilities;

Third rank—expenses related to the appointment of a custodian of the bankruptcy estate and remuneration of its services;

Fourth rank—all secured claims, including secured tax claims;

Fifth rank—tax liabilities, other than secured liabilities which fall under the fourth rank above;

Sixth rank—all other unsecured claims;

Seventh rank—late claims, i.e. those submitted after the expiration of the term determined by the law for filing of the claims with the bankruptcy court.

Proceeds which are not sufficient to fully satisfy all claims of the same rank will be distributed among creditors with equal priority on *pari passu* basis pro rata to the outstanding amounts. The aforementioned ranking does not apply to claims secured by financial collateral, which will be satisfied from such financial collateral on a priority basis in accordance with Georgian law.

Involuntary Liquidation

In addition, under Georgian law, legal entities, such as insurance providers and healthcare providers, may be held liable for criminal offences in cases specified by the law (including money laundering, fraud and illegal entrepreneurial activity) and subject to the penalties for commitment of such crimes including liquidation of the legal entity. Any decision on liquidation of a legal entity must be taken by the court and implemented in accordance with applicable rules and proceedings.

PART XX
ADDITIONAL INFORMATION

1. Persons responsible

The Directors, whose names appear on page 33, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2. Georgia Healthcare Group PLC

The Company was duly incorporated and registered in England and Wales on 27 August 2015 as a public limited company with the name Georgia Healthcare Group PLC and with the registered number 09752452.

Since the date of its incorporation, the Company has operated in conformity with its constitution. The Shares conform with the laws of England and Wales and the issuance of the Share was duly authorised according to the requirements of the Company's constitution. All necessary statutory and other consents have been obtained.

The Company's registered office and principal place of business is at 84 Brook Street, London, W1K 5EH United Kingdom and its telephone number is +44 (0)203 178 4052. The principal laws and legislation under which the Company operates and under which the Shares have been allotted and issued are the Companies Act and regulations made thereunder.

3. Corporate Resolutions and Share Capital

3.1 On incorporation the issued share capital of the Company was £0.10, represented by 1 Share which was issued for cash to Abogado Nominees Limited. Following incorporation the one Share held by Abogado Nominees Limited was transferred to the Selling Shareholder for £0.10.

3.2 On 1 September 2015 the directors of the Company at that time, in accordance with the powers conferred by the Company's articles of association in force at that time, passed a resolution approving:

(a) the allotment of 499,999 Shares to the Selling Shareholder for cash; and

(b) subject to the Company obtaining a trading certificate, the allotment of 89,000,000 Shares to the Selling Shareholder in exchange for the Selling Shareholder transferring to the Company all of the issued share capital of JSC Georgia Healthcare Group.

3.3 On 2 September 2015 the Company entered into a Share Contribution Agreement with the Selling Shareholder pursuant to which the Selling Shareholder transferred to the Company all of the issued share capital of JSC Georgia Healthcare Group in exchange for the Company issuing to the Selling Shareholder 89,000,000 Shares, fully paid.

3.4 On 6 November 2015 the Directors, in accordance with the powers conferred by the Company's articles of association in force at that time, passed a resolution approving the allotment of 3,500,000 Shares to Sanne Fiduciary Services Limited as trustee for the Group's employee benefit trust for cash.

3.5 Prior to Admission, 3,500,000 Shares will be issued to Sanne Fiduciary Services Limited as trustee for the Group's employee benefit trust for cash, fully paid.

3.6 By way of ordinary and special resolutions passed at a general meeting held on 6 November 2015, the Selling Shareholder approved that:

(a) subject to Admission becoming effective, the Articles be adopted in substitution for, and to the exclusion of the existing articles of association;

(b) prior to Admission, the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act to exercise all powers of the Company to allot new shares in the Company up to a maximum aggregate nominal amount of £3,868,182 in connection with the Offering, such authority to expire on 31 December 2015 unless renewed, varied or revoked by the Company prior to such date;

(c) prior to Admission, the Directors be empowered pursuant to section 570 of the Companies Act to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash, pursuant to the authority given by the resolution referred to in paragraph 3.6(b) above as if section 561 of the Companies Act did not apply to the allotment, such power to expire on 31 December 2015 unless renewed, varied or revoked by the Company prior to such date;

(d) following Admission, the share capital of the Company be reduced by:

  i. reducing the paid-up share capital by reducing the nominal value of the Shares to £0.01 at the Reduction of Capital Record Time; and

  ii. cancelling the amount of the share premium account (if any) in existence at the Reduction of Capital Record Time;

(e) following Admission, the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act to exercise all powers to allot new shares in the Company or to grant rights to subscribe for or to convert any security into new shares in the Company:

  i. up to a maximum aggregate nominal amount of £4,389,394.00 before the Reduction of Capital and £438,939.40 thereafter; and

  ii. in addition to the amount referred to in paragraph (i) above, up to an aggregate nominal amount of £4,389,394.00 before the Reduction of Capital and £438,939.40 thereafter in relation to an allotment of equity securities (within the meaning of section 560(1) of the Companies Act) in connection with a rights issue,

  for a period expiring at the conclusion of the Company's annual general meeting in 2016, save that the Company may before the expiry of this authority make an offer or agreement which would or might require shares to be allotted or rights to be granted after such expiry and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

  For the purposes of this resolution "rights issue" means an offer to (i) holders of Shares made in proportion (as nearly as practicable) to their respective existing holdings of Shares and (ii) holders of other equity securities of any class if this is required by the rights attaching to those securities or, if the Directors consider it necessary, as permitted by the rights attaching to those securities, to subscribe for further equity securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject to the Directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter;

(f) following Admission, the Directors be empowered pursuant to section 570 of the Companies Act to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash:

  i. pursuant to the authority given by the resolution referred to in paragraph 3.6(e)(i) above as if section 561 of the Companies Act did not apply to the allotment, provided that the power conferred by this resolution is limited to:

    A. an allotment of equity securities in connection with a pre-emptive offer; or

    B. an allotment of equity securities otherwise than in connection with a pre-emptive offer up to a nominal amount not exceeding in aggregate £658,409.10 before the Reduction of Capital has become effective and £65,840.91 thereafter, and

  ii. pursuant to the authority given by the resolution referred to in paragraph 3.6(e)(ii) above as if section 561 of the Companies Act did not apply to the allotment provided that the power conferred by this resolution is limited to an allotment of equity securities in connection with a rights issue,

  such power to expire at the conclusion of the Company's annual general meeting in 2016, save that the Company may before the expiry of this authority make an offer or agreement which would or might require shares to be allotted after such expiry and the Directors may allot shares in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

For the purposes of this resolution:

“rights issue” has the same meaning as set out above in paragraph 3.6(e)(ii)above;

“pre-emptive offer” means an offer of securities, open for acceptance for a period fixed by the Directors, to (i) holders of Shares made in proportion (as nearly as practicable) to their respective existing holdings of Shares and (ii) holders of other equity securities of any class if this is required by the rights attaching to these securities or, if the Directors consider it necessary, as permitted by the rights attaching to those securities, but subject to the Directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter; and

references to the allotment of equity securities shall include a sale of treasury shares.

(g) the Directors be authorised to make market purchases of Shares pursuant to section 701 of the Companies Act, subject to the following conditions:

i. the maximum number of Shares authorised to be purchased may not be more than the number equal to 10 per cent. of the Shares in issue immediately following Admission;

ii. the minimum price which may be paid for a Share is £0.10 before the reduction of capital and £0.01 thereafter, being the nominal value of a Share; and

iii. the maximum price which may be paid for a Share shall be the higher of:

A. an amount equal to five per cent. above the average market value of a Share for the five Business Days immediately preceding the day on which that Share is contracted to be purchased; and

B. an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case exclusive of expenses,

such power to apply until the date of the Company’s annual general meeting in 2016 but, in each case, so that the Company may enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase Shares pursuant to any such contract as if the power had not ended.

(h) subject to Admission, the Company be authorised in accordance with the Articles to call general meetings on 14 clear days’ notice; and

(i) the Company and all of its subsidiaries are authorised to make political donations in accordance with section 366 of the Companies Act.

3.7 In the event that in connection with the Offering the issue of Shares with a nominal value of £0.10 would or may result in the allotment of shares at a discount, the Directors shall decide on such lower nominal value as is required to avoid allotting the Shares at a discount.

3.8 Save as disclosed in this document:

(a) none of the share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued (other than pursuant to the Offering), fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any of the share or loan capital of the Company; and

(c) none of the share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

3.9 The Company will be subject to the continuing obligations of the FCA and UK company law with regard to the issue of shares for cash. The provisions of section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees’ share scheme as defined in section 1166 of the Companies Act) apply to the issue of shares in the capital of the Company except to the extent such provisions have been disapplied.

4. Reduction of Capital

Following Admission, the Directors intend to undertake the Reduction of Capital in order to create distributable reserves in the Company. The creation of distributable reserves will give the Company greater flexibility should the Directors decide to pay an interim dividend, although there is no current intention to do so. If there is a difference between the nominal value of the Shares and the fair value of the Shares, a share premium account will be created in connection with the Offer. In this event, it is the intention of the Directors that the maximum amount of distributable reserves is created. The Directors intend to implement a court approved reduction of capital which reduces the nominal value of the Shares and cancels the share premium account (if any).

The Shares will have a nominal value of £0.10 per Share (or such lower nominal value as the Directors shall decide in order to avoid allotting the Shares at a discount). Following the Reduction of Capital the nominal value of the Shares will be reduced to £0.01. The Reduction of Capital will create a new reserve on the balance sheet of the Company of approximately £4,666,500 (assuming a reduction from £0.10 to £0.01 per Share). The Reduction of Capital is a legal and accounting adjustment and will not, of itself, have any direct impact on the market value of the Shares.

By way of a special resolution passed at a general meeting held on 6 November 2015, the Selling Shareholder approved the Reduction of Capital subject to Admission. The Reduction of Capital will only become effective if it is approved by the English Court pursuant to the Companies Act. As soon as possible following Admission, the Directors intend to apply to the English Court to approve the Reduction of Capital. The reserves created by the Reduction of Capital will be available for distribution subject to the Company complying with the distributions provisions of the Companies Act.

5. Reorganisation

Prior to the reorganisation described below (the **Reorganisation**), the business of the Group was carried out by Insurance Company Aldagi which, since 2004, had been a wholly owned subsidiary of Bank of Georgia.

On 31 July 2014, Insurance Company Aldagi was demerged into three companies, with Insurance Company Imedi L acquiring the health insurance business and associated assets and liabilities, Evex Medical Corporation acquiring the healthcare services business and associated assets and liabilities and Insurance Company Aldagi continuing to operate the property and casualty (P&C) and pension insurance business.

On 29 April 2015, Bank of Georgia established JSC Georgia Healthcare Group and transferred 100% of the shares in Insurance Company Imedi L and Evex Medical Corporation to JSC Georgia Healthcare Group.

On 7 August 2015, all of the investment business of Bank of Georgia, including JSC Georgia Healthcare Group, was assigned to the Selling Shareholder, a wholly owned subsidiary of BGH. All of the shares of JSC Georgia Healthcare Group were then transferred to the Selling Shareholder, the final transfer taking place on 17 August 2015.

On 2 September 2015 the Company entered into a share contribution agreement (the **Share Contribution Agreement**) with the Selling Shareholder pursuant to which the Selling Shareholder transferred to the Company all of the issued share capital of JSC Georgia Healthcare Group in exchange for the Company issuing to the Selling Shareholder 89,000,000 Shares, fully paid.

The transfer of JSC Georgia Healthcare Group to the Company in accordance with the terms of the Share Contribution Agreement was the final step in the Reorganisation. Accordingly, the Reorganisation was completed on 2 September 2015.

6. Articles of Association

6.1 The Articles of the Company are available for inspection at the address specified below in the Paragraph 32 entitled "*—Documents Available For Inspection*" of this Part XX. The Articles contain, among others, provisions to the following effect:

6.2 Voting Rights

Subject to any special rights or restrictions as regards voting for the time being attached to any class of the Shares and certain other provisions of the Articles, on a show of hands every Shareholder present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every Shareholder present in person or by proxy shall have one vote for each Share of which he or she is the holder. In the case of joint holders, unless such joint holders shall have chosen one of their number to represent them and have so notified the Company in writing, the vote of the most senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names of the holders stand in the register. Unless the Directors otherwise decide, no Shareholder shall be entitled to vote at any general or separate meeting or poll unless all calls or other sums presently payable by him or her in respect of any Shares of which he or she is the holder or one of the joint holders have been paid.

6.3 Capitalisation of Reserves

Subject to the provisions of the Companies Act 2006 and the provisions thereunder, the Directors may, with the authority of an ordinary resolution: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account, capital redemption reserve, merger reserve and profit and loss account)whether or not it is available for distribution; and (ii) appropriate that sum as capital to the Shareholders in proportion to the nominal amount of share capital held by them respectively and apply that sum on their behalf in paying up in full any of the Company's unissued shares or debentures of a nominal amount equal to that sum and allot shares or debentures credited as fully paid to those Shareholders, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued Shares held by them respectively, or otherwise deal with such sum as directed by the resolution.

6.4 Ordinary Shares

Subject to any relevant authority given by the Company in a general meeting, the Directors may exercise any powers of the Company to allot the Shares, or to grant rights to subscribe for or to convert any security into the Shares, to such persons, at such times and on such terms as the Directors may decide. Subject to any rights attached to any existing shares, any of the Company's shares may be allotted or issued with, or have attached to it, such rights or restrictions as the Company may by ordinary resolution determine, or, subject to and in default of such determination, as the Directors may determine. Subject to any rights attached to any existing shares, the Shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or at the option of the Shareholder, and the Directors may determine the terms, conditions and manner of redemption of any Shares so issued. The Company may exercise all the powers conferred or permitted by the provisions of the Companies Act and regulations made thereunder of paying commission or brokerage. Subject to the provisions of the Companies Act, any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or by the grant of an option to call for such an allotment or by any combination of such methods as the Directors think fit.

6.5 Variation of Right

The rights attached to a class of the Shares may be varied or abrogated either with the consent in writing of the Shareholders of at least three-fourths of the nominal amount of the issued Shares of that class (excluding any Share of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the Shareholders of that class validly held in accordance with the relevant provisions of the Articles. The rights attached to a class of the Shares are not, unless otherwise expressly provided for in the rights attaching to those the Shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own Shares in accordance with the provisions of the Companies Act.

6.6 Interests in Shares/Failure to disclose interests in Shares

Where notice is served by the Company under section 793 of the Companies Act (a **section 793 notice**) on a Shareholder, or another person appearing to be interested in the Shares held by that Shareholder, and such Shareholder or other person has failed in relation to any Shares (the **default share**), to give the Company the information required within 14 days from the date of service of the section 793 notice, the following sanctions apply, unless the Directors otherwise decide: such Shareholder shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of Shares or on a poll; and where the default shares represent at least 0.25% in nominal value of the issued Shares of their class (excluding any Share of their class held as treasury shares): a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it, and such Shareholder shall not be entitled to elect, pursuant to the Articles, to receive the Shares instead of a dividend; and no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer, or such Shareholder is not himself or herself in default in supplying the information required; and such Shareholder proves to the satisfaction of the Directors that no person in default in supplying the information required is interested in any of the Shares subject of the transfer.

6.7 Ownership Restrictions and Related Reporting Obligations

Each of the Shareholders of the Company acknowledges that the Company may from time to time directly or indirectly hold interests in shares or otherwise have the direct or indirect ability to exercise voting rights in any subsidiary undertaking of the Company from time to time which is licensed and/or supervised by a Regulatory Authority (a **Regulated Group Company**) and that such holding or ability to exercise voting rights may impose regulatory requirements on any Shareholder of the Company or any other person (as a person indirectly interested in such a Regulated Group Company). No person may directly or indirectly acquire (through a transaction or series of transactions), hold and/or otherwise have the direct or indirect ability to exercise voting rights in respect of, interests in the Shares which would result in such person directly or indirectly, alone or together with any of its related person(s), having a direct or indirect interest in shares of or ability to exercise voting rights over at least 10 per cent. (or such other percentages as a Regulatory Authority may determine from time to time) in any Regulated Group Company (a **Significant Interest**) without the prior satisfaction of, or timely compliance with, all regulatory requirements.

If a person acquires or otherwise holds a Significant Interest he or she shall be required to:

- disclose to the Company the identity of the ultimate beneficial owner(s) of such Significant Interest; and
- certify to the Company that such person(s) (or such ultimate beneficial owner(s)) has/have complied with all regulatory requirements in respect of the acquisition and/or holding (as applicable) of such Significant Interest.

If the Company knows or has reasonable cause to believe that a person has failed to comply with the above requirements and the Company determines (based on a notification by a Regulatory Authority or on legal advice) that such failure has, will or may cause the Company and/or any subsidiary of the Company to be unable to exercise, directly or indirectly, voting rights in any Regulated Group Company and/or a Regulatory Authority has, will or may impose any material penalties on the Company and/or any subsidiary of the Company and/or any Regulated Group Company, the Company shall forthwith either:

- send a notice (a **Default Notice**) to the person(s) requiring such person(s), to disclose within 30 days of the date of the Default Notice the identity of the ultimate beneficial owner(s) of any Significant Interest held by him and/or any of his related persons and certify that all regulatory requirements in respect of the relevant holding have been satisfied; or
- send a notice (a **Disenfranchisement Notice**) to the relevant Shareholder informing him/them that, until seven days after the earlier of: (i) any holding subject to a Default Notice is transferred pursuant to an excepted transfer (as defined in Article 64 of the Articles); or (ii) the Company is reasonably satisfied that the above provisions have been complied with, in respect of such part of his/their holding of interests in Shares (including, for the avoidance of doubt, any interests in Shares allotted or issued after the date of the Disenfranchisement Notice in respect of that holding), he/they shall not be entitled to vote (either in person or by proxy) that holding at a general meeting or at a separate meeting of the holders of a class of shares or on a poll and any dividend (or any part of a dividend) or other amount payable in respect of the default holding shall be withheld by the Company, which the Company has no obligation to pay interest on, and the relevant Shareholder shall not be entitled to elect, pursuant to Article 127 of the Articles, to receive Shares instead of a dividend.

Where a Default Notice is served by the Company and the Shareholder or other person fails to give the Company the required disclosures and certifications in an acceptable form within 30 days of the date of the Default Notice and the Company determines (based on a notification by a Regulatory

Authority or on legal advice) that such failure has, will or may cause the Company and/or any subsidiary of the Company to be unable to exercise, directly or indirectly, voting rights in any Regulated Group Company and/or a Regulatory Authority has, will or may impose any material penalties on the Company and/or any subsidiary of the Company and/or any Regulated Group Company, the Company shall forthwith send a Disenfranchisement Notice to the relevant Shareholder(s).

For the purpose of enforcing these sanctions, the Company may give notice to a Shareholder requiring the Shareholder to convert the Shares subject to a Disenfranchisement Notice held in uncertificated form to certificated form by the time stated in the notice.

For the purposes of these provisions in the Articles:

Regulatory Authority means the relevant regulator in relation to a regulatory requirement being, at the date of adoption of the Articles, the Insurance State Supervision Service of Georgia (or any successor body(ies) thereto or other entity with the authority to regulate the relevant regulatory requirement); and

Regulatory Requirement means a requirement pursuant to Georgian law, orders, normative acts or regulations adopted pursuant thereto (in each case as amended from time to time) to notify, seek the approval of or otherwise comply with any requirement of a Regulatory Authority in relation to the acquisition or holding of a Significant Interest.

6.8 Transfer of Shares

A Shareholder may transfer all or any of his or her certificated Shares by instrument of transfer in writing in any usual form or in any other form approved by the Directors, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a Share which is not fully paid) by or on behalf of the transferee. A Shareholder may transfer all or any of his or her uncertificated shares in accordance with the Uncertificated Securities Regulations 2001 (the **Regulations**). Subject to the provisions of the Regulations, the transferor of a share in the Company is deemed to remain a Shareholder until the name of the transferee is entered in the register in respect of it. The Directors may, in their absolute discretion, refuse to register the transfer of a certificated Share unless all of the following conditions are satisfied: it is in respect of only one class of Shares; it is in favour of (as the case may be) a single transferee or not more than four joint transferees; it is duly stamped (if required); and it is delivered for registration to the office or such other place as the Directors may decide, accompanied by the certificate for the Shares to which it relates and such other evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer. If the Directors refuse to register the transfer of a certificated Share they shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal, together with their reasons for the refusal, to the transferee. An instrument of transfer which the Directors refuse to register shall (except in the case of suspected fraud) be returned to the person depositing it. The Company may retain all instruments of transfer which are registered, but any instrument of transfer of any Share which the Directors refuse to register shall (except in the case of suspected fraud) be returned to the person lodging it when notice of the refusal is given. Subject to the provisions of the Regulations, the Directors have the power to resolve that a class of the Shares shall become a participating security and/or that a class of shares shall cease to be a participating security. Uncertificated Shares of a class are not to be regarded as forming a separate class from certificated Shares of that class. A Shareholder may, in accordance with the Regulations, change a Share of a class which is a participating security from a certificated Share to an uncertificated Share and from an uncertificated Share to a certificated Share. In accordance with and subject to the provisions of the Regulations, a transfer of title to any uncertificated Share shall be registered unless the Regulations permit a transfer to be refused. If the transfer of an uncertificated Share is refused within the time period stipulated by the Regulations, notice of the refusal shall be sent to the transferee. The Company (in its absolute discretion) may or may not charge a fee for registering the transfer of a Share or other document or instructions relating to or affecting the title to a Share or the right to transfer it or for making any other entry in the register.

6.9 Lien and Forfeiture

The Company has a first and paramount lien on all partly paid Shares for an amount payable in respect of such Shares, whether the due date for payment has arrived or not. The lien applies to all dividends from time to time declared or other amounts payable in respect of such Share and to any shares or securities issued in the light of it. The Directors may either generally or in a particular case declare a Share to be wholly or partly exempt from such lien. Unless otherwise agreed with the transferee, the registration of a transfer of a Share operates as a waiver of our lien (if any) on that Share. For the purpose of enforcing the lien referred to in the Articles, the Directors may sell all or any of the Shares subject to the lien at such time or times and in such manner as it may decide provided that: the due date for payment of the relevant amounts has arrived; and the Directors have served a written notice on the Shareholder concerned stating the amounts due, demanding payment thereof and giving notice that if payment has not been made within 14 clear days after the service of the notice that the Company intends to sell the Shares. To give effect to a sale, the Directors may authorise a person to transfer Shares in the name and on behalf of the Shareholder, or to cause the transfer of such Shares, to the purchaser or his or her nominee. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity in or invalidity of the proceedings connected with the sale. The net proceeds of such a sale effected under the Articles, after payment of the costs of the sale incurred by the Company, shall be applied in or towards satisfaction of the amount in respect of which the lien exists. The balance (if any) shall be paid to the Shareholder immediately before the sale.

6.10 General Meetings

An annual general meeting shall be held within each period of six months beginning with the day following the Company's accounting reference date, at such place or places within the United Kingdom, and at such date and time as may be decided by the Directors. The Directors may, whenever they think fit, call a general meeting. The Directors are also required to call a general meeting once the Company has received requests from Shareholders representing at least 5% of the Company's paid-up capital (disregarding any treasury shares) to do so in accordance with the Companies Act and regulations made thereunder. The Directors must call a general meeting within 21 days of receiving a valid request from Shareholders and provide for the general meeting to be held on a date not more than 28 days after the date of the notice of meeting. Where the Shareholders request for a general meeting identified a resolution intended to be moved at the meeting, the notice of meeting must include notice of this resolution. An annual general meeting shall be called by not less than 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice. The Directors may determine that persons entitled to receive notices of meeting are those persons entered on the register at the close of business on a day determined by the Directors, provided that, if the Company is a participating issuer, the day determined by the Directors may not be more than 21 days before the day that the relevant notice of meeting is being given. The notice of meeting must also specify a time (which shall not be more than 48 hours before the time for the holding of the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. No business may be transacted at a general meeting unless a quorum is present. The quorum for a general meeting is two Shareholders present in person or by proxy and entitled to vote.

6.11 Appointment of Directors

The number of the Directors must not be less than two and must not be more than fifteen unless otherwise decided by the Company by ordinary resolution. The Directors may appoint a person who is willing to act as a director, either to fill a vacancy or as an addition to the existing number of the Directors. The Company may by ordinary resolution appoint any person to serve as one of the Directors. Subject to the provisions of the Companies Act and regulations made thereunder, the Directors may appoint one or more of their body to hold an executive office with the Company for such term and on such other terms and conditions as the Directors think fit. The Directors may revoke or terminate an appointment at any time, without prejudice to a claim for damages for breach of the contract of service between a Director and the Company or otherwise. No person other than a Director retiring (by rotation or otherwise) may be appointed or reappointed as a Director at a general meeting unless: he or she is recommended by the Directors; or not less than seven nor more than 42 days before the date fixed for the meeting, notice has been given to the Company by a Shareholder (other than the person to be proposed) qualified to vote at the meeting of the intention to propose that person for appointment or reappointment.

6.12 Election, Re-election, Removal and Retirement of Directors

A Director is not required to hold any Shares in the capital of the Company. The Company may, by ordinary resolution of which special notice is given in accordance with the Companies Act and regulations made thereunder, remove any Director before the expiration of his or her period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but is without prejudice to any claim such Director may have for damages for breach of any such agreement. Subject to the Articles, at each annual general meeting not less than one-third of the Directors who are subject to retirement by rotation shall retire from office provided that if there are fewer than three directors who are subject to retirement by rotation, at least one shall retire from office. If any one or more Directors were last appointed or reappointed three years or more prior to the meeting, were last appointed or reappointed at the third immediately preceding annual general meeting, or at the time of the meeting will have served more than eight years as a non-executive director of the Company (excluding as the chairman of the Directors), he or she or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of Directors required to retire shall be increased to the extent necessary to comply with the Articles. Subject to the provisions of the Articles, the Directors are to retire by rotation at an annual general meeting include, so far as necessary to obtain the number required, first, a Director who wishes to retire and not offer himself or herself for reappointment, and, second, those Directors who have been longest in office since their last appointment or reappointment. A Director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he or she is not reappointed or deemed reappointed, he or she may retain office until the meeting appoints someone in his or her place or, if it does not do so, until the end of the meeting.

6.13 Powers of the Directors

Subject to the Articles and to directions given by special resolution, the business and affairs of the Company shall be managed by the Directors who may exercise all the Company's powers whether relating to the management of the business or not. No alteration of the Articles and no direction given by the Company shall invalidate a prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The provisions of the Articles giving specific powers to the Directors do not limit the general powers given to the Directors. The Directors may delegate to one of the Directors holding executive office any of their powers, authorities and discretions for such time and on such terms and conditions as they think fit. In particular, without limitation, the Directors may grant the power to sub-delegate, and may retain or exclude the right of the Directors to exercise the delegated powers, authorities or discretions collaterally with the Director. The Directors may at any time revoke the delegation or alter such terms and conditions. The Directors may delegate any of their powers, authorities and discretions, for such time and on such terms and conditions as they think fit, to a committee, the majority of which consists of the Directors. The Directors may establish any local or divisional boards or agencies for managing any of the Company's affairs in any specified locality, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local or divisional board, or any managers or agents, and may fix their remuneration. The Directors may delegate to any local or divisional board, manager or agent so appointed any of their powers, authorities and discretions (with power to sub-delegate) and may authorise any persons to be members for the time being of any such local or divisional board, or any of them, to fill any vacancies and to act notwithstanding vacancies; and any such appointment or delegation may be made for such time, on such terms and subject to such conditions as the Directors may think fit. The Directors may by power of attorney or otherwise appoint a person to be the Company's agent and may delegate to that person any of its powers, authorities and discretions for such purposes, for such time and on such terms and conditions as they think fit.

6.14 Proceedings of Directors

Subject to the Articles, the Directors may meet for the despatch of business, adjourn and otherwise regulate its proceedings as they think fit. The quorum necessary for the transaction of business may be decided by the Directors and until otherwise decided is two Directors present in person or by alternate director. The Directors may appoint one of their body as chairman to preside at every board meeting at which he or she is present and one or more deputy chairman or chairmen and decide the period for which he or she is or they are to hold office (and may at any time remove him or her or them from office). If no chairman or deputy chairman or chairmen is elected, or if at a meeting neither the chairman nor a deputy chairman or chairmen is present within five minutes of the time fixed for the start of the meeting, the Directors and alternate Directors present shall choose one of their number to be chairman. In case of an equality of votes at a meeting the chairman has a second or casting vote.

6.15 Directors' Remuneration

The Directors' fees are determined by the Directors from time to time except that they may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution. The Directors may arrange for part of such fee payable to a Director to be provided in the form of fully-paid Shares. The salary or other remuneration of a Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Directors, and may be in addition to or instead of a fee payable to him or her for his or her services as a Director pursuant to the Articles.

6.16 Directors' Indemnification

Subject to the provisions of the Companies Act and provisions made thereunder, the Company may: (a) indemnify to any extent any person who is or was a director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him or her) against any loss or liability, whether in connection with any negligence, default, breach of duty or breach of trust by him or her or otherwise, in relation to the Company or any associated company; (b) indemnify to any extent any person who is or was a director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him or her in connection with the company's activities as trustee of an occupational pension scheme. Where a person is indemnified against any liability in accordance with the Articles, such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by him or her in relation thereto.

6.17 Directors' Interests

Subject to the Articles and the Companies Act 2006, a Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a holder of such company shares or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him or her as a director or officer of or from his or her interests in such other company unless the Company otherwise directs. A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by one of the subsidiaries of the Company which conflicts with the interests and of which he or she has actual knowledge shall disclose to the Company (by notice to the Directors) the nature and extent of his or her interest. Subject thereto and the provisions of the Companies Act and regulations made thereunder, any such Director shall not be liable to account to the Company for any profit or gain realised by him or her on such transactions. A notice in writing given to the Company by a Director that he or she is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his or her interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may not vote in respect of certain transactions and if he or she does so vote his or her vote shall not be counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration. Subject to the provisions of the Companies Act and regulations made thereunder, a Director may act by himself or herself or his or her firm in a professional capacity to the Company and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director.

6.18 Restrictions on Voting

Except as provided below, a Director may not vote in respect of any contract, arrangement or any other proposal in which he or she, or a person connected to him or her, is interested. Any vote of a Director in respect of a matter where he or she is not entitled to vote shall be disregarded. A Director is entitled to vote and be counted in the quorum in respect of any resolution concerning, *inter alia*, any contract, transaction or arrangement, or any other proposal: in which he or she has an interest, of which he or she is not aware, or which cannot be reasonably be regarded as likely to give rise to a conflict of interest; in which he or she has an interest only by virtue of interests in shares, debentures or other securities or otherwise in or through the Company; which involves the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of the Company's subsidiary undertakings for which he himself or she herself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security; concerning an offer of securities by the Company or any subsidiary undertaking of the Company in which he or she is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter; concerning any other body corporate in which he or she is interested, provided that he or she and any connected persons do not own or have a beneficial interest in 1%, or more of any class of the equity share capital or the voting rights of such body corporate; relating to an arrangement for the benefit of employees of the Company or the employees of any subsidiary undertaking of the Company which does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates; concerning the purchase or maintenance of insurance policy for the benefit of the Directors; concerning the giving of indemnities in favour of the Directors.

6.19 Borrowing Powers

The Directors may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

6.20 Service of Notices, Documents and Information on Shareholders

Any notice, document or information may be given, sent or supplied by the Company to any of the Shareholders: (i) personally; (ii) by sending it by post in a pre-paid envelope addressed to such Shareholder at his registered address or to the UK address that the Shareholder has provided to the Company; (iii) by sending it in electronic form to the electronic address specified for the purpose by such Shareholder (generally or specifically), provided that such Shareholder has agreed (generally or specifically) that the notice, document or information may be sent or supplied in that form (and has not revoked that agreement); or (iv) subject to the provisions of the Companies Act, by making it available on a website and notifying the Shareholder that the notice, document or information is available on that website, provided that certain conditions have been satisfied, including that the Shareholder has been asked by the Company to agree to the Company sending notices, documents and information by making them available on a website and has either agreed (generally or specifically) or has not responded to a request of the Company.

6.21 Winding Up

On the voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the Shareholders (excluding any Shareholder holding shares as treasury shares) in kind the whole or any part of the Company's assets, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the Shareholders as he or she, with the like sanction, shall determine. For this purpose the liquidator may set the value he or she deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of the Shareholders how the division is to be carried out between the Shareholders or classes of the Shareholders. The liquidator may not, however, distribute to a Shareholder without his or her consent an asset to which there is attached a liability or potential liability for the owner.

7. Major Shareholders

7.1 In so far as is known to the Directors on 6 November 2015 (the latest practicable date prior to printing of this document), the following are the interests (within the meaning of the Companies Act) (other than interests held by the Directors) which represent, or will represent, directly or indirectly, 3% or more of the issued share capital of the Company assuming no exercise of the Over-allotment Option and the sale of the maximum number of Shares such shareholder has indicated it will make available in the Offering:

	Immediately prior to Admission		Immediately following Admission	
Shareholder	**Number of ordinary shares**	**Percentage of issued ordinary share capital**	**Number of ordinary shares**	**Percentage of issued ordinary share capital**
JSC BGEO Investments	89,500,000	96.24%	89,500,000	67.97%
Sanne Fiduciary Services Limited[(1)]	3,500,000	3.76%	3,500,000	2.66%
T. Rowe Price International	—	—	6,200,000	4.71%
Wellington Management	—	—	5,500,000	4.18%
F&C Asset Management	—	—	5,250,000	3.99%
Franklin Templeton Investment Management	—	—	5,000,000	3.80%

(1) Sanne Fiduciary Services Limited holds the Shares as trustee of the Group's employee benefit trust.

7.2 Save as disclosed above, in so far as is known to the Directors, there is no other person who is or will be immediately following Admission, directly or indirectly interested in 3% or more of the issued share capital of the Company, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over us. The Board has no knowledge of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company. None of the major shareholders of the Company has or will have different voting rights attached to the shares they hold in the Company.

8. Directors' and Senior Managers' Shareholdings and Stock Options

8.1 The following table sets out the Directors' and the Senior Managers' direct and indirect shareholdings and stock options in Shares as of the date of this document and their anticipated shareholdings and stock options in the Company as of the date of Admission.

	Immediately prior to Admission		Immediately following Admission	
Director/Senior Manger	Number of ordinary shares	Percentage of issued ordinary share capital	Number of ordinary shares	Percentage of issued ordinary share capital
Irakli Gilauri	—	—	411,700	0.31%
Allan Hirst	—	—	148,700	0.11%
Nikoloz Gamkrelidze	—	—	117,500	0.10%
David Morrison	—	—	116,600	0.09%
Neil Janin	—	—	88,000	0.07%
Oie Ingeborg	—	—	29,000	0.02%
Tim Elsigood	—	—	14,700	0.01%
Mike Anderson	—	—	11,500	0.01%
Irakli Gogia	—	—	9,400	0.01%

8.2 None of the Directors or any of the Senior Managers has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Company and which were effected by the Company or any subsidiary of the Company during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed as at the date of this document.

9. Directors' Terms of Employment

9.1 The Directors and their functions are set out in *Part X: "Directors, Senior Management, Corporate Governance and Employees"*. The terms of their employment and/or appointment are summarised below.

10. Executive Director

10.1 The following table summarises the service agreement entered into with the Company's Executive Director:

Name	Position	Date of Company Service Contract	Employment Term	Company Base Salary	Guaranteed Company Securities
Nikoloz Gamkrelidze	Chief Executive Officer	29 April 2015	5 Years	U.S.$225,000	175,000

10.2 On 29 April 2015, the Group entered into a service agreement with Nikoloz Gamkrelidze. The service agreement provides for Nikoloz Gamkrelidze to act as Chief Executive Officer (the **CEO**) at a base salary of U.S.$225,000 per annum (paid in 12 monthly instalments), but prior to Admission at a base salary of U.S.$150,000 per annum. The Company will also reimburse the CEO for all reasonable business expenses properly incurred and paid by him. Neither party shall have the right to terminate the agreement prior to expiration of the employment term for any reason whatsoever, except for: (a) termination by the Group for cause, which shall be on the basis of a written notice to the CEO and shall have immediate effect; (b) termination by the Group without cause, which shall be on the basis of a written notice to the CEO and shall have immediate effect; (c) termination by the CEO upon serving three months' prior written notice. Unless otherwise agreed with the Board, the CEO will resign only upon expiration of this three months' notice period. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

10.3 According to the service agreement, during the employment the CEO will be awarded 175,000 Shares per annum (the **Long Term Deferred Securities**). Granting of the Long Term Deferred Securities will be independent of the CEO's performance, but subject to certain conditions including his continued service with the Group. The Long Term Deferred Securities will be awarded annually on or before 10 January 2016, 10 January 2017, 10 January 2018, 10 January 2019 and 10 January 2020, respectively. The awarded Long Term Deferred Securities will be subject to a four-year vesting as follows: (i) 20% will vest on 1 January of the year immediately following the year of granting the Long Term Deferred Securities; (ii) 20% will vest on 1 January of the second year following the year of granting the Long Term Deferred Securities; (iii) 20% will vest on 1 January of the third year following the year of granting the Long Term Deferred Securities; and (iv) 40% will vest on 1 January of the fourth year following the year of granting the Long Term Deferred Securities. According to the service agreement, subject to the CEO's continuous service with the Company, at the sole discretion of the Board he may also be awarded additional Shares (the **Discretionary Securities**). The number of the Discretionary Securities to be awarded will be determined annually at the sole discretion of the Board based on the performance of the Company and the CEO. The number of Discretionary Securities to be awarded for each year will be announced to the CEO by the end of February of the following year and the Shares will be issued immediately upon completion of the annual audit for the reporting year. The awarded Discretionary Securities will be subject to three-year straight line vesting with continued service with the Group being the sole vesting condition. The maximum number of the Discretionary Securities shall be capped so that the market value of the annual grant of Discretionary Securities at the award date in each particular year does not exceed the aggregate amount of: (i) CEO's annual salary and (ii) the Offering Price/value of the annual Long Term Deferred Securities.

11. Non-Executive Directors

11.1 The following table summarises the letters of appointment entered into with our non-executive directors:

	Current Position	Year appointed	Compensation(2)	Compensation from other committees(2)	Compensation for JSC Georgia Healthcare Group roles(2)(3)	Total Compensation for Georgia Healthcare Group(2)
Irakli Gilauri(1)	Non-Executive Chairman	2015	0	0	0	0
David Morrison	Non-Executive Director, Senior Independent Director	2015	50,000	33,500	72,500	156,000
Neil Janin	Independent Non-Executive Director	2015	37,000	26,000	48,000	111,000
Allan Hirst	Independent Non-Executive Director	2015	37,000	11,000	48,000	96,000
Ingeborg Oie	Independent Non-Executive Director	2015	37,000	15,000	52,000	104,000
Tim Elsigood	Independent Non-Executive Director	2015	37,000	26,000	63,000	126,000
Mike Anderson	Independent Non-Executive Director	2015	37,000	22,000	48,000	107,000
Jacques Richier	Independent Non-Executive Director	2015	37,000	22,000	48,000	107,000

(1) Irakli Gilauri does not receive any compensation for his appointment as Chairman of the Company.

(2) Compensation is in U.S. dollars and all figures are gross.

(3) Compensation for JSC Georgia Healthcare Group roles is in U.S. dollars, all figures are gross and the figure for each director includes both their board salary and committee salary.

11.2 Pursuant to separate indemnity agreements, the Company has agreed, subject to certain terms and only to the extent not prohibited by law, to indemnify each of the Company's non-executive directors against all losses suffered or incurred by the them which arise out of or in connection with their role as a director.

12. Key Senior Managers

12.1 The following table summarises the service agreements with the Group's key Senior Managers.

Name	Position	Date of Group Service Contract	Employment Term	Group Base Salary	Guaranteed Company Securities
David Vakhtangishvili .	Deputy CEO (Finance)	29 April 2015	5 Years	U.S.$108,000	53,000
Giorgi Mindiashvili . . .	Deputy CEO (Commercial)	29 April 2015	5 Years	U.S.$ 96,000	53,000
Irakli Gogia	Deputy CEO (Operations)	29 April 2015	5 Years	U.S.$ 90,000	53,000

12.2 On 29 April 2015, the Group entered into service agreements with key Senior Managers (the **Executives**). The service agreements all contain non-compete and confidentiality provisions and are governed by Georgian law. Together with the base salary (paid in 12 monthly instalments), the Group will also reimburse the Executives for all reasonable business expenses properly incurred and paid by them. Neither party shall have the right to terminate the agreement prior to expiration of the employment term, for any reason whatsoever, except for: (a) termination by the Group for cause, which shall be on the basis of a written notice to the Executives and shall have immediate effect; (b) termination by the Group without cause, which shall be on the basis of a written notice to the Executives and shall have immediate effect; (c) termination by the Executives upon serving three months' prior written notice to. Unless otherwise agreed with the Board, the Executives will resign only upon expiration of this three months' notice period. According to the Service Agreements, during the term of their employment the Executives will be awarded with 53,000 Long Term Deferred Securities each per annum. The granting of the Long Term Deferred Securities will be independent of the Executives' performance, but subject to certain conditions including their continued service with the Group. The Long Term Deferred Securities will be awarded annually on or before 10 January 2016, 10 January 2017, 10 January 2018, 10 January 2019 and 10 January 2020, respectively. The awarded Long Term Deferred Securities will be subject to a four-year vesting as follows: (i) 20% will vest on 1 January of the year immediately following the year of granting the Long Term Deferred Securities; (ii) 20% will vest on 1 January of the second year following the year of granting the Long Term Deferred Securities; (iii) 20% will vest on 1 January of the third year following the year of granting the Long Term Deferred Securities; and (iv) 40% will vest on 1 January of the fourth year following the year of granting the Long Term Deferred Securities. According to the Service Agreements, subject to the Executives' continued service with the Group, at the sole discretion of the Board they may also be awarded additional Discretionary Securities. The number of the Discretionary Securities to be awarded will be determined annually at the sole discretion of the Board based on the performance of the Group and the Executives. The number of Discretionary Securities to be awarded for each year will be announced to the Executives by the end of February of the following year and will be issued immediately upon completion of the annual audit for the reporting year. The awarded Discretionary Securities will be subject to three-year straight line vesting, with continued service by Group being the sole vesting condition.

13. Senior Managers

13.1 The following table summarises the service agreements with the Group's other Senior Managers.

Name	Position	Date of Group Service Contract	Employment Term	Salary
Nino Koguashvili . . .	CEO, Insurance Company Imedi L	29 April 2015	3 Years	U.S.$ 75,000
Ivane Bokeria	Deputy CEO (Clinical)	29 April 2015	3 Years	GEL 94,200
Nino Kortua	Director, Legal Department	29 April 2015	3 Years	GEL 84,000
Medea Chkhaidze . .	HR and Organisational Development Director	29 April 2015	3 Years	GEL 75,000
Otar Lortkipanidze .	Director, IT Department	29 April 2015	3 Years	GEL 97,500
Manana Khurtsilava .	Head, Internal Audit	29 April 2015	3 Years	GEL 54,000

13.2 On 29 April 2015, the Group entered into service agreements with the Group's other Senior Managers. The service agreements all contain non-compete and confidentiality provisions and are governed by Georgian law. According to the service agreements, subject to certain conditions including the Senior Managers' continued service with the Group, at the sole discretion of the Board they may also be awarded an annual cash bonus and Discretionary Securities. The cash bonus and

Discretionary Securities to be awarded will be determined annually at the sole discretion of the Board based on the performance of the Group and the Senior Managers. The cash bonus or Discretionary Securities to be awarded for each year will be announced to the Senior Managers by the end of February of the following year and will be awarded upon completion of the annual audit for the reporting year. The awarded Discretionary Securities will be subject to three-year straight line vesting, with continued service by the Group being the sole vesting condition. The Senior Managers may terminate their service agreements by the Senior Managers is admissible upon serving one month's prior written notice to the Company.

14. Directors and Senior Managers' Remuneration and Benefits in 2014

14.1 The aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Company in respect of services provided by the Directors and Senior Managers for the year ended 31 December 2014 are set out in the table below.

	31 December 2014 *(GEL thousands)*
Salaries and cash bonuses	1,335
Share-based compensation	920
Total key management compensation	**2,255**

There is no arrangement under which any of the Directors or Senior Managers have waived or agreed to waive benefits or allowances during the financial year immediately prior to the date of this document or any future benefits or involvements.

15. Loans to Directors and Senior Managers

15.1 There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of Directors and/or Senior Managers of the Company.

16. Directors' and Senior Managers' Current and Past Directorships

16.1 Set out below are the directorships (unless otherwise stated) held by the Directors in the five years prior to the date of this document. excluding any directorships in the Company and its subsidiaries:

Name	Current or former directorships/partnerships	Position still held (Y/N)
Irakli Gilauri	Bank of Georgia Holdings PLC	Y
	JSC Bank of Georgia	Y
	JSC BGEO Investments	Y
	iGeneration	Y
Nikoloz Gamkrelidze	JSC Bank of Georgia	N
	JSC BNB Bank	N
	JSC Insurance Company Aldagi	N
David Morrison	Caucasus Nature Fund	Y
	Bank of Georgia Holdings PLC	Y
	JSC Bank of Georgia	Y
	Prespa Ohrid Nature Trust	Y
	Sullivan & Cromwell LLP	N
Neil Janin	JSC Bank of Georgia	Y
	Ipsos SA	Y
	Neil Janin Limited	Y
	McKinsey & Co	N
Alan Hirst	Financial Services Volunteer Corps	Y
	Phico Therapeutics Limited	Y
	White Square Chemical, Inc.	Y
	JSC Bank of Georgia	N
	Public Joint Stock Company ROSBANK	N
	Breivoll Inspection Technologies AS	Y

Name	Current or former directorships/partnerships	Position still held (Y/N)
Tim Elsigood	North Africa Hospital Holdings Group	Y
	Tim Elsigood Associates Limited	Y
	Alliance Medical Ltd	N
Mike Anderson	Anderson Health Consulting Limited	Y
	North West London Reconfiguration Programme (Shaping a Healthier Future)	Y
	Chelsea & Westminster NHS Foundation Trust	N
	West Middlesex University NHS Trust	N
Jacques Richier	Allianz France S.A.	Y
	Allianz Worldwide Partners S.A.S.	Y
	Allianz Worldwide Care S.A.	Y
	Allianz SE	Y
	Fédération Française des Sociétés d'Assurances	Y
	Euler Hermes SFAC	Y
	Paris Orléans SCA	Y
	Allianz Global Assistance S.A.S.	N

16.2 None of the Senior Managers has held directorships in the five years prior to the date of this document, excluding any directorships in the Company and its subsidiaries.

16.3 Except as set forth below, within the period of five years preceding the date of this document, none of the Directors or Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

16.4 Save as set out in *Part XV: "Directors, Senior Management and Corporate Governance—Conflicts of interest,"* as of the date of this document, none of the Directors or Senior Managers has any actual or potential conflict of interest between his or her duties to the Company and his or her private interest or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management. Each of the Directors is permitted by his or her other directorships or employments to act in his or her capacity as a Director.

17. Employee Equity Compensation Plans

Employee Equity Compensation Plan

17.1 The JSC Georgia Healthcare Group Supervisory Board (the **GHG Supervisory Board)** has adopted a new employee compensation policy (the **Policy**) and established the JSC Georgia Healthcare Group Executive Incentive Plan 2015 (**GHGEIP**), with Sanne Fiduciary Services Limited appointed as the trustee of the GHGEIP (the **Trustee**). The GHGEIP was 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 (any director, including without limitation the members of the GHG Supervisory Board, or employee of a Group company) which the Trustee (upon the recommendation of the GHG Supervisory Board) may in their absolute discretion select and make awards to provided that:

(a) no award may be made in breach of any statute, order, regulation or applicable guidelines (including any regulation, order, requirement or guidelines imposed on JSC Georgia Healthcare Group by any regulatory authority in any country); and

(b) in the event that control of JSC Georgia Healthcare Group is acquired by a new holding company, which means a company which has obtained Control of JSC Georgia Healthcare Group (a **New Holding Company**) and **Control** meaning circumstances where: (1) the shareholders of the New Holding Company immediately after it has obtained control of JSC Georgia Healthcare Group are the same or substantially the same as the shareholders of the JSC Georgia Healthcare Group immediately before the new holding company obtained control of JSC Georgia Healthcare Group; and (2) the shareholders of the New Holding Company immediately after it has obtained control of JSC Georgia Healthcare Group in the same or substantially the same proportions as the shareholders held their shareholdings in JSC Georgia Healthcare Group immediately before the New Holding Company obtained control of the JSC Georgia Healthcare Group, no award may be made without the prior approval of the remuneration committee of the New Holding Company.

17.2 The employee benefit trust known as JSC Georgia Healthcare Group Employee Benefit Trust (the **Trust**) initially subscribed for 3.5 million Shares, which is intended to satisfy nil-cost options for the foreseeable future.

Deferred Share Salary and Discretionary Deferred Share Compensation

17.3 Deferred share salary shares will vest over a five-year period following the year to which the award relates (the **Work Year**) and discretionary deferred shares will vest over a three year period. No cash bonuses are paid to selected senior executives during the term of the Policy.

17.4 The nil-cost options in respect of deferred share salary are formally awarded in January of the year following the Work Year. No deferred salary shares vest during the year of award. In January of each of the second, third and fourth years following the Work Year, 20% of the awarded deferred salary shares will vest and in the fifth year following the Work Year, the remaining 40% of the deferred salary shares will vest. In January 2015, prior to the incorporation of JSC Georgia Healthcare Group and the Company, it was agreed that Nikoloz Gamkrelidze would be awarded nil-cost options over 150,000 Shares pursuant to the terms of his service contract for his role as CEO of JSC Georgia Healthcare Group, per year for each of the following consecutive five years starting in 2016. In April 2015, it was agreed that three additional members of senior management would be awarded nil-cost options over 45,000 Shares pursuant to the terms of their respective service contracts in respect of their roles as Deputy CEOs of JSC Georgia Healthcare Group, for each of the following consecutive five years starting in 2016. The Shares awarded to the Group CEO and Deputy CEOs have a five year vesting period, with continuous employment being the only vesting condition for both awards.

17.5 The number of the shares to be awarded to the CEO and three Deputy CEOs remained subject to a pro rata adjustment resulting from any increase of the total number of the issued and outstanding shares of the Company during the period prior to Admission. As a result of an increase in the share capital of the Company from 76.0 million to 89.5 million shares prior to Admission, in respect of 2015, 2016, 2017, 2018 and 2019, the Group CEO and the Deputy CEOs will be awarded, in aggregate, 1,670,000 Shares, or 334,000 shares in the Company (175,000 shares for the CEO and 53,000 shares for each of the three Deputy CEOs) per each year of employment.

17.6 Deferred share salary prior to adjustment was due to be expensed by the Group at GEL 2.57 (U.S.$1.11) per Share, which was the fair value of these Shares at the grant date, as stated in the existing service contracts. Following the adjustment of the deferred number of shares to be awarded to the relevant executives, the expense per share will be reduced on a pro rata basis and the overall expense of the Group with respect to the deferred share salaries will remain unchanged.

17.7 Under the discretionary deferred share compensation, which is subject to the respective Executive's continuous employment, the Executive may also be awarded additional Shares on an annual basis at the discretion of the GHG Supervisory Board. The number of the discretionary deferred Shares to be awarded will be determined annually upon the recommendation of the GHG Supervisory Board, based on the performance of the Group and the Executive. Discretionary deferred shares will be subject to a three-year vesting period on a straight line basis.

17.8 Until a nil-cost option is exercised by an Executive, the Executive will have no voting rights or rights to receive dividends in respect of the underlying shares.

17.9 The principal provisions of the GHGEIP are summarised below. Unless otherwise stated or defined elsewhere in this document, defined terms have the meaning as set out in the GHGEIP.

(a) *Nature of nil-cost options under the GHGEIP* Deferred share salary and discretionary deferred share compensation is granted in the form of nil-cost options, being a right to acquire shares for no payment. Exercise of the nil-cost option may be subject to the satisfaction of vesting conditions which is imposed in relation to a nil-cost option on the award date. Vested but unexercised nil-cost options shall lapse if not exercised before the tenth anniversary of the grant date or such earlier date as may be specified.

(b) *Variation of share capital.* In the event of any capitalisation or rights issue or any consolidation, subdivision or reduction of capital by JSC Georgia Healthcare Group or following the obtaining of Control over JSC Georgia Healthcare Group by a New Holding Company, the New Holding Company the number of Shares the subject of any award shall be adjusted in such manner as the parties to the relevant Award shall agree and in default of agreement as JSC Georgia Healthcare Group's auditors confirm to be fair and reasonable provided that no amount is payable on the satisfaction of an Award.

(c) *Amendments.* The Trustees may from time to time amend the GHGEIP rules provided that:

i. no amendment shall adversely affect an Award Holder as regards an Award made prior to the amendment being made, without the prior approval of those Award Holders who: (i) are Executives on the date of such approval; and (ii) together have received or are entitled to receive the majority of the total number of Shares which have been awarded (whether vested or unvested) pursuant to the GHGEIP; and

ii. no alteration or addition shall be made to the advantage of existing or new Award Holders to certain definitions as stipulated in Rule 10.2 (b) of the GHGEIP.

(d) *Vesting and lapse of Awards.* Subject to Rule 5 of the GHGEIP and to the following provisions (and provided that any Vesting Condition has been fulfilled to the reasonable satisfaction of the Trustees upon the advice of the GHG Supervisory Board,) an Award shall Vest and shall (during the Vesting Period) be capable of being satisfied or exercised (as the case may be) from the vesting date specified. If, before the end of the Vesting Period, the Award Holder ceases to be an Executive by reason of his death, then the Award shall vest in the Award Holder's personal representatives name and any unvested Awards shall become Vested Awards. The personal representatives of the Award Holder shall be entitled, within 12 months of the date of the Award Holder's death and (in accordance with Rule 7 of the GHGEIP):

i. in the case of a Share Award, to notify the Trustees of how they wish the Award Shares to be satisfied; or

ii. in the case of a Nil-Cost Option Award, to notify the Trustees that they wish to exercise such option.

If, before the end of the Vesting Period, the Award Holder ceases to be an Executive by reason of injury, disability, redundancy or retirement (at normal retirement age) or upon the expiry of the Award Holder's Service Agreement the Award Holder is not offered a new Service Agreement upon substantially similar terms or any other reason at the discretion of the Trustees and in circumstances where he does not remain or immediately become an Executive of another Group company, then the Trustees shall at their discretion determine that any unvested Awards shall either (i) continue to Vest in the normal way during the Vesting Period as specified (ii) any unvested Awards shall become Vested Awards.

If, before the end of the Vesting Period, the Award Holder ceases to be an Executive other than for any of the reasons set out above or in circumstances where upon the expiry of the Executive's service agreement the Executive does not accept a new service agreement upon substantially similar terms and in circumstances where he does not remain or immediately become an Executive of another Group company, then unless otherwise resolved by the Trustees upon the recommendation of the GHG Supervisory Board, any unvested Awards at the date on which he ceases to be an Executive shall lapse. In respect of any Vested but unexercised Nil-Cost Option Award or any Vested but not satisfied Share Award the Award Holder shall have twelve (12) months following the date on which he ceases to be an Executive within which to exercise such vested Nil-Cost Option Award or request that such Share Award be satisfied (as the case may be), failing which such options shall lapse.

The GHG Supervisory Board, may, either by incorporating into an Award Holder's Service Agreement or by a separate resolution, set the vesting/lapsing conditions for Awards which may differ from those stipulated above, provided that if such conditions are set by a separate resolution upon the recommendation of the GHG Supervisory Board, such resolution shall not (i) worsen the terms of the Service Agreement for the Award Holder; and (ii) affect the Awards already granted to the Award Holder.

No Award may be satisfied or exercised at any time when to do so would cause either the Award Holder or the Trustees or any other person to contravene any statute, order, regulation or guidelines (including any regulation, order, requirement or guideline imposed on JSC Georgia Healthcare Group, New Holding Company (following the acquisition of control by a New Holding Company) or the Trustees by any regulatory authority in any country) or by any requirement of the Trustees in relation to their reasonable due diligence requirements.

(e) *Takeover, Asset Sale and liquidation.* Subject to Rule 5.5 of the GHGEIP, if there is a change of Control, other than as a result of the Initial Public Offering, or Asset Sale then any Award which has not already Vested shall, subject to Rule 5.2 of the GHGEIP, Vest and shall be capable of being satisfied or exercised (as the case may be) at any time after the Change of Control or Asset Sale has taken place. If, as a result of a Change of Control, other than as a result of the Initial Public Offering, a company has obtained Control of JSC Georgia Healthcare Group, or (following the acquisition of Control by a New Holding Company) the New Holding Company, the Award Holder may by agreement with the Trustees and that other company (the **Acquiring Company**) within a period of six months release such Award (the **Old Award**) for an award (the **New Award**) which:

i. is over shares in the Acquiring Company;

ii. is a right to acquire such number of such shares as has on acquisition of the New Award a value equal to the value attributed by the Auditors to the Shares subject to the Old Award, without having regard to the fact that the number of Shares the subject of the Old Award may represent a majority or minority interest in JSC Georgia Healthcare Group or (following the acquisition of Control by a New Holding Company) the New Holding Company;

iii. has no price payable on the complete satisfaction of the New Award; and

iv. is otherwise identical in terms to the Old Award.

The New Award shall for all other purposes of this Plan be treated as having been acquired at the same time as the Old Award.

(f) *Termination.* The Plan shall terminate upon the tenth anniversary of its adoption by the Trustee or at any earlier time by the passing of a resolution by the Trustee. Termination of the Plan shall be without prejudice to the subsisting rights of holders of nil-cost options.

18. Other Awards

The Group does not have any other arrangements relating to awards.

19. Pensions

The Group operates a defined contribution pension scheme. The CEO and the Group each contribute a minimum of 1% of the CEO's gross monthly cash salary payable under his service contract with the Company.

The Group will match additional contributions in a proportion of 0.2 to one, up to a maximum additional group contribution of 1% of gross monthly salary where the Director makes additional contributions to 5% of gross monthly salary.

20. Subsidiaries

Currently, Georgia Healthcare Group PLC is the principal holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Group as of 30 June 2015 were as follows:

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
				(GEL thousands)
Consolidated Subsidiaries				
LLC Deka	16 Kavtaradze Street, Tbilisi, Georgia	Healthcare	95%	0.02
JSC St. Nicholas Surgery Clinic	9 Paolo Iashvili Street, Kutaisi, Georgia	Healthcare	93%	318
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	85 Djavakhishvili Street, Kutaisi, Georgia, 4600	Healthcare	67%	990
LLC Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia	83 A Djavakhishvili Street, Kutaisi, Georgia	Healthcare	67%	34,487
LLC Tskaltubo Regional Hospital	16 Eristavi Street, Tskhaltubo, Georgia	Healthcare	67%	1,574
LLC Unimed Achara	20 Chavchvadze ave Tbilisi, Georgia	Healthcare	100%	28,752
LLC Unimedi Samtskhe	20 Chavchvadze ave, Tbilisi, Georgia	Healthcare	100%	2,987
LLC Unimedi Kakheti	20 Chavchvadze ave Tbilisi, Georgia	Healthcare	100%	10,786
NPO EVEX Learning Center	#83A, Javakhishvili Street, Tbilisi, Georgia	Other	100%	0.02
LLC Biznes Centri Kazbegze	44 Al. Kazbegi Ave, Tbilisi, Georgia, 0177	Other	100%	0.02
JSC Medical Corporation EVEX	40 Vazha-Pshavela Ave., Tbilisi, Georgia	Healthcare	100%	29,435
LLC M. Iashvili Children Central Hospital	2/6 Lubliana Street, Tbilisi, Georgia	Healthcare	67%	2,155
JSC Insurance company Imedi L	3-5 Kazbegi street, Tbilisi, Georgia	Insurance	100%	4,170
LLC Tbilisi Emergency Center	10 Chkheidze Street, Tbilisi, Georgia	Healthcare	100%	18

21. Statutory Auditors

21.1 EY Georgia LLC has been the statutory auditor of the Group for the period covered by the Historical Financial Information for the Group, and has provided an unqualified accountant's report on the Group's historical financial information for the six months ended 30 June 2015 and the three years ended 31 December 2014, 2013 and 2012 in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The registered address of EY Georgia LLC is 44 Kote Abkhazi Street, Tbilisi, 0105 Georgia. EY Georgia LLC is included in the register of the Georgian Federation of Professional Accountants and Auditors with the right to perform statutory and non-statutory audits.

22. Dividends and dividend policy

22.1 The Company was incorporated on 27 August 2015 and no dividends have been paid up to the date of this document. The Company does not intend to pay any dividends for the first two years following the Admission of the Shares.

22.2 The Company (as a holding company whose principal assets are the shares of its subsidiaries) will rely primarily on dividends and other statutorily and contractually permissible payments from our subsidiaries to generate reserves necessary to meet our obligations and to pay dividends to its shareholders. The regulatory systems under which the Company operates and certain contractual arrangements to which the Company and/or its subsidiaries are party restrict, to a certain extent, the Company's ability to pay dividends and/or to otherwise provide cash to the Company, which may, in turn, restrict its ability to pay dividends.

22.3 Pursuant to our Articles, the Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors. The Directors may pay fixed and interim dividends as appears to be justified by our profits available for distribution. If the Directors act in good faith, they shall not incur any liability to the Shareholders for any loss they may suffer by the lawful payment on any other class of the Shares having non-preferred or deferred rights of any such fixed or interim dividend. The Directors may, with the prior authority of an ordinary resolution, direct payment of a dividend in whole or in part in specie and the Directors shall give effect to such resolution. No dividend or other monies payable in respect of the Shares shall bear interest against the Company unless interest is provided by the rights attached to those Shares. The Directors may deduct from any dividend or other moneys payable to the Shareholders on or in respect of such Shares all sums of money (if any) presently payable by the holder to the Company on account of calls or otherwise in relation to such shares. All unclaimed dividends may be invested or otherwise made use of by the Directors for the Company's benefit until claimed. Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared or became due for payment shall be forfeited and revert to us. The Directors may, if authorised by an ordinary resolution, offer those holders of a particular class of shares that have elected to receive them further shares of that class or the Shares by way of scrip dividend instead of cash. The Directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made.

23. Litigation

23.1 Other than as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

23.2 On 16 April 2015, some of the former shareholders of Insurance Company Imedi L filed a claim in the Tbilisi City Court against Insurance Company Aldagi and the Company's subsidiaries, Imedi L and Evex Medical Corporation, all of which are legal successors of Insurance Company Aldagi BCI. Pursuant to a demerger agreement entered into in 2014, the business and assets and liabilities of Insurance Company Aldagi BCI were spun off into three entities: Insurance Company Imedi L acquired the medical and travel insurance (limited to cover for emergency medical treatment) business, Evex Medical Corporation acquired the healthcare services business and Insurance Company Aldagi continues to operate the property and casualty and pension business. The claim alleges that 66.0% shares owned directly or indirectly by the claimants in the share capital of Insurance Company Imedi L were sold to Insurance Company Aldagi BCI in 2012 under duress at a price below market value, and the claim seeks damages in the amount of U.S.$17.1 million. The action is in a preparatory stage and the first preliminary hearing took place on 9 October 2015. A further preliminary hearing is scheduled for 4 December 2015.

23.3 The Company believes that the claim is without merit and the shares in Insurance Company Imedi L were acquired by Insurance Company Aldagi BCI at a fair price on the basis of bona fide agreements. However, if the claim is decided in favour of the claimants, the Group would be required to pay to the claimants damages in the amount as determined by the court.

24. Related Party Transactions

24.1 For a description of related party transactions, see *Part XV: "Related Party Transactions"*.

25. Material Contracts

25.1 For a description of the material contracts entered into by the Group, see *Part XVI: "Material Contracts"*.

26. Property and Equipment

26.1 A description of investments made by the Group in property and equipment is given in Note 7, "*Property and Equipment*", to the Historical Financial Information for the Group in *Part XXII: "Historical Financial Information"* of this document.

27. Working Capital

27.1 It is the opinion of the Company that, taking into account the net proceeds of the Offering receivable by the Company, the working capital available to the Group is sufficient for present requirements (that is, for at least the next 12 months following the date of this document).

28. Significant Change

28.1 There has been no significant change in the financial or trading position of the Group since 30 June 2015, the date to which the Historical Financial Information for the Group set out in *Part XXII: "Historical Financial Information"* of this document was prepared. The Company was incorporated on 27 August 2015. There has been no significant change in the financial or trading position of the Company since 27 August 2015, being the date of incorporation of the Company.

29. Takeover Bids

29.1 Takeover Bids

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

The City Code on Takeovers and Mergers (the **City Code**) as issued and administered by the Panel on Takeovers and Mergers (the **Panel**) applies to the Company. Under the City Code, if an acquisition of interests in the Shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in the Shares carrying 30% or more of the voting rights in the Shares, the acquirer and, depending on the circumstances, person acting in concert with it, would be required (except with the consent of the Panel) to make a cash offer (a **Mandatory Offer**) at the highest price paid by the acquirer (or any person acting in concert with it) for shares within the preceding 12 months, to the holders of any class of equity share capital and also to the holders of any other class of transferable securities carrying any rights. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in the Shares by a person holding (together with persons acting in concert with it) an interest in the Offering Shares carrying between 30% and 50% of the voting rights in the Shares if the effect of such acquisition were to increase that person's percentage of the voting rights.

Following the Offering, BGH will (indirectly) own approximately 68% of the voting rights attached to the issued share capital of the Company, assuming no exercise of the Over-allotment Option, and 65% assuming it is exercised in full. For so long as BGH will hold more than 50% of the voting rights in the Shares, it will have no obligation to make a Mandatory Offer when acquiring further interests in the Shares. For so long as BGH will hold between 30% and 50% of the voting rights in the Shares then it will have an obligation to make a Mandatory Offer if it were to acquire further interests in the Shares.

29.2 Squeeze-out

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for any Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the Shares and not less than 90% of the voting rights attached to the Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10%. Such an acquisition would be made by sending a notice to the outstanding holders of the Shares that stated that it would acquire compulsorily the Shares held by them and then, six weeks later, by executing a transfer of outstanding Shares in its favour and paying the consideration to the Company and the Company would hold the consideration on trust for the outstanding holders of the Shares. The consideration offered to the holders of the Shares whose Shares are so compulsorily acquired must, in general, be the same consideration as was available under the takeover offer.

29.3 Sell-out

The Companies Act also provides minority holders of the Shares the right to be bought out in certain circumstances by an offeror that has made a takeover offer. If the takeover offer related to all of the Shares and at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the Shares to which the offer relates, any holder of the Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares. The offeror is required to give a holder of the Shares notice of its right to be bought out within one month of the right arising. The offeror may impose a time limit on the rights of the minority holders of the Shares to be bought out, but that period cannot end less than three months after the end of the acceptance period of the relevant takeover offer. If a holder of Shares exercises its rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

30. General

The Company's accounting reference date is 31 December.

The estimated fees and expenses relating to the Admission, the Offering and the preparation of this document, including the FCA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately U.S.$5.0million (excluding taxes) and are payable by the Company.

On Admission, the Shares will be listed on the premium listing segment of the Official List and admitted to trading on the Main Market under ISIN GB00BYSS4K11. Other than the current application for admission of the Shares to trading on the Main Market, the Shares have not been admitted to trading on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be, any other arrangements for there to be dealings in the Shares.

Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

As at the date of this document, in so far as is known to the Directors, none of the Company's share capital is in public hands. Immediately following Admission, assuming full acceptance of the Offering, it is currently anticipated that 22% of the Company's fully diluted share capital will be in public hands.

The Directors are not aware of any environmental issues that may affect the Group's utilisation of its tangible fixed assets.

Save as set out in this document, the Group has not agreed to make any new principal investments as of the date of this document.

The Company is not dependent on patents or licences or industrial, commercial or financial contracts or new manufacturing processes which are material to our business or profitability.

31. Consents

EY Georgia LLC has given and not withdrawn its written consent to the inclusion in this document of its accountant's reports set out in *Part XXII: "Historical Financial information—Historical Financial Information for the Group" and "—Avante Historical Financial Information"* in the form and context in which they appear and has authorised the contents of these reports for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the US Securities Act. As the Shares have not been paid and will not be registered under the US Securities Act, EY Georgia LLC has not filed a consent under Section 7 of the Securities Act.

Frost & Sullivan has given and not withdrawn its consent to the inclusion in this document of information from the Frost & Sullivan Report, in the form and context in which it appears, and has authorised the contents of those parts of this document for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules and item 23.1 of Annex I. Frost & Sullivan accepts responsibility for the information included in this document from the Frost & Sullivan Report and, to the best of Frost & Sullivan's knowledge and belief, having taken all reasonable care to ensure such is the case, the information included in this document from the Frost & Sullivan Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

32. Documents Available For Inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this document at our offices at 84 Brook Street, London, W1K 5EH, United Kingdom and No. 40, Vazha-Pshavela Avenue, 0177, Tbilisi, Georgia:

- the Company's Articles of Association;
- the Historical Financial Information for the Group;
- the Avante Financial Statements;
- the Avante Historical Financial Information;
- the Traumatology Financial Statements;
- service agreements and letters of appointment (as applicable) with the Directors;
- the Frost and Sullivan report;
- the Relationship Agreement;
- the written consents from EY Georgia LLC and Frost & Sullivan referred to in paragraph 31 above; and
- this document.

Dated: 9 November 2015

PART XXI
DEFINITIONS

Admission	Admission of the Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange
Ambulatory clinics	A mono or multi-profile outpatient clinic which provides outpatient diagnostics and treatment services
Articles	The articles of association of the Company to be adopted upon Admission
Avante	Avante Hospital Management Group LLC
Avante Financial Statements	The financial statements provided in respect of Avante as of and for the years ended 31 December 2013 and 2012, as described in *Part IV: "Presentation of Financial Information—Avante Historical Financial Information"*
Avante Historical Financial Information	The historical financial information provided in respect of Avante as of and for the two months ended 28 February 2014, as described in *Part IV: "Presentation of Financial Information—Avante Historical Financial Information"*
Bank of Georgia	JSC Bank of Georgia
BGH	Bank of Georgia Holdings PLC, a company organised and existing under the laws of England, with its registered office at 84 Brook Street, London, W1K 5EH, United Kingdom
Business Day	Any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including in foreign exchange and foreign currency deposits) in New York City, London and Tbilisi
CAGR	Compound annual growth rate
Company	Georgia Healthcare Group PLC
Companies Act	The UK Companies Act 2006, as amended
Community hospitals	A multi-profile small hospital located in regional towns or municipalities, which provide basic out- and inpatient diagnostic, surgical and treatment services to patients from the surrounding area and refers patients to referral hospitals or specialty hospitals for more complex medical care
Co-Lead Managers	Galt & Taggart, Numis Securities and Renaissance Capital
Court Hearing	The hearing by the English Court of the claim form to confirm the Reduction of Capital at which the Court Order will be sought
Court Order	The order of the English Court confirming the Reduction of Capital under section 648 of the Companies Act
EU	European Union
Evex Medical Corporation	JSC Medical Corporation Evex
FCA	The UK Financial Conduct Authority (formerly known as the Financial Services Authority)
Frost & Sullivan	Frost & Sullivan Limited
Frost & Sullivan Report	All statistical and market information provided by Frost & Sullivan

GEL	The lawful currency of Georgia
Geostat	Legal Entity of the Public Law National Statistics Office of Georgia
Group	As at the date of this document, the terms Group, we, our or us refer to Georgia Healthcare Group PLC, a Company registered in England, and its consolidated subsidiaries and subsidiary undertakings from time to time, which include JSC Georgia Healthcare Group, a company registered in Georgia, and its operating subsidiaries, Evex Medical Corporation and Insurance Company Imedi L. Prior to 2 September 2015, when the Group completed a reorganisation in preparation for the Offering and Admission, the terms Group, we, our or us refer to JSC Georgia Healthcare Group and its consolidated subsidiaries from time to time
Healthcare facilities	Any referral hospital, specialty hospital, community hospital or ambulatory clinic
Historical Financial Information for the Group	Historical financial information of JSC Georgia Healthcare Group as of and for the six months ended 30 June 2015, and years ended 31 December 2014, 2013 and 2012, set out in *Part XXII "Historical Financial Information"*
Hospitals	Any of referral hospital, specialty hospital or community hospital
HTMC Hospital	High Technology University Medical Centre
IASB	International Accounting Standards Board
Insurance Company Imedi L	JSC Insurance Company Imedi L
ISA	International Standards on Auditing
Issuer	Georgia Healthcare Group PLC
Joint Global Coordinators	Citigroup Global Markets Limited and Jefferies International Limited
Listing Rules	The rules and regulations made by the FCA in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name
NCDC	Georgian National Centre for Disease Control and Public Health
New York Convention	United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards
OFAC	Office of Foreign Assets Control of the U.S. Department of the Treasury
Official List	The UK Listing Authority's Official List
Offering	The issuance of shares by the Company to certain institutional, professional and other investors
Our	the Group's
P&C	Property and casualty
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003
Prospectus Rules	The Prospectus Rules of the FCA published under Section 73A(4) of the FSMA

Reduction of Capital	The proposed reduction of the nominal value of the Shares in issue at the Reduction of Capital Record Time and the cancellation of the amount of the share premium account (if any) in existence at the Reduction of Capital Record Time in order to create distributable reserves in the Company
Reduction of Capital Record Time . . .	6.00pm on the Business Day immediately preceding the date of the Court Hearing of the claim form to confirm the Reduction of Capital
Referral hospitals	A multi-profile, medium or large hospital, located in the main city of a region, which provides out- and inpatient diagnostic, surgical and treatment services to patients in the same city as well as patients referred from other hospitals from the same region
Relationship Agreement	The relationship agreement between the Company, BGH and the Selling Shareholder entered into on 23 October 2015
Reorganisation	The reorganisation of the Group as described in *Part XX: "Additional Information—Reorganisation"*
Securities and Exchange Commission	United States Securities and Exchange Commission
Selling Shareholder	JSC BGEO Investments
Share Contribution Agreement	The share contribution agreement between the Company and the Selling Shareholder entered into on 2 September 2015
Shares	(a) prior to the Reduction of Capital, the ordinary shares with a nominal value of £0.10 each (or such lower nominal value as the Directors shall resolve upon prior to allotment) in the capital of the Company; and (b) following the Reduction of Capital, the ordinary shares with a nominal value of £0.01 each in the capital of the Company
Shareholder	The holder of ordinary shares in the capital of the Company
Specialty hospitals	A specialised, mono profile, medium or large hospital, located in the main city of a region, which provides out- and inpatient diagnostic, surgical and treatment services to patients from the same city as well as patients referred from other hospital from the same region
Stabilising Manager	Citigroup Global Markets Limited
Traumatology	LLC Traumatology
Traumatology Financial Statements . .	The financial statements provided in respect of Traumatology, as described in *Part IV: "Presentation of Financial Information—Traumatology Historical Financial Information"*
UHC	The Universal Healthcare Programme as described in *Part VIII: "Industry Overview—Healthcare Services Market—Recent Reforms—Universal Healthcare Programme"*
UK Listing Authority, UKLA	United Kingdom Financial Conduct Authority acting as the competent authority under Part VI of the UK Financial Services and Markets Act 2000. In this role, the United Kingdom Financial Conduct Authority is a securities regulator, focused on the companies which issue the securities traded in financial markets
Us	the Group
We	the Group

PART XXII
HISTORICAL FINANCIAL INFORMATION

Historical Financial Information of JSC Georgia Healthcare Group as of and for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012

Historical Financial Information of Avante as of and for the two months ended 28 February 2014

Consolidated Financial Statements of Avante as of and for the years ended 31 December 2013 and 2012

Consolidated Financial Statements of Traumatology as of and for the years ended 31 December 2014, 2013 and 2012

JSC Georgia Healthcare Group

Historical Financial Information

For the six-month period ended 30 June 2015,
the years ended 31 December 2014, 31 December 2013 and 31 December 2012
Together with Independent Accountants' Report

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INDEPENDENT ACCOUNTANTS' REPORT

NOTES TO HISTORICAL FINANCIAL INFORMATION

The Directors
Georgia Healthcare Group PLC
84 Brook Street
London W1K 5EH
United Kingdom

9 November 2015

Dear Sirs,

We report on the financial information of JSC Georgia Healthcare Group and its subsidiaries ("the Group") set out in Part XXII "Historical Financial Information" for the years ended 31 December 2014, 2013 and 2012 and the six-month period ended 30 June 2015 (together the "Historical Financial Information"). This financial information has been prepared for inclusion in the prospectus dated 9 November 2015 of the Georgia Healthcare Group PLC (the "Company") on the basis of the accounting policies set out in Note 3 to the Historical Financial Information. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

We have not audited or reviewed the financial information for the 6 month period ended 30 June 2014 and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Historical Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the prospectus dated 9 November 2015, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) 809/2004.

Yours faithfully

EY Georgia LLC

JSC Georgia Healthcare Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Thousands of Georgian Lari)

	Notes	30 June 2015	31 December 2014	31 December 2013	31 December 2012	As at 1 January 2012
Assets						
Cash and cash equivalents	7	25,484	32,784	4,471	8,398	1,551
Amounts due from credit institutions	8	16,270	13,954	8,606	8,816	2,286
Insurance premiums and reinsurance receivables	9	31,914	17,673	48,910	52,637	12,898
Receivables from healthcare services	10	53,447	43,265	13,543	7,630	4,587
Prepayments	14	9,307	4,875	4,919	8,942	5,518
Property and equipment	11	320,218	262,938	172,581	148,954	66,323
Goodwill and other intangible assets	12	12,725	10,123	8,846	4,783	4,262
Current income tax assets		2,208	2,139	938	90	409
Deferred income tax assets	13	1,012	703	427	521	361
Other assets	15	31,507	20,823	16,291	17,318	11,017
Total assets		**504,092**	**409,277**	**279,532**	**258,089**	**109,212**
Liabilities						
Accounts payable	18	9,576	8,591	5,901	6,596	5,493
Accruals for employee compensation		12,981	9,740	6,667	5,500	3,457
Payables for share acquisitions	20	2,473	13,165	454	1,374	5,939
Insurance contract liabilities	16	30,142	17,583	50,335	57,050	15,843
Debt securities issued	19	33,012	–	–	–	–
Borrowings	17	162,507	162,860	105,242	91,161	17,090
Current income tax liabilities		5,329	4,641	1,517	757	–
Deferred income tax liabilities	13	13,773	8,880	3,265	3,098	1,701
Other liabilities	21	20,574	11,506	7,425	10,682	21,593
Total liabilities		**290,367**	**236,966**	**180,806**	**176,218**	**71,116**
Equity						
Share capital	23	89,446	28,335	13,686	13,686	6,485
Additional paid-in capital	23	66,648	99,138	34,317	33,765	9,366
Other reserves	23	(15,289)	(16,543)	438	356	356
Retained earnings		47,723	35,869	25,662	16,240	7,255
Total equity attributable to shareholders of the Group		**188,528**	**146,799**	**74,103**	**64,047**	**23,462**
Non-controlling interests		25,197	25,512	24,623	17,824	14,634
Total equity		**213,725**	**172,311**	**98,726**	**81,871**	**38,096**
Total equity and liabilities		**504,092**	**409,277**	**279,532**	**258,089**	**109,212**

Signed and authorized for release on behalf of the Management Board of JSC Georgia Healthcare Group:

Nikoloz Gamkrelidze — *Chief Executive Officer*

David Vakhtangishvili — *Deputy Chief Executive Officer, Finance*

21 August 2015

The accompanying notes on pages F-11 to F-81 are an integral part of this Historical Financial Information.

JSC Georgia Healthcare Group

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED

(Thousands of Georgian Lari)

	Notes	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Healthcare services revenue	24	82,553	52,437	126,884	62,638	49,450
Net insurance premiums earned	25	26,202	42,428	69,448	102,963	69,914
Revenue		**108,755**	**94,865**	**196,332**	**165,601**	**119,364**
Cost of healthcare services	26	(46,209)	(29,802)	(71,803)	(33,062)	(30,041)
Net insurance claims incurred	27	(20,101)	(33,154)	(54,263)	(75,513)	(45,596)
Costs of services		**(66,310)**	**(62,956)**	**(126,066)**	**(108,575)**	**(75,637)**
Gross profit		**42,445**	**31,909**	**70,266**	**57,026**	**43,727**
Other operating income	28	1,696	1,332	2,875	2,912	3,099
Salaries and other employee benefits	29	(12,602)	(9,901)	(19,804)	(13,613)	(13,729)
General and administrative expenses	30	(4,950)	(4,212)	(9,449)	(6,480)	(5,434)
Impairment of healthcare services, insurance premiums and other receivables	31	(1,846)	(1,095)	(5,134)	(3,470)	(2,613)
Other operating expenses	32	(1,155)	(1,848)	(1,892)	(1,331)	(1,740)
		(20,553)	**(17,056)**	**(36,279)**	**(24,894)**	**(23,516)**
Earnings before interest, tax, depreciation and amortization ("EBITDA")		**23,588**	**16,185**	**36,862**	**35,044**	**23,310**
Depreciation and amortization	11, 12	(4,889)	(3,707)	(7,630)	(5,901)	(3,824)
Interest income	33	1,223	823	1,532	1,459	2,372
Interest expense	33	(11,341)	(6,685)	(14,338)	(10,928)	(7,397)
Net gains/(losses) from foreign currencies		5,449	(1,783)	(2,494)	(4,045)	(507)
Net non-recurring (expense)/ income	34	(767)	1,333	578	–	–
Profit before income tax expense		**13,263**	**6,166**	**14,510**	**15,629**	**13,954**
Income tax benefit/(expense)	13	53	(695)	(1,246)	(2,255)	(1,779)
Profit for the period		**13,316**	**5,471**	**13,264**	**13,374**	**12,175**
Attributable to:						
—shareholders of the Group		11,854	4,478	10,207	9,422	8,985
—non-controlling interests		1,462	993	3,057	3,952	3,190

The accompanying notes on pages F-11 to F-81 are an integral part of this Historical Financial Information.

JSC Georgia Healthcare Group

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED

(Thousands of Georgian Lari)

	Notes	30 June 2015	30 June 2014	31 December 2014	31 December 2013	31 December 2012
			(unaudited)			
Profit for the period		**13,316**	**5,471**	**13,264**	**13,374**	**12,175**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:						
—Revaluation of property and equipment	11	—	—	—	97	—
—Income tax benefit relating to components of other comprehensive income		—	—	—	(15)	—
Other comprehensive income not to be reclassified to profit or loss, net of tax		**—**	**—**	**—**	**82**	**—**
Total comprehensive income for the year		**13,316**	**5,471**	**13,264**	**13,456**	**12,175**
Attributable to:						
—shareholders of the Group		11,854	4,478	10,207	9,504	8,985
—non-controlling interests		1,462	993	3,057	3,952	3,190

The accompanying notes on pages F-11 to F-81 are an integral part of this Historical Financial Information.

JSC Georgia Healthcare Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Thousands of Georgian Lari)

		Attributable to the shareholders of the Group						
	Notes	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2012		**6,485**	**9,366**	**356**	**7,255**	**23,462**	**14,634**	**38,096**
Profit for the year		—	—	—	8,985	8,985	3,190	12,175
Total comprehensive income		**—**	**—**	**—**	**8,985**	**8,985**	**3,190**	**12,175**
Issue of share capital		7,201	24,212	—	—	31,413	—	31,413
Share-based compensation		—	187	—	—	187	—	187
31 December 2012		**13,686**	**33,765**	**356**	**16,240**	**64,047**	**17,824**	**81,871**
Profit for the year		—	—	—	9,422	9,422	3,952	13,374
Other comprehensive income		—	—	82	—	82	—	82
Total comprehensive income		**—**	**—**	**82**	**9,422**	**9,504**	**3,952**	**13,456**
Increase of non-controlling interest in existing subsidiaries		—	—	—	—	—	2,847	2,847
Share-based compensation		—	552	—	—	552	—	552
31 December 2013		**13,686**	**34,317**	**438**	**25,662**	**74,103**	**24,623**	**98,726**
Profit for the year		—	—	—	10,207	10,207	3,057	13,264
Total comprehensive income		**—**	**—**	**—**	**10,207**	**10,207**	**3,057**	**13,264**
Issue of share capital		14,649	64,030	—	—	78,679	—	78,679
Acquisition of additional interest in existing subsidiaries	22	—	—	(16,981)	—	(16,981)	(13,024)	(30,005)
Non-controlling interests arising from business combinations	5	—	—	—	—	—	10,856	10,856
Share-based compensation		—	791	—	—	791	—	791
31 December 2014		**28,335**	**99,138**	**(16,543)**	**35,869**	**146,799**	**25,512**	**172,311**
31 December 2013		**13,686**	**34,317**	**438**	**25,662**	**74,103**	**24,623**	**98,726**
Profit for the period (unaudited)		—	—	—	4,478	4,478	993	5,471
Total comprehensive income (unaudited)		**—**	**—**	**—**	**4,478**	**4,478**	**993**	**5,471**
Issue of share capital (unaudited)		9,373	39,962	—	—	49,335	—	49,335
Non-controlling interests arising from business combinations (unaudited)	5	—	—	—	—	—	10,856	10,856
Acquisition of additional interest in existing subsidiaries (unaudited)	23	—	—	(16,981)	—	(16,981)	(12,845)	(29,826)
Share-based compensation (unaudited)		—	396	—	—	396	—	396
30 June 2014 (unaudited)		**23,059**	**74,675**	**(16,543)**	**30,140**	**111,331**	**23,627**	**134,958**
31 December 2014		**28,335**	**99,138**	**(16,543)**	**35,869**	**146,799**	**25,512**	**172,311**
Profit for the period		—	—	—	11,854	11,854	1,462	13,316
Total comprehensive income		**—**	**—**	**—**	**11,854**	**11,854**	**1,462**	**13,316**
Non-controlling interests arising from business combinations	5	—	—	—	—	—	1,488	1,488
Acquisition of additional interest in existing subsidiaries	23	—	—	1,254	—	1,254	(3,265)	(2,011)
Holding company establishment	23	47,665	(47,665)	—	—	—	—	—
Loan conversion		13,446	14,834	—	—	28,280	—	28,280
Share-based compensation		—	341	—	—	341	—	341
30 June 2015		**89,446**	**66,648**	**(15,289)**	**47,723**	**188,528**	**25,197**	**213,725**

The accompanying notes on pages F-11 to F-81 are an integral part of this Historical Financial Information.

JSC Georgia Healthcare Group

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED

(Thousands of Georgian Lari unless otherwise stated)

	Notes	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Cash flows from operating activities						
Healthcare services revenue received		70,986	38,605	100,037	49,826	44,225
Cost of healthcare services paid		(44,544)	(24,421)	(75,474)	(30,510)	(28,221)
Net insurance premiums received		26,938	43,155	72,398	103,674	68,869
Net insurance claims paid		(18,163)	(34,211)	(56,544)	(80,028)	(53,296)
Salaries and other employee benefits paid		(11,625)	(9,473)	(18,540)	(13,857)	(15,530)
General and administrative expenses paid		(2,561)	(4,131)	(9,572)	(7,542)	(7,440)
Acquisition costs paid		(1,416)	(1,366)	(2,702)	(3,105)	(2,006)
Other operating income received		1,785	2,034	3,726	603	2,116
Other operating expenses paid		(1,891)	(1,896)	(2,556)	(1,130)	(213)
Net cash flows from operating activities before income tax		**19,509**	**8,296**	**10,773**	**17,931**	**8,504**
Income tax paid		(465)	(796)	(2,327)	(1,911)	(946)
Net cash flows from operating activities		**19,044**	**7,500**	**8,446**	**16,020**	**7,558**
Cash flows used in investing activities						
Acquisition of subsidiaries, net of cash acquired	5	(28,189)	(17,068)	(22,631)	(3,478)	(9,513)
Acquisition of additional interest in existing subsidiaries	23	(2,011)	(29,826)	(30,005)	—	—
Purchase of property and equipment		(24,196)	(6,638)	(30,006)	(12,385)	(60,867)
Purchase of intangible assets		(1,516)	(753)	(430)	(71)	(340)
Interest income received		316	285	244	696	2,047
Loans issued		(675)	—	—	—	(1,849)
Withdrawals and redemptions of amounts due from credit institutions		—	—	—	1,219	15,974
Placements of amounts due from credit institutions		(135)	(382)	(5,348)	(1,000)	(12,807)
Proceeds from sale of property and equipment		1,891	609	2,158	1,195	2,556
Net cash used in investing activities		**(54,515)**	**(53,773)**	**(86,018)**	**(13,824)**	**(64,799)**
Cash flows from/(used in) financing activities						
Proceeds from issuance of ordinary shares		—	49,335	78,679	—	31,413
Proceeds from debt securities issued	19	34,247	—	—	—	—
Proceeds from borrowings		37,047	20,885	66,099	20,741	44,662
Repayment of borrowings		(35,314)	(16,049)	(20,491)	(16,708)	(5,978)
Purchase of derivative financial instruments		—	(45)	—	(1,158)	—
Proceeds from derivative financial instruments		2,000	—	—	—	—
Interest expense paid		(11,083)	(5,960)	(18,363)	(9,016)	(5,966)
Net cash flows from financing activities		**26,897**	**48,166**	**105,924**	**(6,141)**	**64,131**
Effect of exchange rates changes on cash and cash equivalents		1,274	537	(39)	18	(43)
Net (decrease)/increase in cash and cash equivalents		**(7,300)**	**2,430**	**28,313**	**(3,927)**	**6,847**
Cash and cash equivalents, beginning	7	**32,784**	**4,471**	**4,471**	**8,398**	**1,551**
Cash and cash equivalents, end	7	**25,484**	**6,901**	**32,784**	**4,471**	**8,398**

The accompanying notes on pages F-11 to F-81 are an integral part of this Historical Financial Information.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

In 2014 the JSC Insurance Company Aldagi ("Aldagi") and its subsidiaries ("Aldagi group") began a corporate reorganization in order to separate the healthcare services and medical insurance business, from the property and casualty insurance business.

As at 1 August 2014, Aldagi's medical insurance business segment was separated and transferred to a newly established legal entity, JSC Insurance Company Imedi L ("Imedi L"). At the same time, healthcare providers included in the Aldagi group were transferred to a newly established holding company, JSC Medical Corporation EVEX ("EVEX").

Both Imedi L and EVEX have been ultimately owned by Bank of Georgia Holdings plc ("BGH") since the commencement of the reorganization, but did not represent a group of entities until 29 April 2015, when BGH established a holding company, JSC Georgia Healthcare Group ("GHG" or "the Group"), and transferred its shares in Imedi L and EVEX to GHG. Refer to Note 23.

Financial information related to the pre 29 April 2015 period has been prepared for GHG from the historical financial information of the combined entities as if GHG has been established and the transfer of the BHG's shares in EVEX and Imedi L has been completed as at 31 December 2013.

As at 30 June 2015 and 31 December 2014 the ultimate parent of GHG was Bank of Georgia Holdings plc ("BGH").

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. And its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients.

The legal addresses of GHG is No. 40 Vazha-Pshavela Avenue, Tbilisi. The Group is incorporated and operates under the laws of Georgia. The legal form of GHG is a joint stock company.

GHG has the following shareholders:

Shareholder	30 June 2015	31 December 2014	31 December 2013	31 December 2012
JSC Bank of Georgia	85%	88%	76%	76%
Bank of Georgia Holdings PLC	15%	—	—	—
JSC Galt & Taggart Holdings	—	12%	24%	24%
Total	**100%**	**100%**	**100%**	**100%**

(Thousands of Georgian Lari unless otherwise stated)

1. Background (Continued)

The Group includes the following subsidiaries incorporated in Georgia:

Subsidiary	Ownership/Voting 30 June 2015	31 December 2014	31 December 2013	31 December 2012	Industry	Date of incorporation	Date of acquisition
JSC My Family Clinic	(1)	100%	51%	51%	Healthcare	3-Oct-05	Not applicable
LLC Deka	95%	—	—	—	Healthcare	17-Jul-01	30-June-15
JSC St. Nicholas Surgery Clinic	93%	93%	81%	72%	Healthcare	10-Nov-00	20-May-08
LLC Imereti Regional Clinical Hospital	(1)	100%	100%	100%	Healthcare	19-Jul-10	24-Sep-10
JSC Zugdidi multi profile Clinical Hospital "Republic"	(1)	100%	100%	100%	Healthcare	19-Oct-99	29-Nov-11
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	67%	67%	67%	67%	Healthcare	5-May-03	29-Nov-11
JSC Chkhorotskhu Regional Central Hospital	(1)	100%	100%	100%	Healthcare	30-Nov-99	29-Nov-11
LLC Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia	67%	67%	67%	67%	Healthcare	15-Oct-04	29-Nov-11
LLC E.K. Pipia Central Hospital of Tsalenjikha	(1)	100%	100%	100%	Healthcare	1-Sep-99	29-Nov-11
LLC Martvili Multi profile Hospital	(1)	100%	100%	100%	Healthcare	17-Mar-00	29-Nov-11
LLC Abasha Outpatient-Polyclinic Union	(1)	100%	100%	100%	Healthcare	16-Mar-00	29-Nov-11
LLC Tskaltubo Regional Hospital	67%	67%	67%	67%	Healthcare	29-Sep-99	29-Nov-11
LLC Khobi Central Regional Hospital	(1)	100%	100%	100%	Healthcare	13-Jul-00	29-Nov-11
Imedi L Dent, LLC	(2)	(2)	(2)	100%	Healthcare	17-Jan-05	30-Apr-12
LLC Unimed Achara	100%	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Samtskhe	100%	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Kakheti	100%	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Caraps Medline	(2)	100%	100%	—	Healthcare	26-Aug-98	26-Dec-13
LLC Medline +	(2)	(2)	100%	—	Healthcare	13-Dec-07	30-Dec-13
NPO EVEX Learning Center	100%	100%	100%	—	Other	20-Dec-13	20-Dec-13
LLC Biznes Centri Kazbegze	100%	100%	100%	100%	Other	22-Jun-10	24-Aug-11
JSC Medical Corporation EVEX	100%	100%	—	—	Healthcare	1-Aug-14	1-Aug-14
LLC SunStone Medical	(2)	100%	—	—	Healthcare	9-Nov-12	21-May-14
LLC M. Iashvili Children Central Hospital	67%	67%	—	—	Healthcare	3-May-11	19-Feb-14
LLC Avante Hospital Management Group	(2)	100%	—	—	Healthcare	5-Aug-11	19-Feb-14
LLC Children New Clinic	(2)	75%	—	—	Healthcare	18-Jul-11	19-Feb-14
LLC New Life	(2)	100%	—	—	Healthcare	21-Sep-99	19-Feb-14
LLC Batumi Mother and Children Healthcare Center	(2)	100%	—	—	Healthcare	19-Nov-04	19-Feb-14
LLC Traumatology	(1)	100%	—	—	Healthcare	20-Jul-11	30-Sep-14
JSC Insurance company Imedi L	100%	100%	(3)	(3)	Insurance	31-Jul-14	31-Jul-14
LLC Tbilisi Emergency Center	100%	—	—	—	Healthcare	16-Feb-2010	1-March-15

(1) The hospitals were merged with JSC Medical Corporation EVEX during the six month period ended 30 June 2015.

(2) The hospitals were merged with LLC Unimed Kakheti.

(3) The insurance company Imedi L was established during reorganization of Aldagi Group in 2014.

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS as adopted by European Union

Basis of preparation

This historical financial information for the six-month period ended 30 June 2015 and the years ended 31 December 2014, 31 December 2013 and 31 December 2012 has been prepared in accordance with

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS as adopted by European Union (Continued)

International Financial Reporting Standards as adopted by European Union (IFRS as adopted by European Union).

The historical financial information has been prepared on a historical cost basis, except for investment properties, land and office buildings classified as property and equipment and derivative financial instruments that have been measured at fair value. This historical financial information has been presented in thousands of Georgian lari (GEL), except as otherwise stated.

Basis of combination

Historical financial information for the years ended 31 December 2014, 31 December 2013 and 31 December 2012 represents the combined historical financial information of Imedi L and Evex ("combined entities" or "GHG components") for the respective periods. Financial information for the period starting from 1 January 2012 to 1 August 2014 ("pre-split period") for each of the combined entities was prepared based on principles disclosed below.

This 2014, 2013 and 2012 combined historical financial information includes carve-out information for Imedi L for the pre-split period as well as comparative information for EVEX Group for the pre-split period prepared based on the principles described below.

Intercompany transactions and assets and liabilities between components of GHG have been eliminated. Intercompany transactions with entities comprising the Aldagi group after the reorganization have been treated as transactions with related parties.

Imedi L historical information

Up to the split date, Imedi L represented a portion of Aldagi's business and did not constitute a separate legal entity. Therefore for the purposes of this historical financial information individual historical financial information of Imedi L (historical financial information for the pre-split period) is considered to be a continuation of the financial information related to Aldagi's medical insurance business. The historical financial information of Imedi L included in this combined historical financial information has been prepared by splitting the financial statements of Aldagi into the medical insurance segment (Imedi L) and the property and casualty insurance segment based on the criteria and assumptions further discussed in this note assuming that Imedi L's date of transition to IFRS was the initial date of transition to IFRS of Aldagi.

The Group applied the same criteria and assumptions to allocate the assets and liabilities as at the split date, 1 August 2014.

Insurance premiums receivables, insurance contract liabilities, claims payable, net insurance premiums earned and net claims incurred

All insurance related items in the statement of financial position and income statement of Aldagi Group have been split according to the type of underlying insurance products in the following way:

- Health, term life insurance products bundled with medical insurance, personal accident and travel insurance products comprised the medical insurance segment thus included in historical financial information of Imedi L for the pre-split period;

Respective line items in the statement of financial position and income statement have been split on a per insurance contract basis.

Cash and cash equivalents, amounts due from credit institutions and related interest income

Cash and cash equivalents and amounts due from credit institutions are mainly used to meet the minimum capital and reserve requirements set by the Insurance State Supervision Service of Georgia

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS as adopted by European Union (Continued)

("ISSSG"). Insurance reserves to be held by each segment were calculated based on the respective insurance contracts liabilities and insurance receivables. Cash and cash equivalents and amounts due from credit institutions were then split in a way that would allow each insurance segment to meet the regulatory requirements mentioned above.

Loans and other receivables, excluding insurance receivables, and related interest income

Loans issued to subsidiaries operating in the healthcare industry and parts of other loans used to finance construction of hospitals were included in the historical financial information of Imedi L for the pre-split period.

Interest income on loans issued was allocated according to allocation of underlying interest bearing assets.

Property and equipment, intangible assets, related depreciation and amortization charges

Property and equipment was divided separately according to each asset class. Buildings, motor vehicles and leasehold improvement were allocated to the respective segments according to the location of each unit of asset. As the remaining asset classes, such as computers and furniture, are used by particular employees, they were split in proportion to the number of full time employees working for each of the insurance segments. Depreciation of property and equipment was split accordingly.

Each unit of intangible assets was distributed between the two segments according to their usage. Amortization of intangible assets was split accordingly.

Goodwill

Only goodwill attributable to medical insurance unit was included in historical financial information of Imedi L for the pre-split period.

Prepayments and other assets

Prepayments and other assets were analyzed based on the nature of each transaction made. Prepayments related to the construction of clinics and other receivables directly related to healthcare services or medical insurance activities were included in Imedi L's historical financial information.

Borrowings and interest expense

Borrowings were split according to their purposes. Proceeds from ING Bank N.V. of GEL 15,295 as at 31 December 2013 (2012: GEL 16,758) have been used for construction and renovation works conducted by Aldagi's subsidiaries operating in the healthcare industry. Therefore they were allocated to Imedi L.

Interest expense related to the borrowings were allocated on a per loan basis.

Accruals for employee comensation and salarires and other employee benefits

Accruals for employee compensation and salaries and other employee benefits were allocated to Imedi L based on management's best estimate of how services were historically provided by existing employees. In particular:

- Salaries and other benefits of the employees working exclusively in the medical insurance business (Imedi L) were attributed to Imedi L;
- Salaries and other benefits of the employees working in the back office providing services to both Imedi L and the property and casualty business segment was allocated according to the time they spent working for the respective segments;

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS as adopted by European Union (Continued)

- Salary and other benefits of the remaining employees performing supporting services for the company (e.g. accountants, IT, procurement, etc.) were distributed in proportion to the allocation of salaries mentioned above.

Share-based compensation expense was split proportionally to the allocation of salaries of senior executives of the Group.

Equity

Equity line items have been split in accordance with the split of net assets between each segment.

Profit for the year was split according to the allocation of income and expense of each insurance segment.

Other operating income and expenses

Other operating income for the pre-split period comprised mainly of the following items, which were analyzed and allocated to the relevant segments as described below:

- Income/loss from sale of property and equipment was split by allocating each asset to the relevant segment.

General and administrative expenses

General and administrative expenses for the pre-split period comprised mainly of the following items which were analyzed and allocated to the relevant segments as described below:

- Rent paid for office space occupied exclusively by employees of one of the two insurance businesses was attributed to the respective segment. Rent paid for the space that was occupied by employees of both Imedi L and the property and casualty insurance business segment (i.e. the head office) was split in proportion to the number of employees located on the site.
- Marketing and advertising expense was split according to the funds allocated to the promotion of each specific insurance product.
- The remaining fixed costs such as utility, office supplies, communications, etc. were split in proportion to the number of employees of Imedi L and the property and casualty insurance business segment.

Net losses from foreign currencies

Gains and losses on translation of each balance sheet item were split in proportion to the final allocation of that specific item between the segments.

Income tax

Allocation of tax balances has been performed on a proportionate basis by applying the overall Aldagi group tax rate to the income earned by Imedi L.

EVEX historical information

The transfer of the healthcare providers included in the Aldagi group to a newly established holding company EVEX was accounted for as a business combination under common control. According to the Group's accounting policies such transactions are accounted for under the 'pooling of interest method' with retrospective restatement of the comparative information. This individual historical financial information of EVEX for the pre-split period includes the assets, liabilities and operations of healthcare providers included in the Aldagi group from the date when they came under the common control of BGH at the carrying amounts at which they were accounted for in the Aldagi group financial statements.

3. Summary of Significant Accounting Policies

Changes in accounting policies

The accounting policies adopted in the preparation of the historical financial information are consistent with those followed in the preparation of the Group's annual historical financial information for the year ended 31 December 2014, except for the adoption of the following new Standards effective as of 1 January 2015 that did not have any impact on Group's historical financial information:

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*;
- *Annual improvements 2010-2012 Cycle* that includes amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16 and IAS 24;
- *Annual improvements 2011-2013 Cycle* that includes amendments to IFRS 3, IFRS 13, IAS 30 and IFRS 1.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Basis of consolidation

The historical financial information comprises the consolidated historical financial information of GHG and its subsidiaries as at 30 June 2015 and the combined historical financial information of GHG components and its subsidiaries as at 31 December 2014, 2013 and 2012. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- 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 historical financial information 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

3. Summary of Significant Accounting Policies (Continued)

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.

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 will be recognized 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 recognized 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 and are free from contractual encumbrances.

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortized 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 income statement.

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 income statement, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

The classification depends on the purpose for which the investments were acquired or originated.

Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortization process.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated income statement in net gains/(losses) from foreign currencies.

3. Summary of Significant Accounting Policies (Continued)

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

Assets carried at amortized cost

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

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

3. Summary of Significant Accounting Policies (Continued)

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 realize the asset and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

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 and reinsurance receivables

Insurance premiums and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance premiums and reinsurance 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 income statement.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

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 income statement by setting up a provision for premium deficiency.

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalized costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortized on a straight line basis over the life of the contract.

3. Summary of Significant Accounting Policies (Continued)

Fair value measurement

The Group revalues derivatives and available-for-sale securities at fair value at each balance sheet date and investment property, land and office buildings at each balance sheet date if their fair value differs materially from carrying value. Fair values of financial instruments measured at amortised cost are disclosed in Note 38.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Property and equipment

Property and equipment except for land and office buildings are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

Included in hospitals and buildings category are buildings in which referral hospitals, community hospitals and ambulatory clinics are placed.

The carrying values of property and equipment and hospitals and clinics 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 income statement as an expense.

Following initial recognition at cost, land and office buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough 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 income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in the income statement. 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 the equity.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

3. Summary of Significant Accounting Policies (Continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	100
Hospitals and Clinics	100
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual value, useful life and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses unless they qualify for capitalization.

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 derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period the asset is derecognised.

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Leasehold improvements are amortized over the life of the related leased asset. The asset's residual value, useful life and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Investment properties

Investment properties as represented by an office building, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

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 amortized cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortization process.

3. Summary of Significant Accounting Policies (Continued)

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 period 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 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 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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized 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.

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programs 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

3. Summary of Significant Accounting Policies (Continued)

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 BGH and GHG. Share-based compensation plans awarded by BGH are treated as equity-settled transactions. Share-based compensation plans awarded by GHG include both equity-settled and cash-settled transactions. For equity-settled compensation plans no liability to be settled by GHG is recognised. Cash-settled transactions are recognised as a liability and included in accruals for employee compensation.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date of the transaction. The cost of equity-settled transactions is recognized 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 recognized 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 income statement charge the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date based on market quotations. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in salaries and other employee benefits.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the historical financial information is authorized for issue.

3. Summary of Significant Accounting Policies (Continued)

Income and expense recognition

Healthcare services revenue

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state).

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing impatient and outpatient services and includes following components:

- Healthcare services revenue from insurance companies—The Group recognizes revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from state—The Group recognizes the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties. Healthcare revenue from state includes revenue from municipalities.
- Healthcare services revenue from out-of-pocket and other—The Group recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue other hospitals, which the Group has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

Net insurance premiums earned

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the period, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a period that relate to periods after the reporting date. Unearned premiums are computed on 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 income statement 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

Cost of healthcare services rendered represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

Net claims incurred

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

3. Summary of Significant Accounting Policies (Continued)

Earnings before interest, tax, depreciation and amortization (“EBITDA”)

The Group separately presents EBITDA on the face of income statement. 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 amortization, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.

Net non-recurring (expense)/income

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Foreign currency translation

The historical financial information is presented in Georgian Lari, which is the Group’s presentation currency and functional currency of all the Group’s components. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia (“NBG”) and effective as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement within net gains/(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 income statement. The official NBG exchange rates at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 were 2.2483, 1.8636, 1.7363 and 1.6567 Georgian Lari to 1 U.S. Dollar, respectively.

Standards and interpretations that are issued but not yet effective

The standards and interpretations relevant to the Group that are issued, but not yet effective, up to the date of issuance of the Group’s historical financial information is disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is

3. Summary of Significant Accounting Policies (Continued)

required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Compensation

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including the following:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendment is applied retrospectively and clarifies the following:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

3. Summary of Significant Accounting Policies (Continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies the following for the scope exceptions within IFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

4. Significant Accounting Judgments and Estimates

The preparation of the historical financial information 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.

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 a individually significant customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria

4. Significant Accounting Judgments and Estimates (Continued)

for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of an impairment. If yes, then the proper provision rate is applied which reflects credit risk associated with that particular category of debt services. If not, then respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, again based on the number of days overdue, which practically implies immaterial amount of overdue days.

Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of the healthcare receivables as at 30 June 2015 was GEL 6,542 (2014: GEL 5,157; 2013: GEL 3,563; 2012: GEL 2,352). Refer to Note 10.

Impairment of insurance premiums and reinsurance receivables

The Group regularly reviews its insurance premiums and reinsurance receivables to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on the impaired insurance premiums and reinsurance receivables. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Model and approach to 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.

Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The carrying amount of allowance for impairment of insurance premiums and reinsurance receivables as at 30 June 2015 was GEL 2,364 (2014: GEL 2,255; 2013: GEL 1,645; 2012: GEL 773). Refer to Notes 9 and 31.

Current income tax recognition

The current income tax charge is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date. The judgment is applied to assess and determine the portion of the current period profit that the Group will reinvest in its core economical activities during the next three years. The probable future reinvestment amount of current period profit is based on medium term business plan (three years following the current period) prepared by the management. Further details on taxation are disclosed in Note 13.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the claims incurred but not yet reported as at 30 June 2015 was GEL 1,536 (2014: GEL 1,603; 2013: GEL 3,263; 2012: GEL 1,671). Refer to Note 16.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations

Acquisitions in the six month period ended 30 June 2015

LLC Deka

On 30 June 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 95% of the shares of LLC Deka ("Acquiree"), a healthcare company operating in Georgia from individual investors.

The provisional fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	66
Property and equipment	37,916
Other assets	188
Total assets	**38,170**
Liabilities	
Borrowings	54
Accounts payable	1,183
Accruals for employee compensation	983
Current income tax liabilities	800
Deferred income tax liabilities	5,319
Other liabilities	63
Total liabilities	**8,402**
Total identifiable net assets	**29,768**
Non-controlling interests	1,488
Goodwill arising on acquisition	—
Consideration given(1)	**28,280**

(1) Consideration comprised GEL 28,280, which was made fully in cash.

Net cash outflow for the acquisition was as follows:

Cash paid	28,280
Cash acquired with the subsidiary	(66)
Net cash outflow	**28,214**

The net assets presented above are estimated provisionally as at the issue date. The Group continues thorough full examination of these net assets and if identified, proper adjustments will be made to the net assets and the amount of goodwill during the 12-month period from the acquisition date, as allowed by *Business Combinations* (IFRS 3).

If the combination had taken place at the beginning of 2015, the Group would have recorded GEL 110,063 and GEL 13,098 of revenue and profit respectively for the six-month period ended 30 June 2015.

The Group has elected to measure the non-controlling interests in LLC Deka at the non-controlling interests' proportionate share of the acquiree' s identifiable net assets.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

LLC Tbilisi Emergency Center

On 1 March 2015 JSC Medical Corporation EVEX, a wholly owned subsidiary of the Group, acquired 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia from individual investors.

The provisional fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	25
Receivables from healthcare services	111
Property and equipment	104
Other assets	7
Total assets	**247**
Liabilities	
Accounts payable	7
Accruals for employee compensation	51
Other liabilities	58
Total liabilities	**116**
Total identifiable net assets	**131**
Non-controlling interests	—
Goodwill arising on acquisition	869
Consideration given(1)	**1,000**

(1) Consideration comprised GEL 1,000 which is due within 1 year.

Net cash outflow for the acquisition was as follows:

Cash paid	—
Cash acquired with the subsidiary	(25)
Net cash inflow	**(25)**

If the combination had taken place at the beginning of 2015, the Group would have recorded GEL 110,174 and GEL 13,680 of revenue and profit respectively in the six-month period ended 30 June 2015.

The net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue date. The Group continues thorough full examination of these net assets and if identified, proper adjustments will be made to the net assets and the amount of goodwill during the 12-month period from the acquisition date, as allowed by *Business Combinations* (IFRS 3).

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognized on a stand-alone balance of a company only subsequent to the legal merger of the relevant cash generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of goodwill is recognized as an intangible asset per tax code and is subsequently amortized applying the algorithm provided by tax code. Such amortization is fully deductible for tax purposes.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

Acquisitions in 2014

Avante Hospital Management Group LLC

On 20 February 2014 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of the Group, acquired 80% of the shares of Avante Hospital Management Group LLC ("Acquiree"), a healthcare company operating in Georgia from individual investors. The remaining 20% of the Avante Hospital Management Group was acquired on 5 March 2014 from individual investors.

The estimated fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,223
Receivables from healthcare services[(1)]	6,361
Property and equipment	50,630
Intangible assets	7
Current income tax assets	156
Other assets	945
Total assets	**59,322**
Liabilities	
Borrowings	10,734
Accounts payable	2,562
Accruals for employee compensation	1,794
Current income tax liabilities	1,679
Deferred income tax liabilities	4,000
Other liabilities	1,915
Total liabilities	**22,684**
Total identifiable net assets	**36,638**
Non-controlling interests	(10,856)
Gain from a bargain purchase[(2)]	(1,004)
Consideration given[(3)]	**24,778**

(1) Fair value of the accounts receivable amounted to GEL 6,361. The gross amount of receivable is GEL 13,881. GEL 7,520 of the accounts receivable has been impaired.

(2) Prior to acquisition, owners of Avante Group encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase.

(3) Consideration comprised GEL 25,915, which consists of cash payment of GEL 18,291 and a holdback amount with a fair vaue of GEL 7,624, less GEL 1,137 of pre-existing payables to Avante Hospital Management Group LLC. Range of the holback's possible outcome is between zero and GEL 7,624.

Net cash outflow for the acquisition was as follows:

Cash paid	18,291
Cash acquired with the subsidiary	(1,223)
Net cash outflow	**17,068**

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring Avante. Management considers that the deal will have a positive impact on the value of the Group.

If the combination had taken place at the beginning of 2014, the Group would have recorded GEL 194,634 and GEL 13,965 of revenue and profit respectively In 2014.

The Group has elected to measure the non-controlling interests in Avante at the non-controlling interests' proportionate share of the acquiree' s identifiable net assets.

Traumatology LLC

On 30 September 2014 JSC Medical Corporation EVEX ("Acquirer"), acquired 100% of the shares of Traumatology LLC ("Acquiree"), a healthcare company operating in Georgia from individual investors. The estimated fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	253
Receivables from healthcare services(1)	1,272
Property and equipment	8,322
Current income tax assets	100
Other assets	138
Total assets	**10,085**
Liabilities	
Borrowings	1,975
Accounts payable	650
Accruals and differed income	806
Current income tax liabilities	13
Deferred income tax liability	929
Other liabilities	315
Total liabilities	**4,688**
Total identifiable net assets	**5,397**
Goodwill arising on acquisition	911
Consideration given(2)	**6,308**

(1) Fair value of the accounts receivable amounted to GEL 1,272. The gross amount of receivable is GEL 2,102. GEL 830 of the accounts receivable has been impaired.

(2) Consideration comprised GEL 6,308, which consists of GEL 5,362 cash payment and GEL 946 fair value of a holdback amount. Range of the holback's possible outcome is between zero and GEL 946.

Net cash outflow for the acquisition was as follows:

Cash paid	5,362
Cash acquired with the subsidiary	(253)
Net cash outflow	**5,109**

The Group decided to increase its presence and investment in the Tbilisi healthcare market, by acquiring Traumatology. Management considers that the deal will have positive impact on the value of the Group.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

If the combination had taken place at the beginning of 2014, the Group would have recorded GEL 197,859 and GEL 13,906 of revenue and profit respectively in 2014.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognized on a stand-alone balance of a company only subsequent to the legal merger of the relevant cash generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of goodwill is recognized as an intangible asset per tax code and is subsequently amortized applying the algorithm provided by tax code. Such amortization is fully deductible for tax purposes.

Since Traumatology LLC was acquired close to the issue date, the Group had limited time to review, analyse and perform a valuation of its net asset, therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue date. The Group continues to conduct a thorough examination of these net assets and if identified proper adjustments will be made to the net assets and the amount of goodwill during the 12-month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

Acquisitions in 2013

Caraps Medline LLC

On 31 December 2013 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of EVEX, acquired 100% of the voting rights of Caraps Medline LLC ("Acquiree"), a healthcare company operating in Georgia, from several individual invetors. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	46
Receivables from healthcare services[1]	22
Loan issued	2,664
Property and equipment	6,005
Intangible assets	4
Current income tax assets	71
Other assets	221
Total assets	**9,033**
Liabilities	
Borrowings	2,883
Accounts payable	376
Current income tax liabilities	62
Deffered income tax liability	729
Other liabilities	197
Total liabilities	**4,247**
Fair value of net assets	**4,786**
Goodwill arising on acquisition	3,534
Total consideration[2]	**8,320**

(1) Fair value of receivables from healthcare services amounted to GEL 22. The gross amount of receivable is GEL 348. GEL 326 of the accounts receivable has been impaired.

(2) Consideration comprised a GEL 510 pre-existing loan to Caraps Medline LLC, borrowing settlement between Caraps Medline and its previous owner of GEL 3,878 and cash payments of GEL 4,332.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

Net cash outflow for the acquisition was as follows:

Cash paid	4,378
Cash acquired with the subsidiary	(46)
Net cash outflow	**4,332**

The Group decided to increase its presence and investment in the Tbilisi healthcare market, by acquiring Caraps Medline. Management considers that the deal will have positive impact on the value of the Group. Caraps Medline owns 100% stake in Medline + LLC.

As the acquisition date is 31 December 2013, no revenue or profit derived from the Acquiree in the year ended 31 December 2013. If the combination had taken place at the beginning of 2013 the Group would have recorded GEL 173,498 and GEL 12,350 of revenue and profit respectively in 2013.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. For tax legislation purposes goodwill is recognized on a stand-alone balance of a company only subsequent to the legal merger of the relevant cash generating unit. Until then goodwill, as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of goodwill is recognized as an intangible asset per tax code and is subsequently amortized applying the algorithm provided by tax code. Such amortization is fully deductible for tax purposes.

Acquisitions in 2012

JSC Insurance Company Imedi-L International

On 1 May 2012 JSC Insurance Company Aldagi ("Acquirer"), obtained control of JSC Insurance Company Imedi L International ("Acquiree"), an insurance company operating in Georgia. On 16 November 2012 the Acquiree was merged with the Acquirer. The fair values of identifiable assets,

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (Continued)

liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree for its medical insurance business line as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	375
Amounts due from credit institutions	6,440
Insurance premiums receivable[(1)]	16,996
Property and equipment	48,759
Intangible assets	111
Deferred acquisition costs	826
Defered income tax assets	36
Other assets	6,730
Total assets	**80,273**
Liabilities	
Borrowings	33,228
Insurance contracts liabilities	22,900
Accruals for employee compensation	1,985
Current income tax liabilities	46
Deferred income tax liabilities	1,470
Other liabilities	14,490
Total liabilities	**74,119**
Fair value of assets	**6,154**
Goodwill arising on acquisition	99
Total consideration	**6,253**

(1) Fair value of the insurance premiums receivable amounted to GEL 16,996. Gross amount of the receivable is GEL 18,963. GEL 1,967 of the premiums receivable has been impaired.

Net cash outflow for the acquisition was as follows:

Cash paid	6,253
Cash acquired with the subsidiary	(375)
Net cash outflow	**5,878**

Following the acquisition date, the Acquiree recorded GEL 27,818 and GEL 2,036 of net revenue and profit, respectively, during 2012. If the combination had taken place at the beginning of 2012, the Acquirer would have recorded GEL 135,381 and GEL 7,299 of net revenue and profit respectively in 2012.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations. For tax legislation purposes goodwill is recognized on a stand-alone balance of a company only subsequent to the legal merger of the relevant cash generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for tax legislation purposes, the full amount of goodwill is recognized as an intangible asset per tax code and is subsequently amortized applying the algorithm provided by tax code. Such amortization is fully deductible for tax purposes.

6. Segment Information

For management purposes, the Group is organized into two operating segments based on the products and services—Healthcare services and Medical insurance.

Healthcare services are the inpatient and outpatient medical services delivered by the referral hospitals, community hospitals and ambulatory clinics owned by the Group throughout the whole Georgian territory.

Medical insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Group's wholly owned subsidiary Imedi L.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the historical financial information.

Transactions between operating segments are on an arm's length basis in a manner identical to transactions with third parties.

More than 40% 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 six month period ended 30 June 2015, and 30 June 2014 and the years ended 31 December 2014, 2013, and 2012.

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (Continued)

Income statement and selected items from the statement of financial position by segments are presented below:

	30 June 2015			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
Healthcare services revenue	86,577	—	(4,024)	82,553
Net insurance premiums earned	—	26,365	(163)	26,202
Revenue	**86,577**	**26,365**	**(4,187)**	**108,755**
Cost of healthcare services	(48,462)	—	2,253	(46,209)
Net insurance claims incurred	—	(21,872)	1,771	(20,101)
Costs of services	**(48,462)**	**(21,872)**	**4,024**	**(66,310)**
Gross profit	**38,115**	**4,493**	**(163)**	**42,445**
Other operating income	1,567	129	—	1,696
Salaries and other employee benefits	(10,837)	(1,928)	163	(12,602)
General and administrative expenses	(3,687)	(1,263)	—	(4,950)
Impairment of healthcare services, insurance premiums and other receivables	(1,737)	(109)	—	(1,846)
Other operating expenses	(1,076)	(79)	—	(1,155)
	(17,337)	**(3,379)**	**163**	**(20,553)**
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	**22,345**	**1,243**	**—**	**23,588**
Depreciation and amortization	(4,600)	(289)	—	(4,889)
Interest income	397	1,110	(284)	1,223
Interest expense	(10,481)	(1,144)	284	(11,341)
Net gains from foreign currencies	4,880	569	—	5,449
Net non-recurring expense	(767)	—	—	(767)
Profit before income tax expense	**11,774**	**1,489**	**—**	**13,263**
Income tax benefit/(expense)	708	(655)	—	53
Profit for the period	**12,482**	**834**	**—**	**13,316**
Assets and liabilities				
Total assets	437,341	74,885	(8,134)	504,092
Total liabilities	242,167	56,334	(8,134)	290,367
Other segment information				
Property and equipment	316,442	3,776	—	320,218
Intangible assets	1,367	2,074	—	3,441

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (Continued)

	30 June 2014 (unaudited)			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
Healthcare services revenue	65,728	—	(13,291)	52,437
Net insurance premiums earned	—	42,539	(111)	42,428
Revenue	**65,728**	**42,539**	**(13,402)**	**94,865**
Cost healthcare services	(38,610)	—	8,808	(29,802)
Net insurance claims incurred	—	(37,637)	4,483	(33,154)
Costs of services	**(38,610)**	**(37,637)**	**13,291**	**(62,956)**
Gross profit	**27,118**	**4,902**	**(111)**	**31,909**
Other operating income	1,196	136	—	1,332
Salaries and other employee benefits	(7,320)	(2,692)	111	(9,901)
General and administrative expenses	(2,961)	(1,251)	—	(4,212)
Impairment of healthcare services, insurance premiums and other receivables	(833)	(262)	—	(1,095)
Other operating expenses	(1,798)	(50)	—	(1,848)
	(12,912)	**(4,255)**	**111**	**(17,056)**
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	**15,402**	**783**	**—**	**16,185**
Depreciation and amortization	(3,397)	(310)	—	(3,707)
Interest income	154	1,418	(749)	823
Interest expense	(6,311)	(1,123)	749	(6,685)
Net (losses)/gains from foreign currencies	(2,017)	234	—	(1,783)
Net non-recurring income	1,333	—	—	1,333
Profit before income tax expense	**5,164**	**1,002**	**—**	**6,166**
Income tax expense	(465)	(230)	—	(695)
Profit for the period	**4,699**	**772**	**—**	**5,471**
Assets and liabilities				
Total assets	279,171	73,535	(8,799)	343,907
Total liabilities	158,441	59,306	(8,799)	208,948
Other segment information				
Property and equipment	223,083	3,649	—	226,732
Intangible assets	1,405	570	—	1,975

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (Continued)

	31 December 2014			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
Healthcare services revenue	145,349	—	(18,465)	126,884
Net insurance premiums earned	—	69,759	(311)	69,448
Revenue	**145,349**	**69,759**	**(18,776)**	**196,332**
Cost of healthcare services	(83,298)	—	11,495	(71,803)
Net insurance claims incurred	—	(61,233)	6,970	(54,263)
Costs of services	**(83,298)**	**(61,233)**	**18,465**	**(126,066)**
Gross profit	**62,051**	**8,526**	**(311)**	**70,266**
Other operating income	2,722	153	—	2,875
Salaries and other employee benefits	(16,055)	(4,060)	311	(19,804)
General and administrative expenses	(6,933)	(2,516)	—	(9,449)
Impairment of healthcare services, insurance premiums and other receivables	(4,209)	(925)	—	(5,134)
Other operating expenses	(1,785)	(107)	—	(1,892)
	(28,982)	**(7,608)**	**311**	**(36,279)**
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	**35,791**	**1,071**	**—**	**36,862**
Depreciation and amortization	(6,998)	(632)	—	(7,630)
Interest income	297	2,257	(1,022)	1,532
Interest expense	(13,435)	(1,925)	1,022	(14,338)
Net (losses)/gains from foreign currencies	(2,820)	326	—	(2,494)
Net non-recurring income	578	—	—	578
Profit before income tax expense	**13,413**	**1,097**	**—**	**14,510**
Income tax expense	(1,145)	(101)	—	(1,246)
Profit for the year	**12,268**	**996**	**—**	**13,264**
Assets and liabilities				
Total assets	355,043	62,910	(8,676)	409,277
Total liabilities	200,414	45,228	(8,676)	236,966
Other segment information				
Property and equipment	259,205	3,733	—	262,938
Intangible assets	1,193	515	—	1,708
Depreciation expense	(6,999)	(408)	—	(7,407)
Amortization expense	—	(223)	—	(223)

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (Continued)

	31 December 2013			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
Healthcare services revenue	93,370	—	(30,732)	62,638
Net insurance premiums earned	—	103,305	(342)	102,963
Revenue	**93,370**	**103,305**	**(31,074)**	**165,601**
Cost healthcare services	(52,387)	—	19,325	(33,062)
Net insurance claims incurred	—	(87,146)	11,633	(75,513)
Costs of services	**(52,387)**	**(87,146)**	**30,958**	**(108,575)**
Gross profit	**40,983**	**16,159**	**(116)**	**57,026**
Other operating income	2,477	435	—	2,912
Salaries and other employee benefits	(8,285)	(5,444)	116	(13,613)
General and administrative expenses	(3,955)	(2,525)	—	(6,480)
Impairment of healthcare services, insurance premiums and other receivables	(2,576)	(894)	—	(3,470)
Other operating expenses	(1,086)	(245)	—	(1,331)
	(15,902)	**(9,108)**	**116**	**(24,894)**
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	**27,558**	**7,486**	**—**	**35,044**
Depreciation and amortization	(5,218)	(683)	—	(5,901)
Interest income	343	5,192	(4,076)	1,459
Interest expense	(12,746)	(2,258)	4,076	(10,928)
Net (losses)/gains from foreign currencies	(4,156)	111	—	(4,045)
Profit before income tax expense	**5,781**	**9,848**	**—**	**15,629**
Income tax expense	(458)	(1,797)	—	(2,255)
Profit for the year	**5,323**	**8,051**	**—**	**13,374**
Assets and liabilities				
Total assets	204,045	103,501	(28,014)	279,532
Total liabilities	135,255	73,565	(28,014)	180,806
Other segment information				
Property and equipment	168,943	3,638	—	172,581
Intangible assets	498	844	—	1,162
Depreciation expense	(5,218)	(455)	—	(5,673)
Amortization expense	—	(228)	—	(228)

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (Continued)

	31 December 2012			
	Healthcare Services	Medical Insurance	Intersegment transactions and balances	Total
Healthcare services revenue	67,726	—	(18,276)	49,450
Net insurance premiums earned	—	70,231	(317)	69,914
Revenue	**67,726**	**70,231**	**(18,593)**	**119,364**
Cost of healthcare services	(41,932)	—	11,891	(30,041)
Net insurance claims incurred	—	(52,248)	6,652	(45,596)
Costs of services	**(41,932)**	**(52,248)**	**18,543**	**(75,637)**
Gross profit	**25,794**	**17,983**	**(50)**	**43,727**
Other operating income	1,705	1,865	(471)	3,099
Salaries and other employee benefits	(6,403)	(7,618)	292	(13,729)
General and administrative expenses	(3,109)	(2,353)	28	(5,434)
Impairment of healthcare services, insurance premiums and other receivables	(1,969)	(644)	—	(2,613)
Other operating expenses	(924)	(1,017)	201	(1,740)
	(12,405)	**(11,632)**	**521**	**(23,516)**
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	**15,094**	**8,216**	**—**	**23,310**
Depreciation and amortization	(3,324)	(500)	—	(3,824)
Interest income	1,410	4,666	(3,704)	2,372
Interest expense	(8,189)	(2,912)	3,704	(7,397)
Net (losses)/gains from foreign currencies	(1,091)	584	—	(507)
Profit before income tax expense	**3,900**	**10,054**	**—**	**13,954**
Income tax expense	(238)	(1,541)	—	(1,779)
Profit for the year	**3,662**	**8,513**	**—**	**12,175**
Assets and liabilities				
Total assets	176,782	148,628	(67,321)	258,089
Total liabilities	120,196	90,122	(34,100)	176,218
Other segment information				
Property and equipment	143,875	5,079	—	148,954
Intangible assets	339	474	—	813
Depreciation expense	(3,324)	(412)	—	(3,736)
Amortization expense	—	(88)	—	(88)

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Current and on-demand accounts with banks	25,383	32,643	4,292	8,243
Cash on hand	101	141	179	155
Total cash and cash equivalents	**25,484**	**32,784**	**4,471**	**8,398**

(Thousands of Georgian Lari unless otherwise stated)

7. Cash and Cash Equivalents (Continued)

As at 30 June 2015 Cash and cash equivalents of Imedi L on stand-alone basis comprise GEL 1,821 (2014: GEL 7,183; 2013: GEL 3,395; 2012: GEL 8,118). 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 reservation as defined by the ISSSG regulatory reserve requirement resolution, which as at 30 June 2015 amounts to GEL 634 (2014: GEL 571, 2013: GEL 515; 2012: GEL 586).

8. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Time deposits with banks, foreign currency	10,503	8,426	1,057	934
Time deposits with banks, local currency	5,767	5,528	7,549	7,882
Total amounts due from credit institutions	**16,270**	**13,954**	**8,606**	**8,816**

As at 30 June 2015 amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 0.54% to 12% (2014: 0.54% to 12%, 2013: 2.6% to 14%; 2012: 2.6% to 14%). As at 30 June 2015 amounts due from credit institutions include GEL 2,039 (2014: GEL 1,686; 2013: GEL 1,786; 2012: GEL 1,697) of restricted cash under the export facility agreement with ING Bank N.V and GEL 8,464 (2014: GEL 6,740, 2013: GEL 5,576, 2012: GEL 5,492) of restricted cash pledged as a security for borrowing from JSC Bank of Georgia.

9. Insurance Premiums and Reinsurance Receivables

Insurance premiums and reinsurance receivables comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Insurance premiums receivable from policyholders	34,278	19,928	50,501	53,349
Receivable from reinsurers	—	—	54	61
	34,278	**19,928**	**50,555**	**53,410**
Less—allowance for impairment	(2,364)	(2,255)	(1,645)	(773)
Total insurance premiums receivables	**31,914**	**17,673**	**48,910**	**52,637**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012. The allowance for impairment entirely comprises of the amounts due from policyholders.

(Thousands of Georgian Lari unless otherwise stated)

10. Receivables from Healthcare Services

Receivables from healthcare services comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Receivables from state	45,399	34,048	6,031	3,040
Receivables from individuals and other	11,699	8,364	4,252	1,491
Receivables from insurance companies	2,891	6,010	6,823	5,451
	59,989	**48,422**	**17,106**	**9,982**
Less—allowance for impairment	(6,542)	(5,157)	(3,563)	(2,352)
Total receivables from healthcare services	**53,447**	**43,265**	**13,543**	**7,630**

The Group's largest receivable is from the state, representing amounts receivable under the Universal Healthcare Program ("UHC") introduced by the state in March 2013. Through the UHC, the state provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. Currently fully operational, the implementation of UHC took place in several stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by state or private insurance programs (accounting for approximately 2 million people, including children above the age of six and adults);
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses;
- April 2014. UHC superseded the State Insurance Program (SIP)—the first of two existing state insurance programs that had provided healthcare coverage to "economically vulnerable" citizens since 2007;
- September 2014. UHC superseded the second SIP (under the Decree No 165) that covered pensioners, children under 6 and students.

A summary description of UHC is as follows:

- UHC is fully financed by the government and administered by the Social Service Agency. In most cases beneficiaries have an annual limit of GEL 15,000 per incident. This threshold limits the services to which a patient can have access, resulting in the need for co-payment for most critical elective services;
- UHC beneficiaries are eligible to select a healthcare provider of their choice, as long as it is enrolled in the program;
- Any provider, private or public, is eligible to participate in the program;
- The actual prices that are charged to patients by healthcare providers are not regulated by the state. However, the reimbursement scheme (i.e. the amount paid by the state to healthcare providers) differs depending on the type of services:
- The capitation method is used for elective outpatient services;
- Emergency medical care tariffs are based on the minimum historic prices under the previous state medical insurance programs, with the possibility of changes over time;
- For elective in-patient services, the amount reimbursed by the state is based on the average of the lowest 25th percentile of the prices charged by countrywide providers, with the patient making a co-payment for any excess charges.

(Thousands of Georgian Lari unless otherwise stated)

10. Receivables from Healthcare Services (Continued)

UHC reimbursement scheme for the selected services in Georgia is as follows:

Service	Reimbursement from the State
Scheduled ambulatory service	70%
Service of a family doctor and basic laboratory tests	100%
Emergency in-patient services	70/100% with a limit for a single accident of GEL 15,000
Scheduled surgeries and associated tests	70%; annual limit—GEL 15,000
Treatment of oncology diseases	80%; annual limit—GEL 12,000
Childbirth	GEL 500; caesarean section—GEL 800

11. Property and Equipment

The movements in property and equipment were as follows:

	Land and office buildings	Hospitals & clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount									
1 January 2012	**1,308**	**40,661**	**3,093**	**1,218**	**14,505**	**506**	**914**	**6,037**	**68,242**
Acquisition through business combinations (Note 5)	120	31,016	331	242	3,792	63	(18)	13,218	48,764
Additions	1,800	96	1,847	381	10,536	428	91	24,985	40,164
Disposals	—	(961)	(48)	(13)	(306)	(19)	(53)	(1,229)	(2,629)
Transfer	—	12,767	—	85	(85)	—	—	(12,767)	—
31 December 2012	**3,228**	**83,579**	**5,223**	**1,913**	**28,442**	**978**	**934**	**30,244**	**154,541**
Acquisition through business combinations (Note 5)	—	4,889	345	—	162	—	608	—	6,004
Additions	807	6,190	648	524	11,285	566	1,110	7,414	28,544
Revaluation	96	—	—	—	—	—	—	—	96
Disposals	(962)	(1,092)	(44)	(16)	(1,714)	(40)	(169)	(578)	(4,615)
Transfer	—	35,652	—	—	111	—	—	(35,763)	—
Transfers from (to) investment property	(1,138)	—	—	—	—	—	—	—	(1,138)
31 December 2013	**2,031**	**129,218**	**6,172**	**2,421**	**38,286**	**1,504**	**2,483**	**1,317**	**183,432**
Acquisition through business combinations (Note 5)	—	51,839	589	797	5,280	306	—	141	58,952
Additions	—	27,427	1,229	1,221	6,029	998	742	2,995	40,641
Revaluation	—	—	—	—	—	—	—	—	—
Disposals	—	(59)	(24)	(198)	(598)	(46)	(1,165)	—	(2,090)
Transfer	—	840	(19)	—	19	—	(760)	(80)	—
31 December 2014	**2,031**	**209,265**	**7,947**	**4,241**	**49,016**	**2,762**	**1,300**	**4,373**	**280,935**

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment (Continued)

	Land and office buildings	Hospitals & clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Accumulated depreciation									
1 January 2012	**49**	**24**	**514**	**637**	**471**	**70**	**154**	**—**	**1,919**
Depreciation charge	23	472	298	338	2,453	102	50	—	3,736
Disposals	—	(2)	(28)	(2)	(27)	(6)	(3)	—	(68)
31 December 2012	**72**	**494**	**784**	**973**	**2,897**	**166**	**201**	**—**	**5,587**
Depreciation charge	32	1,026	376	344	3,662	147	59	—	5,646
Disposals	(4)	(132)	(18)	—	(80)	(10)	(138)	—	(382)
31 December 2013	**100**	**1,388**	**1,142**	**1,317**	**6,479**	**303**	**122**	**—**	**10,851**
Depreciation charge	35	1,243	475	510	4,881	178	85	—	7,407
Disposals	—	—	(97)	(90)	(65)	(9)	—	—	(261)
31 December 2014	**135**	**2,631**	**1,520**	**1,737**	**11,295**	**472**	**207**	**—**	**17,997**
Net book value									
1 January 2012	**1,259**	**40,637**	**2,579**	**581**	**14,034**	**436**	**760**	**6,037**	**66,323**
31 December 2012	**3,156**	**83,085**	**4,439**	**940**	**25,545**	**812**	**733**	**30,244**	**148,954**
31 December 2013	**1,931**	**127,830**	**5,030**	**1,104**	**31,807**	**1,201**	**2,361**	**1,317**	**172,581**
31 December 2014	**1,896**	**206,634**	**6,427**	**2,504**	**37,721**	**2,290**	**1,093**	**4,373**	**262,938**

	Land and office buildings	Hospitals & clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount									
1 January 2014	**2,031**	**129,218**	**6,172**	**2,421**	**38,286**	**1,504**	**2,483**	**1,317**	**183,432**
Acquisition through business combinations (Note 5) (unaudited)	—	44,288	590	797	4,514	300	—	141	50,630
Additions (unaudited)	—	3,975	474	489	2,031	334	320	81	7,704
Disposals (unaudited)	—	—	(23)	(175)	(403)	(42)	(141)	—	(784)
Transfer (unaudited)	—	424	—	—	—	—	(368)	(56)	—
30 June 2014 (unaudited)	**2,031**	**177,905**	**7,213**	**3,532**	**44,428**	**2,096**	**2,294**	**1,483**	**240,982**
1 January 2015	**2,031**	**209,265**	**7,947**	**4,241**	**49,016**	**2,762**	**1,300**	**4,373**	**280,935**
Acquisition through business combinations (Note 5)	—	36,498	317	2	903	106	—	194	38,020
Additions	—	5,588	637	2,032	14,699	450	709	1,464	25,579
Disposals	—	(1,513)	(54)	(81)	(120)	(110)	(3)	—	(1,881)
Transfer	(29)	2,011	42	—	(43)	—	—	(1,981)	—
30 June 2015	**2,002**	**251,849**	**8,889**	**6,194**	**64,455**	**3,208**	**2,006**	**4,050**	**342,653**
Accumulated depreciation									
1 January 2014	**100**	**1,388**	**1,142**	**1,317**	**6,479**	**303**	**122**	**—**	**10,851**
Depreciation charge (unaudited)	15	656	312	342	2,075	113	62	—	3,575
Disposals (unaudited)	—	—	(60)	(72)	(34)	(10)	—	—	(176)
30 June 2014 (unaudited)	**115**	**2,044**	**1,394**	**1,587**	**8,520**	**406**	**184**	**—**	**14,250**
1 January 2015	**135**	**2,631**	**1,520**	**1,737**	**11,295**	**472**	**207**	**—**	**17,997**
Depreciation charge	19	742	358	461	2,550	341	30	—	4,501
Disposals	—	—	—	—	—	(63)	—	—	(63)
Transfers	(2)	51	—	—	—	—	(49)	—	—
30 June 2015	**152**	**3,424**	**1,878**	**2,198**	**13,845**	**750**	**188**	**—**	**22,435**
Net book value									
1 January 2014	**1,931**	**127,830**	**5,030**	**1,104**	**31,807**	**1,201**	**2,361**	**1,317**	**172,581**
30 June 2014 (unaudited)	**1,916**	**175,861**	**5,819**	**1,945**	**35,908**	**1,690**	**2,110**	**1,483**	**226,732**
1 January 2015	**1,896**	**206,634**	**6,427**	**2,504**	**37,721**	**2,290**	**1,093**	**4,373**	**262,938**
30 June 2015	**1,850**	**248,425**	**7,011**	**3,996**	**50,610**	**2,458**	**1,818**	**4,050**	**320,218**

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment (Continued)

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the buildings and assets under construction pledged as at 30 June 2015 was GEL 254,325 (2014: GEL 212,903, 2013: GEL 131,078; 2012: GEL 116,485).

The Group engaged an independent appraiser to determine the fair value of its land and office buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was dated 31 December 2013. If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 would be as follows:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Cost	1,935	1,935	1,935	3,228
Accumulated depreciation and impairment	(151)	(133)	(100)	(72)
Net carrying amount	**1,784**	**1,802**	**1,835**	**3,156**

Based on the change in use, the Group reclassified one of its properties into the investment properties category. An accredited independent appraiser determined fair value of the property as at 31 December 2013 applying valuation models recommended by the International Valuation Standards Committee. Fair value was determined as GEL 1,138 as of 31 December 2013. Refer to Note 15.

12. Goodwill and Other Intangible Assets

The movements in goodwill were as follows:

	Goodwill
1 January 2012	**3,871**
Additions	—
Acquisitions through business vcombination	99
31 December 2012	**3,970**
Additions	—
Acquisitions through business combination	3,534
Disposals	—
31 December 2013	**7,504**
Additions	911
Acquisition through business combinations (Note 5)	—
31 December 2014	**8,415**
Acquisition through business combinations (Note 5)	869
30 June 2015	**9,284**

Other intangible assets comprise of licenses and computer software with carrying value as at 30 June 2015 of GEL 3,441 (2014: GEL 1,708; 2013: GEL 1,342; 2012: GEL 813).

The Group performs goodwill impairment test annually as at 31 December. The latest impairment test performed by the Group was as at 31 December 2014. The Group did not identify any indicators that goodwill might be impaired as at 30 June 2015.

As at 31 December 2014, 2013 and 2012 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Insurance Company Aldagi—BCI;

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12. Goodwill and Other Intangible Assets (Continued)

- JSC My Family Clinic;
- Insurance Company Partner LLC;
- JSC Insurance Company Imedi-L international;
- Caraps Medline LLC;
- Traumatology LLC.

Key assumptions used in calculations

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget covering a three-year period under the assumption that business will grow at a constant rate and the cash flows will be stable. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Effective annual growth rate in three-year financial budgets	WACC applied for impairment	Carrying amount of goodwill		
			31 December 2014	31 December 2013	31 December 2012
JSC Insurance Company Aldagi BCI	33.46%	11.3%	3,260	3,260	3,260
JSC My Family Clinic	30.33%	10.5%	508	508	508
JSC Insurance Company Partner	33.46%	11.3%	103	103	103
JSC Insurance Company Imedi L International	33.46%	11.3%	99	99	99
Caraps Medline	30.33%	10.5%	3,534	3,534	—
Traumatology	30.33%	10.5%	911	—	—
Total			**8,415**	**7,504**	**3,970**

In calculation of WACC following assumptions were made:

- A moderate, stable 5% growth of real GDP was assumed, based on the Government's and IMF forecasts.
- Further synergies between insurance and healthcare businesses will increase cost efficiency and further improve operating leverage.
- Growth of other (non-state funded) insurance business lines through an increased market demand and economic growth.

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount CGUs will not result in an impairment of goodwill.

(Thousands of Georgian Lari unless otherwise stated)

13. Taxation

The corporate income tax expenses comprise:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Current tax (benefit)/charge	682	1,138	2,815	2,708	1,385
Deferred tax origination and reversal of temporary differences	(735)	(443)	(1,569)	(453)	394
Income tax (benefit)/expense	**(53)**	**695**	**1,246**	**2,255**	**1,779**

Georgian legal entities must file individual tax declarations. The statutory corporate tax rate was 15% in the six month period ended 30 June 2015, and 30 June 2014 and for the years ended 31 December 2014, 31 December 2013 and 31 December 2012.

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:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
IFRS income before tax	**13,263**	**6,166**	**14,510**	**15,629**	**13,954**
Statutory tax rate	15%	15%	15%	15%	15%
Theoretical income tax expense at the statutory rate	**1,989**	**925**	**2,177**	**2,344**	**2,093**
Correction of prior year declaration	(1,588)	—	—	—	—
Non-taxable income	(462)	(297)	(1,034)	(409)	(349)
Non-deductible expenses	8	67	103	320	35
Income tax (benefit)/expense	**(53)**	**695**	**1,246**	**2,255**	**1,779**

Correction of prior year declaration resulted from the recalculation of the prior year current income tax charge. The correction derives from the higher amount of investments made in the business than was initially expected. According to the Georgian tax legislation, healthcare companies are allowed to reduce their taxable income by the amount of financial investments made in their business. Amount of investments were further updated for actual investments, which appeared higher than initially assessed. This caused reduction of the taxable income of prior year for the respective amount.

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13. Taxation (Continued)

Non-taxable income mainly comprises amount of utilized investment tax credit. Refer to Note 4.

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	As at 1 January 2012	In the income statement	Acquired through business combination	2012	In the income statement	In OCI	Acquired through business combination	2013	In the income statement	Acquired through business combination	2014
Tax effect of deductible temporary differences											
Tax loss carried forward	40	(9)	—	31	1,298	—	—	1,329	1,806	—	3,135
Insurance receivables	157	141	194	492	105	—	—	597	108	—	705
Insurance contracts liabilities	485	(512)	457	430	(430)	—	—	—	—	—	—
Allowances for impairment and provisions for other losses	—	158	—	158	340	—	—	498	300	—	798
Salaries and other benefits	—	37	—	37	216	—	30	283	150	—	433
Other assets	153	(89)	7	71	71	—	—	142	214	—	356
Deferred tax assets	**835**	**(274)**	**658**	**1,219**	**1,600**	**—**	**30**	**2,849**	**2,578**	**—**	**5,427**
Tax effect of taxable temporary differences:											
Property and equipment	1,816	209	1,386	3,411	273	(15)	759	4,428	1,141	6,908	12,477
Insurance contracts liabilities	—	—	—	—	727	—	—	727	(721)	—	6
Intangible assets	252	67	—	319	31	—	—	350	(86)	—	264
Other liabilities	107	(156)	115	66	116	—	—	182	675	—	857
Deferred tax liabilities	**2,175**	**120**	**1,501**	**3,796**	**1,147**	**(15)**	**759**	**5,687**	**1,009**	**6,908**	**13,604**
Net deferred tax (liability) asset	**(1,340)**	**(394)**	**(843)**	**(2,577)**	**453**	**15**	**(729)**	**(2,838)**	**1,569**	**(6,908)**	**(8,177)**
Deferred income tax assets	**361**	**(498)**	**658**	**521**	**(94)**	**—**	**—**	**427**	**276**	**—**	**703**
Deferred income tax liabilities	**(1,701)**	**104**	**(1,501)**	**(3,098)**	**547**	**15**	**(729)**	**(3,265)**	**1,293**	**(6,908)**	**(8,880)**

(Thousands of Georgian Lari unless otherwise stated)

13. Taxation (Continued)

Deferred tax assets and liabilities as at 30 June and their movements for the six-month period then ended comprise:

	1 January 2014	In the income statement	Acquired through business combination	30 June 2014	1 January 2015	In the income statement	Acquired through business combination	30 June 2015
		(unaudited)	(unaudited)	(unaudited)				
Tax effect of deductible temporary differences								
Tax loss carried forward	1,329	334	—	1,663	3,135	(243)	—	2,892
Insurance premiums receivables	597	61	—	658	705	30	—	735
Receivable from healthcare services	498	172	—	670	798	261	—	1,059
Borrowings	—	—	—	—	—	184	—	184
Salaries and other benefits	283	88	—	371	433	655	—	1,088
Other assets	142	146	—	288	356	40	—	396
Deferred tax assets	**2,849**	**801**	**—**	**3,650**	**5,427**	**927**	**—**	**6,354**
Tax effect of taxable temporary differences								
Property and equipment	4,428	672	4,000	9,100	12,477	180	5,319	17,976
Insurance contracts liabilities	727	(536)	—	191	6	(38)	—	(32)
Intangible assets	350	(37)	—	313	264	65	—	329
Other liabilities	182	259	—	441	857	(15)	—	842
Deferred tax liabilities	**5,687**	**358**	**4,000**	**10,045**	**13,604**	**192**	**5,319**	**19,115**
Net deferred tax (liability)/asset	**(2,838)**	**443**	**(4,000)**	**(6,395)**	**(8,177)**	**735**	**(5,319)**	**(12,761)**
Deferred income tax assets	**427**	**2,316**	**—**	**2,743**	**703**	**309**	**—**	**1,012**
Deferred income tax liabilities	**3,265**	**1,873**	**4,000**	**9,138**	**8,880**	**(426)**	**5,319**	**13,773**

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 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 tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Group's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Group could have a material impact on the Group's operations or its financial position in Georgia.

(Thousands of Georgian Lari unless otherwise stated)

14. Prepayments

Prepayments comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Prepayments for property and equipment and intangible assets	6,271	3,267	493	2,639
Prepayments for operating expenses	3,036	1,608	4,426	6,303
Total prepayments	**9,307**	**4,875**	**4,919**	**8,942**

15. Other Assets

Other assets comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Loans issued	9,764	7,793	6,506	6,228
Inventory	8,218	7,041	4,403	5,053
Derivative financial assets	7,011	2,054	982	—
Deferred initial public offering transaction costs	1,666	—	—	—
Prepaid operating taxes	1,565	1,118	1,802	3,604
Investment property	1,141	1,138	1,138	—
Deferred acquisition costs	225	242	205	979
Investment securities: available-for-sale	—	—	—	326
Other	3,384	2,552	1,255	1,128
Total other assets, gross	**32,974**	**21,938**	**16,291**	**17,318**
Less—allowance for impairment	(1,467)	(1,115)	—	—
Total other assets, net	**31,507**	**20,823**	**16,291**	**17,318**

As at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 loans issued by the Group consist mainly of the loans granted to the Block Georgia Group and Poti Regional Central Hospital.

The loans issued are fully collateralized with real estate collateral. The value of pledged collateral exceeds the amount of loans issued.

In 2014 the Group entered into a foreign exchange forward contract in order to manage its exposure resulting from fluctuations in foreign currency exchange rates. The notional amount for the contract is USD 17.3 million as at 30 June 2015 (2014: USD 20.1 million). Fair value of the contract is GEL 7,011 as at 30 June 2015 (2014: GEL 2,054).

In 2013 the Group entered into a foreign exchange option contract with JSC Bank of Georgia in order to manage its exposure resulting from fluctuations in foreign currency exchange rates. Notional amount for the contract is USD 33 million. As at 31 December 2013, the fair value of derivative asset position is GEL 982, net of a credit valuation adjustment attributable to derivative counterparty default risk.

Other section of other assets mainly comprise of rent receivables, receivables from employees and receivables from other non-medical services.

(Thousands of Georgian Lari unless otherwise stated)

16. Insurance Contract Liabilities

Insurance contract liabilities comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Insurance contracts liabilities				
—Unearned premiums reserve (UPR)	26,913	14,607	44,635	49,501
—Reserves for claims reported but not settled (RBNS)	1,693	1,373	2,437	5,878
—Reserves for claims incurred but not reported (IBNR)	1,536	1,603	3,263	1,671
Total insurance contracts liabilities	**30,142**	**17,583**	**50,335**	**57,050**

Movements in the insurance contract liabilities during the following periods can be analysed as follows:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
At 1 January	**17,583**	**50,335**	**57,050**	**15,843**
Premiums written during the period	41,289	42,293	101,365	93,340
Premiums earned during the period	(27,651)	(72,321)	(106,231)	(72,711)
Claims incurred during the period	20,101	54,270	75,516	45,614
Claims paid during the period	(21,180)	(56,994)	(77,365)	(47,936)
Assumed through business combination	—	—	—	22,900
At 30 June	**30,142**	**17,583**	**50,335**	**57,050**

17. Borrowings

Borrowings comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Borrowings from local financial institutions	146,572	148,546	89,121	74,403
Borrowings from foreign financial institutions	15,242	13,889	15,295	16,758
Overdrafts from local commercial banks	693	425	826	—
Total borrowings	**162,507**	**162,860**	**105,242**	**91,161**

In the six month period ended 30 June 2015 borrowings from local financial institutions had an average interest rate of 12.2% per annum (2014: 11.15%; 2013: 11.9%; 2012: 13.9%), maturing on average in 1,509 days (2014: 1,906 days; 2013: 2,123 days; 2012: 2,637 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. At 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 Group complied with all these lender covenants.

(Thousands of Georgian Lari unless otherwise stated)

18. Accounts Payable

Accounts payable comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Accounts payable for healthcare materials and supplies	7,415	6,582	3,318	4,004
Accounts payable for healthcare services	167	1,021	2,448	2,414
Other accounts payable	1,994	988	135	178
Total accounts payable	**9,576**	**8,591**	**5,901**	**6,596**

19. Debt Securities Issued

In June 2015 EVEX completed issuance of two-year local bonds of US$15 million (GEL 34.2 million). The bonds were issued at par value with annual coupon rate of 9.5% payable semi-annually.

20. Payables for Share Acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") represents outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries.

Payables for business combination is a portion of the total consideration given, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) 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 liability should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than predetermined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

As at 30 June 2015 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of Tbilisi Emergency Center, Avante Hospital Management Group LLC and Traumatology LLC. As at 31 December 2014 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of Avante Hospital Management Group LLC and Traumatology LLC and of the additional interest purchased in JSC My Family Clinic. Outstanding payable for acquisition of additional interest purchased in JSC My Family Clinic as at 31 December 2014 represented GEL 3,727.

21. Other Liabilities

Other liabilities comprise:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Payable for purchase of property and equipment	5,593	3,237	1,088	883
Insurance claims payable	5,225	2,745	2,301	5,291
Operating taxes payable	2,880	1,412	3,354	3,065
Accrued initial public offering transaction costs	1,671	—	—	—
Payable for professional services	498	716	—	234
Other	4,707	3,396	680	1,209
Total other liabilities	**20,574**	**11,506**	**7,425**	**10,682**

(Thousands of Georgian Lari unless otherwise stated)

21. Other Liabilities (Continued)

Other section of other liabilities mainly comprises of payable for office supplies, utilities, communication and fuel.

22. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

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 tax authorities are taking a more assertive position in its 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:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
Capital commitments	16,716	11,997	8,682	5,500
Operating lease commitments				
—Not later than 1 year	1,898	990	1,077	45
—Later than 1 year but not later than 5 years	13,187	1,127	3,127	25
Total financial commitments and contingencies	**31,801**	**14,114**	**12,886**	**5,570**

In six month period ended 30 June 2015 as well as in years ended 31 December 2014, 31 December 2013 and 31 December 2012 capital commitments comprised of construction contracts for hospitals in Samtskhe and the oncology centre in Kutaisi.

23. Equity

On 29 April 2015, upon establishment of GHG, classification of the combined entities' equity captions was aligned with that of GHG. As a result of the transaction the Group's share capital increased by GEL 47,665 while additional paid in capital decreased by the same amount.

In April 2015 the Group obtained convertible loan from BGH in the amount of USD 12 million (GEL 28,280 as of conversion date). In May 2015 the loan was converted to 13,446,125 of GHG shares

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23. Equity (Continued)

with par value of GEL 1. The difference of GEL 14,834 between the carrying amount of the converted loan and par value of shares issued was recognized within additional paid-in capital.

	Number of shares
1 January 2012	**6,484,815**
Issue of share capital	7,201,176
31 December 2012	**13,685,991**
31 December 2013	**13,685,991**
Issue of share capital	14,648,838
31 December 2014	**28,334,829**
Imedi L and EVEX shares	(28,334,829)
Establishment of GHG	76,000,000
Loan conversion	13,446,125
30 June 2015	**89,446,125**

As at 30 June 2015 the total authorized shares of GHG amounted to 100,000,000 (31 December 2014: 28,334,829 shares; 31 December 2013: 13,685,746 shares; 31 December 2012: 13,685,746 shares) at par value of one Georgian Lari of which 89,446,125 were fully paid and 10,553,875 was not issued.

As at 31 December 2014, 31 December 2013 and 31 December 2012 the total authorized shares of the Group have been issued and fully paid.

The share capital of the Group was contributed by the shareholders in Georgian Lari and they are entitled to dividends and any capital distribution in Georgian Lari. No dividends were declared or paid during the six-month period ended 30 June 2015 and the years ended 31 December 2014, 31 December 2013 and 31 December 2012.

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.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Gains (losses) from sale/acquisition of shares in existing subsidiaries

This reserve records gains (losses) from sale/acquisition of shares in existing subsidiaries.

In February 2015 JSC Georgia Healthcare Group acquired additional 25% stake in LLC Children New Clinic, an existing subsidiary of which the Group previously owned 75% stake. Acquisition of additional interest in existing subsidiaries in six month period ended 30 June 2015 derives from this transaction. The consideration paid by the Group comprised GEL 2,011 for the purchase of the non-controlling interest of GEL 3,265. The resulting gain from the acquisition was GEL 1,254.

In April 2014 JSC Georgia Healthcare Group acquired additional 49% stake in JSC My Family Clinic, an existing subsidiary of which the Group previously owned by 51%, from Block-Invest LLC. Acquisition

(Thousands of Georgian Lari unless otherwise stated)

23. Equity (Continued)

of additional interest in existing subsidiaries mostly derives from this transaction. The consideration paid by the Group comprised GEL 29,827 for the purchase of the non-controlling interest of GEL 12,845. The resulting loss from the acquisition was GEL 16,981.

24. Healthcare Services Revenue

Healthcare services revenue comprises:

	30 June 2015	30 June 2014	31 December 2014	31 December 2013	31 December 2012
		(unaudited)			
Healthcare services revenue from state	65,788	28,279	82,729	20,106	16,451
Healthcare services revenue from out-of-pocket and other	17,095	16,819	32,623	19,296	24,084
Healthcare services revenue from insurance companies	1,512	8,247	13,348	23,236	8,915
Less: corrections & rebates	(1,842)	(908)	(1,816)	—	—
Total healthcare services revenue	**82,553**	**52,437**	**126,884**	**62,638**	**49,450**

Healthcare services revenue from state represents the revenue through UHC. A full description of the program is provided in Note 10 above.

Healthcare services revenue from insurance companies peaked in 2013 mainly due to implementation of insurance program for covered pensioners, students and children by the state that were operated by insurance companies. In 2014 healthcare services revenue stream shifted from insurance companies to the state due to implementation of UHC.

25. Net Insurance Premiums Earned

Net insurance premium earned comprises:

	30 June 2015	30 June 2014	31 December 2014	31 December 2013	31 December 2012
		(unaudited)			
Gross premiums written	41,289	31,837	42,294	101,295	93,221
Change in unearned premiums reserve	(13,638)	11,920	29,984	4,840	(20,614)
Less: acquisition costs	(1,449)	(1,329)	(2,830)	(3,172)	(2,693)
Total net insurance premiums earned	**26,202**	**42,428**	**69,448**	**102,963**	**69,914**

26. Cost of Healthcare Services

Cost of healthcare services comprises:

	30 June 2015	30 June 2014	31 December 2014	31 December 2013	31 December 2012
		(unaudited)			
Cost of salaries and other employee benefits	(29,569)	(19,333)	(46,504)	(20,649)	(19,309)
Cost materials and supplies	(12,148)	(6,024)	(15,636)	(7,013)	(5,441)
Cost of utilities and other	(3,559)	(2,622)	(3,894)	(2,122)	(1,848)
Cost of providers	(933)	(1,823)	(5,769)	(3,278)	(3,443)
Total cost of healthcare services	**(46,209)**	**(29,802)**	**(71,803)**	**(33,062)**	**(30,041)**

(Thousands of Georgian Lari unless otherwise stated)

26. Cost of Healthcare Services (Continued)

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc. Indirect salaries that were not included to cost of healthcare services amounted in six month period ended 30 June 2015 to GEL 12,602 (30 June 2014: GEL 9,901; 2014: GEL 19,804; 2013: GEL 13,613; 2012: GEL 13,729) and were presented as a separate line item in income statement. Total amount of salaries and other employee benefits recognized as expense in the income statement in the six month period ended 30 June 2015 amounted to GEL 42,171 (30 June 2014: GEL 29,234; 2014: GEL 66,308; 2013: GEL 34,262; 2012: GEL 33,038).

27. Net Insurance Claims Incurred

Net insurance claims incurred comprises:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Insurance claims paid	(21,180)	(35,274)	(56,987)	(77,357)	(47,838)
Change in insurance contract liabilities	1,079	2,120	2,724	1,844	2,242
Net insurance claims incurred	**(20,101)**	**(33,154)**	**(54,263)**	**(75,513)**	**(45,596)**

28. Other Operating Income

Other operating income comprises:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Rental income	257	321	524	320	697
Gain from re-sale of medicines	118	116	679	169	141
Revenues from factoring	51	256	316	916	1,428
Gain from sale of equipment	33	398	926	366	319
Other	1,237	241	430	1,141	514
Total other operating income	**1,696**	**1,332**	**2,875**	**2,912**	**3,099**

In the six month period ended 30 June 2015 other caption of other operating income mainly comprised of gain from discounting of zero interest bearing liability from the state to compensate for credit losses incurred as a result of bankruptcy of insurance company Archimede of GEL 420 and gain from reversal of provision of GEL 745.

In 2013 year, other caption of other operating income includes gain from revaluation of investment properties. There were no significant changes in real estate property market values in 2014 and 2012 years.

29. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Salaries and other benefits	(10,662)	(8,363)	(17,226)	(11,003)	(9,972)
Cash bonuses	(1,530)	(1,101)	(1,658)	(1,979)	(3,531)
Share-based compensation	(410)	(437)	(920)	(631)	(226)
Total salaries and other employee benefits	**(12,602)**	**(9,901)**	**(19,804)**	**(13,613)**	**(13,729)**

(Thousands of Georgian Lari unless otherwise stated)

30. General and Administrative Expenses

General and administrative expenses comprise:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Office supplies	(1,146)	(679)	(1,733)	(1,112)	(754)
Occupancy, maintenance and rent	(690)	(1,205)	(2,353)	(1,705)	(1,818)
Communication	(464)	(374)	(981)	(678)	(546)
Professional services	(339)	(197)	(1,038)	(215)	(414)
Representative	(329)	(127)	(354)	(226)	(195)
Repair and maintenance	(221)	(107)	(543)	(442)	(226)
Marketing and advertising	(289)	(522)	(1,030)	(532)	(247)
Travel	(169)	(118)	(217)	(164)	(66)
Bank fees and commissions	(100)	(130)	(237)	(339)	(328)
Security	(26)	(133)	(190)	(30)	(112)
Other	(1,177)	(620)	(773)	(1,037)	(728)
Total general and administrative expenses	**(4,950)**	**(4,212)**	**(9,449)**	**(6,480)**	**(5,434)**

In the six-month period ended 30 June 2015 and 30 June 2014 and in the years ended 31 December 2014, 31 December 2013 and 31 December 2012 other general and administrative expenses mainly comprised of training, property tax, property insurance and other operating tax expenses.

31. Impairment of Healthcare Services, Insurance Premiums and Other Receivables

The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance receivables	Receivables from healthcare services and other	Total
1 January 2012	**486**	**383**	**869**
Impairment charge	644	1,969	2,613
Write-off	(357)	—	(357)
31 December 2012	**773**	**2,352**	**3,125**
Impairment charge	913	2,557	3,470
Write-off	(41)	(1,346)	(1,387)
31 December 2013	**1,645**	**3,563**	**5,208**
Impairment charge	925	4,209	5,134
Write-off	(315)	(1,500)	(1,815)
31 December 2014	**2,255**	**6,272**	**8,527**
1 January 2014	**1,645**	**3,563**	**5,208**
Impairment charge (unaudited)	262	833	1,095
(Write-off)/recovery (unaudited)	(32)	783	751
30 June 2014 (unaudited)	**1,875**	**5,179**	**7,054**
1 January 2015	**2,255**	**6,272**	**8,527**
Impairment charge	109	1,737	1,846
30 June 2015	**2,364**	**8,009**	**10,373**

Allowances for impairment of assets are deducted from the gross carrying amounts of the related assets.

(Thousands of Georgian Lari unless otherwise stated)

32. Other Operating Expenses

Other operating expenses comprises:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Fixed assets, prepayments and other assets write-off	(569)	(38)	(53)	—	—
Cost of realized medicine	(99)	(604)	(617)	(140)	—
Expense on factoring	(43)	(218)	(273)	(644)	—
Loss from equipment sold	(27)	(397)	(433)	(458)	(187)
Cost of realized stationery	(6)	(7)	(16)	(3)	—
Other	(411)	(584)	(500)	(86)	(1,553)
Total other operating expenses	**(1,155)**	**(1,848)**	**(1,892)**	**(1,331)**	**(1,740)**

In 2012 year, other caption of other operating expenses primarily includes one-off expenses incurred in connection with the acquisition of Imedi L.

33. Interest Income and Interest Expense

Interest income and interest expense comprise:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Interest income					
Interest income from loans issued	623	538	686	727	1,043
Interest income from amounts due from credit institutions	600	285	843	686	1,015
Interest income from cash and cash equivalents	—	—	3	46	314
Total interest income	**1,223**	**823**	**1,532**	**1,459**	**2,372**
Interest expense					
Interest expense on borrowings	(11,019)	(6,685)	(14,338)	(10,928)	(7,397)
Interest expense on debt securities issued	(322)	—	—	—	—
Total interest expense	**(11,341)**	**(6,685)**	**(14,338)**	**(10,928)**	**(7,397)**

As at 30 June 2015 the amount of borrowing costs capitalized in relation to qualifying items of property and equipment comprise GEL 652 (30 June 2014: GEL 321; 2014: 642; 2013: GEL 550; 2012: GEL 1,821).

34. Net Non-Recurring (Expense)/Income

Net non-recurring expense for six month period ended 30 June 2015 comprise:

- GEL 374 expenses on employee dismissal as a result of reorganisation of acquired clinics;
- GEL 365 initial public offering transaction costs;
- GEL 28 loss from other insignificant transactions.

Net non-recurring income for 31 December 2014 comprise:

- GEL 1,004 gain from a bargain purchase of Avante management Group LLC;
- GEL 664 loss from shortage of medical stock, recognized as a result of stock counting in Unimedi Achara LLC;

34. Net Non-Recurring (Expense)/Income (Continued)

- GEL 329 gain from disposal of a hospital building owned by Avante Management Group LLC; and
- GEL 91 loss from other insignificant transactions.

35. Share-based Compensation

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). It was set up by the Group's ultimate parent, BGH and the Group's share-based compensation is reviewed, approved, awarded and then settled by BGH, through the EECP and the Trustee.

During 2015, 2014, 2013 and 2012 different individuals from the top management of BGH acted as CEO of the Group. Respective individuals are referred to as "the CEO" in the paragraphs that follow.

GHG Plans

In January 2015 the Board of Directors of BGH resolved to award 150,000 ordinary shares of GHG to the CEO of the Group. In April 2015 the Board of Directors of BGH resolved to award 135,000 ordinary shares of GHG to 3 executives. The shares awarded to a four-year vesting period, with continuous employment being the only vesting condition for both awards.

The Group considers 1 January 2015 and 29 April 2015 as the grant date for the awards of CEO and other executives, respectively. The Group estimates that the fair value of the shares awarded was GEL 2.57 per share as of respective grant dates. Respective fair value was estimated using appropriate valuation techniques based on market and income approaches.

BGH Plans

In February 2014 the Board of Directors of BGH resolved to award 18,000 ordinary shares of BGH to the CEO of the Group and 3,150 ordinary shares of BGH to 3 executives. The shares awarded to CEO are subject to a two-year vesting period, while the shares awarded to the other 3 executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was GEL 67.90 per share.

In February 2013 the Board of Directors of BGH resolved to award 20,000 ordinary shares of BGH to the CEO of the Group and 3,000 ordinary shares of BGH to the Group's 2 executives. The shares awarded to the CEO are subject to a two-year vesting period, while the shares awarded to the other 2 executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was GEL 35.56 per share.

Additionally, in February 2013 CEO of the Group signed a new three-year fixed contingent share-based compensation agreements with the Bank for the total of 75,000 ordinary shares of BGH. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was GEL 35.45.

In March 2012 the Board of Directors of BGH resolved to award 18,000 ordinary shares of BGH to the CEO of the Group and 3,000 ordinary shares of BGH to the 2 executives. The shares awarded to the CEO are subject to a two-year vesting period, while the shares awarded to the other 2 executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was GEL 26.07 per share.

The fair values were identified based on market prices on grant dates.

36. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current period, revaluation and other reserves and non-controlling interests. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:

- To maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders for the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimize the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the six month period ended 30 June 2015, years ended 31 December 2014, 31 December 2013 and 31 December 2012 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of the regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSG. Regulations of ISSSG require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its allowance for impairment. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued, investment property as well as other financial assets, as defined by ISSSG. Amount of such minimal liquid assets is called "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 30 June 2015 equals to the minimal amount of liquid assets of GEL 6,343 (2014: GEL 5,714). The insurance company is fully compliant with the requirement by holding actual GEL 7,109 (2014: GEL 7,379) of total eligible liquid assets.

Because Aldagi's legal structure was different in the pre-split period, the statutory reserve requirement was not applicable to Imedi L. During that period the requirement was applicable only to the Insurance Company Aldagi, as a whole. As at 31 December 2013 the reserve requirement for Aldagi was GEL 18,539 (2012: GEL 20,373) and the company complied fully, holding actual GEL 22,204 (2012: GEL 25,940) of the eligible liquid assets.

37. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

37. Risk Management (Continued)

Risk management structure

Management Board

During the pre-split period management of Aldagi had the responsibility to monitor and manage entire risk process within the respective GHG components on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees. After the reorganisation of Aldagi group, these functions were carried out by management of the Group.

Internal Audit

During the pre-split period risk management processes throughout the Group were audited annually by the internal audit function of Aldagi that examined both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board. After the reorganisation of Aldagi group, these functions were carried out by internal audit function of the Group.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures to net currency position, insurance liabilities risks, interest rates and credit risks.

The Group actively uses a collective financial responsibility approach to individual healthcare customers arising from the provision of healthcare services to out-of-pocket customers, to manage the respective individual debtors arising from healthcare services falling out of the scope of the UHC.

(Thousands of Georgian Lari unless otherwise stated)

37. 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:

	30 June 2015	30 June 2014	31 December 2014	31 December 2013	31 December 2012
		(unaudited)			
Loss ratio	83.0%	88.5%	87.7%	84.4%	74.4%
Combined ratio	97.7%	99.2%	99.5%	93.9%	91.6%

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:

	30 June 2015	31 December 2014	31 December 2013	31 December 2012
	Net claims liabilities	Net claims liabilities	Net claims liabilities	Net claims liabilities
Healthcare	2,437	2,481	5,359	7,164
Term Life	586	348	241	308
Travel	201	146	98	31
Personal accident	5	1	2	46
Total	**3,229**	**2,976**	**5,700**	**7,549**

For these insurance contracts the most significant risks arise from lifestyle changes, epidemic as well as changes in loss frequency and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Group and the type of risks insured.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategies. The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time. The table shows reserves for both, claims reported as well as claims incurred but not yet reported, and cumulative

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

payments. Claims estimates are translated into Georgian Lari at the rate of exchange that applied at the end of the accident period:

Accident period	30 June 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
At the end of accident period	23,330	58,190	87,734	58,096	27,559
One year later	—	58,209	87,929	58,035	27,984
Two years later	—	—	87,929	58,244	27,915
Three years later	—	—	—	—	27,916
Current estimation of cumulative claims incurred	**23,330**	**58,209**	**87,929**	**58,244**	**27,916**
At the end of accident period	(20,101)	(55,225)	(79,100)	(47,092)	(24,506)
One year later	—	(58,180)	(87,835)	(58,013)	(27,818)
Two years later	—	—	(87,835)	(58,225)	(27,915)
Three years later	—	—	—	—	(27,916)
Cumulative payments to date	**(20,101)**	**(58,180)**	**(87,835)**	**(58,225)**	**(27,916)**
Outstanding claims provision per balance sheet	**3,229**	**29**	**94**	**19**	**—**
Current estimation of surplus (deficit)		**(19)**	**(195)**	**(149)**	**(358)**
% of surplus (deficit) to initial gross reserve		**−0.03%**	**−0.22%**	**−0.3%**	**−1.3%**

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service, aging of receivables, etc. Counterparty limits are established in combination with credit terms.The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position, based on the Group's credit rating system.

	Notes	Neither past due nor impaired 30 June 2015	Past-due but not impaired 30 June 2015	Impaired 30 June 2015	Total 30 June 2015
Amounts due from credit institutions	8	16,270	—	—	16,270
Receivables from healthcare services	10	29,029	7,564	23,396	59,989
Loans issued	15	—	9,764	—	9,764
Derivative financial assets	15	7,011	—	—	7,011
Total		**52,310**	**17,328**	**23,396**	**93,034**

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

	Notes	Neither past due nor impaired 31 December 2014	Past-due but not impaired 31 December 2014	Impaired 31 December 2014	Total 31 December 2014
Amounts due from credit institutions	8	13,954	—	—	13,954
Receivables from healthcare services	10	31,836	6,540	10,046	48,422
Loans issued	15	—	7,793	—	7,793
Derivative financial assets	15	2,054	—	—	2,054
Total		**47,844**	**14,333**	**10,046**	**72,223**

	Notes	Neither past due nor impaired 31 December 2013	Past-due but not impaired 31 December 2013	Impaired 31 December 2013	Total 31 December 2013
Amounts due from credit institutions	8	8,606	—	—	8,606
Receivables from healthcare services	10	7,670	3,817	5,619	17,106
Loans issued	15	—	6,506	—	6,506
Derivative financial assets	15	982	—	—	982
Total		**17,258**	**10,323**	**5,619**	**33,200**

	Notes	Neither past due nor impaired 31 December 2012	Past-due but not impaired 31 December 2012	Impaired 31 December 2012	Total 31 December 2012
Amounts due from credit institutions	8	8,816	—	—	8,816
Available-for-sale financial assets	15	326	—	—	326
Receivables from healthcare services	10	5,782	1,735	2,465	9,982
Loans issued	15	5,053	—	—	5,053
Total		**19,977**	**1,735**	**2,465**	**24,177**

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Those receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet 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.

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

30 June 2015	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	25,484	—	25,484
Amounts due from credit institutions	16,270	—	16,270
Insurance premiums receivables	31,914	—	31,914
Receivables from healthcare services	53,447	—	53,447
Prepayments	3,035	6,272	9,307
Property and equipment	—	320,218	320,218
Goodwill and other intangible assets	—	12,725	12,725
Current income tax assets	2,208	—	2,208
Deferred income tax assets	—	1,012	1,012
Other assets	30,366	1,141	31,507
Total assets	**162,724**	**341,368**	**504,092**
Liabilities			
Accounts payable	9,576	—	9,576
Accruals for employee compensation	12,981	—	12,981
Payable for share acquisitions	2,473	—	2,473
Insurance contract liabilities	30,142	—	30,142
Debt securities issued	160	32,852	33,012
Borrowings	30,668	131,839	162,507
Current income tax liabilities	5,329	—	5,329
Deferred income tax liabilities	—	13,773	13,773
Other liabilities	20,574	—	20,574
Total liabilities	**111,903**	**178,464**	**290,367**
Net position	**50,821**	**162,904**	**213,725**
Accumulated gap	**50,821**	**213,725**	

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

31 December 2014	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	32,784	—	32,784
Amounts due from credit institutions	13,954	—	13,954
Insurance premiums receivables	17,673	—	17,673
Receivables from healthcare services	43,265	—	43,265
Prepayments	1,608	3,267	4,875
Property and equipment	—	262,938	262,938
Goodwill and other intangible assets	—	10,123	10,123
Current income tax assets	2,139	—	2,139
Deferred income tax assets	—	703	703
Other assets	19,685	1,138	20,823
Total assets	**131,108**	**278,169**	**409,277**
Liabilities			
Accounts payable	8,591	—	8,591
Accruals for employee compensation	9,740	—	9,740
Payable for share acquisitions	13,165	—	13,165
Insurance contract liabilities	17,583	—	17,583
Borrowings	34,745	128,115	162,860
Current income tax liabilities	4,641	—	4,641
Deferred income tax liabilities	—	8,880	8,880
Other liabilities	11,506	—	11,506
Total liabilities	**99,971**	**136,995**	**236,966**
Net position	**31,137**	**141,174**	**172,311**
Accumulated gap	**31,137**	**172,311**	

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

31 December 2013	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	4,471	—	4,471
Amounts due from credit institutions	2,844	5,762	8,606
Insurance premiums and reinsurance receivables	48,910	—	48,910
Receivables from healthcare services	13,543	—	13,543
Prepayments	4,426	493	4,919
Property and equipment	—	172,581	172,581
Goodwill and other intangible assets	—	8,846	8,846
Current income tax assets	938	—	938
Deferred income tax assets	—	427	427
Other assets	8,496	7,795	16,291
Total assets	**83,628**	**195,904**	**279,532**
Liabilities			
Accounts payable	5,901	—	5,901
Accruals for employee compensation	6,667	—	6,667
Payable for share acquisitions	454	—	454
Insurance contract liabilities	50,335	—	50,335
Borrowings	15,664	89,578	105,242
Current income tax liabilities	1,517	—	1,517
Deferred income tax liabilities	—	3,265	3,265
Other liabilities	7,425	—	7,425
Total liabilities	**87,963**	**92,843**	**180,806**
Net position	**(4,335)**	**103,061**	**98,726**
Accumulated gap	**(4,335)**	**98,726**	

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37. Risk Management (Continued)

31 December 2012	Less than one year	More than one year	Total
Assets			
Cash and cash equivalents	8,398	—	8,398
Amounts due from credit institutions	7,171	1,645	8,816
Insurance premiums and reinsurance receivables	52,637	—	52,637
Receivables from healthcare services	7,630	—	7,630
Prepayments	6,303	2,639	8,942
Property and equipment	—	148,954	148,954
Goodwill and other intangible assets	—	4,783	4,783
Current income tax assets	90	—	90
Deferred income tax assets	—	521	521
Other assets	10,910	6,408	17,318
Total assets	**93,139**	**164,950**	**258,089**
Liabilities			
Accounts payable	6,194	402	6,596
Accruals for employee compensation	5,500	—	5,500
Payable for share acquisitions	1,374	—	1,374
Insurance contract liabilities	57,050	—	57,050
Borrowings	2,334	88,827	91,161
Current income tax liabilities	757	—	757
Deferred income tax liabilities	—	3,098	3,098
Other liabilities	10,682	—	10,682
Total liabilities	**83,891**	**92,327**	**176,218**
Net position	**9,248**	**72,623**	**81,871**
Accumulated gap	**9,248**	**81,871**	

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet its all present obligations and settle liabilities in 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.

30 June 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	9,576	—	—	—	9,576
Accruals for employee compensation	12,981	—	—	—	12,981
Debt securities issued	—	3,204	36,928	—	40,132
Borrowings	12,464	20,941	134,414	28,160	195,979
Other financial liabilities	11,316	—	—	—	11,316
Total undiscounted financial liabilities	**46,337**	**24,145**	**171,342**	**28,160**	**269,984**

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	8,591	—	—	—	8,591
Accruals for employee compensation	9,740	—	—	—	9,740
Borrowings	12,547	33,926	136,592	29,756	212,821
Other financial liabilities	7,446	—	—	—	7,446
Total undiscounted financial liabilities	**38,324**	**33,926**	**136,592**	**29,756**	**238,598**

31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	5,901	—	—	—	5,901
Accruals for employee compensation	6,667	—	—	—	6,667
Borrowings	10,951	19,880	95,555	26,281	152,667
Other financial liabilities	3,741	—	—	—	3,741
Total undiscounted financial liabilities	**27,260**	**19,880**	**95,555**	**26,281**	**168,976**

31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	6,596	—	—	—	6,596
Accruals for employee compensation	5,500	—	—	—	5,500
Borrowings	5,156	14,109	72,412	42,248	133,925
Other financial liabilities	6,408	—	—	—	6,408
Total undiscounted financial liabilities	**23,660**	**14,109**	**72,412**	**42,248**	**152,429**

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 borrowing linked to Libor and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk. The effective average interest rates by currencies for interest generating/bearing monetary financial instruments are as follows:

	30 June 2015		31 December 2014		31 December 2013		31 December 2012	
	GEL	USD	GEL	USD	GEL	USD	GEL	USD
Amounts due from credit institutions	9.97%	7.36%	9.95%	7.20%	13.38%	8.22%	14.00%	3.1%
Borrowings	12.54%	9.61%	10.63%	12.71%	12.16%	11.90%	16.82%	13.82%

Sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the interest expense for the period. During six-month periods ended 30 June 2015, 30 June 2014, the years ended 31 December 2014, 31 December 2013 and 31 December 2014sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates sensitivity to

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37. Risk Management (Continued)

a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement:

Currency	Increase in basis points 30 June 2015	Sensitivity of interest expense 30 June 2015
USD	+0.09%	69
GEL	+1.00%	1,193

Currency	Decrease in basis points 30 June 2015	Sensitivity of interest expense 30 June 2015
USD	−0.09%	(69)
GEL	−1.00%	(1,193)

(unaudited) Currency	Increase in basis points 30 June 2014	Sensitivity of interest expense 30 June 2014
USD	+0.12%	47
GEL	+1.00%	871

(unaudited) Currency	Decrease in basis points 30 June 2014	Sensitivity of interest expense 30 June 2014
USD	−0.12%	(47)
GEL	−1.00%	(871)

Currency	Increase in basis points 2014	Sensitivity of interest expense
USD	+0.01%	2
GEL	+1.00%	916

Currency	Decrease in basis points 2014	Sensitivity of interest expense
USD	−0.01%	(2)
GEL	−1.00%	(916)

Currency	Increase in basis points 2013	Sensitivity of interest expense
USD	+0.16%	26
GEL	+1.00%	592

Currency	Decrease in basis points 2013	Sensitivity of interest expense
USD	−0.16%	(26)
GEL	−1.00%	(592)

Currency	Increase in basis points 2012	Sensitivity of interest expense
USD	+0.30%	36
GEL	+1.00%	513

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

Currency	Decrease in basis points 2012	Sensitivity of interest expense
USD	−0.30%	(36)
GEL	−1.00%	(513)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to U.S. Dollars.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities—Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from U.S. Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in U.S. Dollars and the foreign currency swap contracts with the Group's counterparties.

The tables below indicate the currencies to which the Group had significant exposure at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 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 in the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

	30 June 2015			
	GEL	USD	EUR	Total
Assets				
Cash and cash equivalents	3,055	22,429	—	25,484
Amounts due from credit institutions	5,767	10,503	—	16,270
Receivables from healthcare services	53,447	—	—	53,447
Loans issued	450	9,314	—	9,764
Total monetary assets	**62,719**	**42,246**	**—**	**104,965**
Liabilities				
Accounts payable	9,576	—	—	9,576
Payable for share acquisitions	2,473	—	—	2,473
Insurance contract liabilities	29,684	181	277	30,142
Debt securities issued	—	33,012	—	33,012
Borrowings	119,315	43,192	—	162,507
Other liabilities	20,076	498	—	20,574
Total monetary liabilities	**181,124**	**76,883**	**277**	**258,284**
Net monetary position, before derivatives	**(118,405)**	**(34,637)**	**(277)**	**(153,319)**
Derivative financial instruments	(31,210)	38,221	—	7,011
Net monetary position including derivatives	**(149,615)**	**3,584**	**(277)**	**(146,308)**
% Increase in currency exchange rate		**+22.68%**	**+12.2%**	
Effect on profit before income tax expense		**813**	**(34)**	
% Decrease in currency exchange rate		**−22.68%**	**−12.2%**	
Effect on profit before income tax expense		**(813)**	**34**	

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

	31 December 2014			
	GEL	USD	EUR	Total
Assets				
Cash and cash equivalents	4,403	28,340	41	32,784
Amounts due from credit institutions	5,528	8,426	—	13,954
Receivables from healthcare services	43,265	—	—	43,265
Loans issued	—	7,793	—	7,793
Total monetary assets	**53,196**	**44,559**	**41**	**97,796**
Liabilities				
Accounts payable	8,591	—	—	8,591
Payable for share acquisitions	13,165	—	—	13,165
Insurance contract liabilities	17,082	190	311	17,583
Borrowings	119,986	42,874	—	162,860
Other liabilities	10,922	584	—	11,506
Total monetary liabilities	**169,746**	**43,648**	**311**	**213,705**
Net monetary position, before derivatives	**(116,550)**	**911**	**(270)**	**(115,909)**
Derivative financial instruments	(37,082)	39,136	—	2,054
Net monetary position including derivatives	**(153,632)**	**40,047**	**(270)**	**(113,855)**
% Increase in currency exchange rate		**+23.4%**	**+1.9%**	
Effect on profit before income tax expense		**9,371**	**(5)**	
% Decrease in currency exchange rate		**−23.4%**	**−1.9%**	
Effect on profit before income tax expense		**(9,371)**	**5**	

	2013			
	GEL	USD	EUR	Total
Assets				
Cash and cash equivalents	3,246	1,213	12	4,471
Amounts due from credit institutions	1,057	7,549	—	8,606
Receivables from healthcare services	13,543	—	—	13,543
Loans issued	—	6,506	—	6,506
Total monetary assets	**17,846**	**15,268**	**12**	**33,126**
Liabilities				
Accounts payable	5,901	—	—	5,901
Payable for share acquisitions	454	—	—	454
Insurance contract liabilities	49,832	284	219	50,335
Borrowings	5,416	99,826	—	105,242
Other liabilities	7,398	—	27	7,425
Total monetary liabilities	**69,001**	**100,110**	**246**	**169,357**
Net monetary position, before derivatives	**(51,155)**	**(84,842)**	**(234)**	**(136,231)**
Derivative financial assets/(liabilities)	(56,316)	57,298	—	982
Net monetary position including derivatives	**(107,471)**	**(27,544)**	**(234)**	**(135,249)**
% Increase in currency exchange rate		**+0.8%**	**+1.9%**	
Effect on profit		**(220)**	**(4)**	
% Decrease in currency exchange rate		**−0.8%**	**−1.9%**	
Effect on profit		**220**	**4**	

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

	2012			
	GEL	USD	EUR	Total
Assets				
Cash and cash equivalents	280	8,118	—	8,398
Amounts due from credit institutions	934	7,882	—	8,816
Receivables from healthcare services	7,630	—	—	7,630
Loans issued	—	6,228	—	6,228
Total monetary assets	**8,844**	**22,228**	**—**	**31,072**
Liabilities				
Accounts payable	6,596	—	—	6,596
Payable for share acquisitions	1,374	—	—	1,374
Insurance contract liabilities	56,389	415	246	57,050
Borrowings	2,877	88,284	—	91,161
Other liabilities	10,596	—	86	10,682
Total monetary liabilities	**77,832**	**88,699**	**332**	**166,863**
Net monetary position	**(68,988)**	**(66,471)**	**(332)**	**(135,791)**
Derivative financial assets/(liabilities)	24,669	(24,022)	—	(647)
Net monetary position including derivatives	**(93,657)**	**(90,493)**	**(332)**	**(136,438)**
% Increase in currency exchange rate		**+1.2%**	**+1.9%**	
Effect on profit		**(1,086)**	**(6)**	
% Decrease in currency exchange rate		**−1.2%**	**−1.9%**	
Effect on profit		**1,086**	**6**	

As part of its risk management, the Group uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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 mitigating 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

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (Continued)

Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

38. Fair Values Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; 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. It also includes a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the historical financial information. The table does not include the fair values of non-financial assets and non-financial liabilities:

	Level 1	Level 2	Level 3	Total fair value 30 June 2015	Carrying value 30 June 2015	Unrecognised gain (loss) 30 June 2015
Assets measured at fair value						
Property and equipment	—	—	1,850	**1,850**	1,850	—
Other assets: derivative financial assets	—	7,011	—	**7,011**	7,011	—
Other assets: investment property	—	—	1,141	**1,141**	1,141	—
Assets for which fair values are disclosed						
Cash and cash equivalents	—	25,484	—	**25,484**	25,484	—
Amounts due from credit institutions	—	—	16,270	**16,270**	16,270	—
Receivables from healthcare services	—	—	53,447	**53,447**	53,447	—
Other assets: loans issued	—	—	9,764	**9,764**	9,764	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	163,193	**163,193**	163,193	—

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (Continued)

	Level 1	Level 2	Level 3	Total fair value 31 December 2014	Carrying value 31 December 2014	Unrecognised gain (loss) 31 December 2014
Assets measured at fair value						
Property and equipment	—	—	1,896	**1,896**	1,896	—
Other assets: derivative financial assets	—	2,054	—	**2,054**	2,054	—
Other assets: investment property	—	—	1,138	**1,138**	1,138	—
Assets for which fair values are disclosed						
Cash and cash equivalents	—	32,784	—	**32,784**	32,784	—
Amounts due from credit institutions	—	—	13,954	**13,954**	13,954	—
Receivables from healthcare services	—	—	43,265	**43,265**	43,265	—
Other assets: loans issued	—	—	7,793	**7,793**	7,793	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	162,860	**162,860**	162,860	—

	Level 1	Level 2	Level 3	Total fair value 31 December 2013	Carrying value 31 December 2013	Unrecognised gain (loss) 31 December 2013
Assets measured at fair value						
Property and equipment	—	—	1,931	**1,931**	1,931	—
Other assets: derivative financial assets	—	982	—	**982**	982	—
Other assets: investment property	—	—	1,138	**1,138**	1,138	—
Assets for which fair values are disclosed						
Cash and cash equivalents	—	4,471	—	**4,471**	4,471	—
Amounts due from credit institutions	—	—	8,606	**8,606**	8,606	—
Receivables from healthcare services	—	—	13,543	**13,543**	13,543	—
Other assets: loans issued	—	—	6,506	**6,506**	6,506	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	105,242	**105,242**	105,242	—

	Level 1	Level 2	Level 3	Total fair value 31 December 2012	Carrying value 31 December 2012	Unrecognised gain (loss) 31 December 2012
Assets measured at fair value						
Property and equipment	—	—	3,156	**3,156**	3,156	—
Other assets: investment securities	—	—	326	**326**	326	—
Assets for which fair values are disclosed						
Cash and cash equivalents	—	8,398	—	**8,398**	8,398	—
Amounts due from credit institutions	—	—	8,816	**8,816**	8,816	—
Receivables from healthcare services	—	—	7,630	**7,630**	7,630	—
Other assets: loans issued	—	—	6,506	**6,506**	6,506	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	91,161	**91,161**	91,161	—
Other liabilities: derivative financial liabilities	—	647	—	**647**	647	—

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (Continued)

As at 31 December 2012 level 3 financial instruments were comprised of ordinary shares of JSC GPC, which were fully disposed in 2013.

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.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Property and equipment, investment property

Property and investment property at fair value consist of land and buildings, for which fair value is derived by certain inputs that are not based on observable market data. The value of these assets is measured using the market approach or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively. The cost approach reflects the amount that would be required currently to replace the service capacity of the asset.

Impact of changes in key assumptions on fair value of level 3 assets measured at fair value

Level 3 property at fair value

	30 June 2015	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	**1,141**						
	1,141	Market approach	Price per square meter	1,919	Square meters, building	593	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 114

	30 June 2015	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**1,850**						
	1,653	Market approach	Price per square meter	2,057-2,284	Square meters, building	211; 619	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 168
	197	Cost approach	Replacement cost per square meter	188	Square meters, building	1,327	10% increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value by GEL 20
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price per square meter	5	Square meters, land	5,782	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 1

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (Continued)

	31 December 2014	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	**1,138**						
	1,138	Market approach	Price per square meter	1,919	Square meters, building	593	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 114

	31 December 2014	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**1,896**						
	1,653	Market approach	Price per square meter	2,057-2,284	Square meters, building	211; 619	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 168
	243	Cost approach	Replacement cost per square meter	188	Square meters, building	1,327	10% increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value by GEL 24
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price per square meter	5	Square meters, land	5,782	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 1

	31 December 2013	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	**1,138**						
	1,138	Market approach	Price per square metre	1,919	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (Continued)

	31 December 2013	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**1,931**						
	1,681	Market approach	Price per square metre	2,057-2,284	Square metres, building	211; 619	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 168
	250	Cost approach	Replacement cost per square metre	188	Square metres, building	1,327	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 24
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price pet square metre	5	Square metres, land	5,782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 1

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the historical financial information.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

39. Related Party Transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

(Thousands of Georgian Lari unless otherwise stated)

39. Related Party Transactions (Continued)

The volumes of related party transactions, outstanding balances at the period end, and related expense and income for the period are as follows:

	30 June 2015		31 December 2014	
	Parent	Entities under common control	Parent	Entities under common control*
Assets				
Cash and cash equivalents	24,270	—	31,468	7
Amounts due from credit institutions	9,466	—	6,740	—
Insurance premiums receivable	158	255	747	241
Other assets: derivative financial assets	—	7,011	—	2,054
Other assets	3	3,574	162	425
	33,897	**7,709**	**39,117**	**2,727**
Liabilities				
Borrowings	89,523	4,585	89,769	2,980
Insurance contract liabilities	121	220	733	88
Accounts payable	745	127	813	335
	90,389	**4,932**	**91,315**	**3,403**

	30 June 2015		30 June 2014 (unaudited)	
	Parent	Entities under common control*	Parent	Entities under common control*
Income and expenses				
Net insurance premiums earned	954	138	835	113
General and administrative expenses	(384)	(39)	(231)	(12)
Interest income	378	—	—	132
Interest expense	(5,870)	(208)	(2,911)	(217)
Other operating income	—	142	—	—
Other operating expenses	—	(175)	(318)	(51)
	(4,922)	**(142)**	**(2,625)**	**(35)**

(Thousands of Georgian Lari unless otherwise stated)

39. Related Party Transactions (Continued)

	2014		2013			2012	
	Parent	Entities under common control*	Parent	Entities under common control*	Key management personnel**	Parent	Entities under common control*
Assets							
Cash and cash equivalents	31,468	7	4,383	7	—	196	—
Amounts due from credit institutions	6,740	—	5,762	—	—	5,506	—
Insurance premiums and reinsurance receivables	747	241	717	76	—	656	91
Other assets: derivative financial assets	—	2,054	982	—	—	—	—
Other assets	162	425	109	—	—	—	—
	39,117	**2,727**	**11,953**	**83**	**—**	**6,358**	**91**
Liabilities							
Borrowings	89,769	2,980	50,668	—	—	45,413	—
Insurance contract liabilities	733	88	901	142	—	866	70
Other liabilities	813	335	364	—	—	116	—
	91,315	**3,403**	**51,933**	**142**	**—**	**46,395**	**70**
Income and expenses							
Net insurance premiums earned	1,704	309	1,648	95	—	1,240	35
General and administrative expenses	(512)	(39)	—	—	—	—	—
Interest income	—	263	6	—	—	14	—
Interest expense	(6,256)	(425)	(2,323)	—	—	(4,181)	—
Other operating expenses	(413)	(126)	—	—	(186)	—	—
	(7,657)	**(327)**	**(817)**	**95**	**(186)**	**(2,927)**	**35**

* Entities under common control include Bank of Georgia Holdings plc subsidiaries.

** Key management personnel include chief executive officers, deputies and members of supervisory board of Imedi L and EVEX and their close family members.

Compensation of key management personnel comprised the following:

	30 June 2015	30 June 2014 (unaudited)	31 December 2014	31 December 2013	31 December 2012
Salaries and cash bonuses	973	668	1,335	1,400	1,492
Share-based compensation	410	460	920	631	226
Total key management compensation	**1,383**	**1,128**	**2,255**	**2,031**	**1,718**

40. Events After Reporting Period

In June 2015 the Group signed a binding memorandum of understanding, subject to relevant regulatory approvals, to acquire 50.0% of equity interest in GNCo, with effective management and operational control over the company. GNCo is a holding company that owns 100% of High Technology Medical University Center (“HTMC”), a 450 bed referral hospital in Tbilisi, which provides a wide range of in-patient and out-patient services. In July 2015, the Group received approval from regulatory body and in August 2015 signed share purchase agreement with total consideration amounting to USD 17 million (GEL 34.3 million).

Avante Hospital Management Group LLC

Historical Financial Information

For the two months period ended 28 February 2014
together with independent Accountants' Report

Contents

Independent Accountants' Report

Notes to the Historical Financial Information

The Directors
Georgia Healthcare Group PLC
84 Brook Street
London W1K 5EH
United Kingdom

9 November 2015

Dear Sirs,

We report on the financial information of Avante Hospital Management Group LLC and its subsidiaries ("the Avante Group") set out in Part XXII "Historical Financial Information" for the two-month periods ended 28 February 2014 and 2013 (the "Avante Historical Financial Information"). This financial information has been prepared for inclusion in the prospectus dated 9 November 2015 of the Georgia Healthcare Group PLC (the "Company") on the basis of the accounting policies set out in Note 3 to the Avante Historical Financial Information. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of the Company are responsible for preparing the Avante Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Avante Historical Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Avante Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Avante Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Avante Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Avante Historical Financial Information gives, for the purposes of the prospectus dated 9 November 2015, a true and fair view of the state of affairs of the Avante Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) 809/2004.

Yours faithfully

EY Georgia LLC

Avante Hospital Management Group LLC

Interim consolidated statement of financial position

As at 28 February 2014

(Thousands of Georgian lari)

	Notes	28 February 2014	31 December 2013
Assets			
Cash and cash equivalents	5	517	509
Receivables from healthcare services	6	8,014	6,548
Property and equipment	7	25,103	25,223
Goodwill		5	5
Current income tax assets		22	22
Deferred income tax assets		605	587
Other assets	8	1,012	1,018
Total assets		**35,278**	**33,912**
Liabilities			
Accruals for employee compensation		2,205	1,578
Accounts payable	9	2,667	2,614
Borrowings	10	10,432	18,318
Current income tax liabilities		108	67
Deferred income tax liabilities		264	222
Other liabilities	11	1,980	1,767
Total liabilities		**17,656**	**24,566**
Equity			
Share capital	12	7,775	—
Retained earnings		6,108	5,728
Total equity attributable to shareholders of the Group		**13,883**	**5,728**
Non-controlling interest		3,739	3,618
Total equity		**17,622**	**9,346**
Total equity and liabilities		**35,278**	**33,912**

Signed and authorized for release on behalf of the Management:

Nikoloz Gamkrelidze — Chief Executive Officer,
JSC Medical Corporation Evex

David Vakhtangishvili — Deputy Chief Executive Officer—Finance,
JSC Medical Corporation Evex

27 August 2015

The accompanying notes on pages F-89 to F-108 are an integral part of this Historical Financial Information.

Avante Hospital Management Group LLC

Interim consolidated statement of comprehensive income

For the two months period ended 28 February 2014

(Thousands of Georgian lari)

	Notes	Two months ended 28 February 2014	Two months ended 28 February 2013
Healthcare services revenue	14	6,170	5,332
Cost of healthcare services	15	(3,770)	(3,123)
Gross profit		**2,400**	**2,209**
Other operating income		36	110
Salaries and other employee benefits		(486)	(360)
General and administrative expenses	16	(237)	(158)
Impairment of healthcare service receivables	17	(520)	(1,421)
Other operating expenses		(47)	(18)
		(1,290)	**(1,957)**
Earnings before interest, tax, depreciation and amortisation		**1,146**	**362**
Depreciation	7	(248)	(236)
Interest income		—	2
Interest expense		(294)	(513)
Net losses from foreign currencies		(39)	(29)
Net non-recurring income	18	—	182
Profit/(loss) before income tax expense		**565**	**(232)**
Income tax charge		(64)	(87)
Profit and total comprehensive income for the year		**501**	**(319)**
Attributable to:			
—shareholders of the Group		380	(473)
—non-controlling interest		121	154

The accompanying notes on pages F-89 to F-108 are an integral part of this Historical Financial Information.

Avante Hospital Management Group LLC

Interim consolidated statement of changes in equity

For the two months ended 28 February 2014

(Thousands of Georgian lari)

		Attributable to the shareholders of the Group				
	Notes	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2013		**—**	**3,712**	**3,712**	**1,006**	**4,718**
Profit and total comprehensive income for the period		—	(473)	**(473)**	154	**(319)**
28 February 2013		**—**	**3,239**	**3,239**	**1,160**	**4,399**
1 January 2014		**—**	**5,728**	**5,728**	**3,618**	**9,346**
Profit and total comprehensive income for the period		—	380	**380**	121	**501**
Conversion of borrowings to equity	12	7,775	—	**7,775**	—	**7,775**
28 February 2014		**7,775**	**6,108**	**13,883**	**3,739**	**17,622**

The accompanying notes on pages F-89 to F-108 are an integral part of this Historical Financial Information.

Avante Hospital Management Group LLC

Interim consolidated statement of cash flows

For the period ended 28 February 2014

(Thousands of Georgian lari)

	Notes	Two months ended 28 February 2014	Two months ended 28 February 2013
Cash flows from/(used in) operating activities			
Healthcare services revenue received		3,886	3,259
Cost of healthcare services paid		(2,691)	(2,925)
Salaries and other employee benefits paid		(375)	(302)
General and administrative expenses paid		(272)	(205)
Operating taxes paid		(7)	(17)
Other operating income received		40	30
Other operating expenses paid		(50)	(32)
Net cash flows from/(used in) operating activities before income tax		**531**	**(192)**
Income tax paid		—	(1)
Net cash flows from operating activities		**531**	**(193)**
Cash flows from (used in) investing activities			
Purchase of property and equipment		(91)	(641)
Proceeds from sale of property and equipment		13	—
Interest income received		—	2
Loan Issued		—	(100)
Net cash used in investing activities		**(78)**	**(739)**
Cash flows from (used in) financing activities			
Proceeds from borrowings		—	5,719
Repayment of borrowings		(223)	(4,455)
Interest expense paid		(212)	(240)
Dividends paid		—	(9)
Net cash used in financing activities		**(435)**	**1,015**
Effect of exchange rates changes on cash and cash equivalents		(10)	2
Net increase in cash and cash equivalents		**8**	**85**
Cash and cash equivalents, beginning	5	**509**	**472**
Cash and cash equivalents, end	5	**517**	**557**

Non-cash transactions

Significant non-cash transaction on convertion of borrowing to equity is described in Note 12.

The accompanying notes on pages F-89 to F-108 are an integral part of this Historical Financial Information.

Avante Hospital Management Group LLC
Notes to the Historical Financial Information
for the two months period ended 28 February 2014
(Thousands of Georgian Lari unless otherwise stated)

1. Background

LLC Avante Hospital Management Group ("the Company") was established on 5 August 2011 as a limited liability company under the Georgian law.

The Company was incorporated and is domiciled in Georgia. The Company was set up under the name of "New Life", by "Healthy Life" LLC. On 18 June 2012 the Company's name was changed to its current name—Avante Hospital Management Group LLC.

As at 28 February 2014 the Company had the following subsidiaries incorporated in Georgia:

Subsidiary	Ownership/voting 28 February 2014	Ownership/voting 31 December 2013	Industry	Date of incorporation	Date of acquisition
New Life LLC[(1)]	100%	100%	Healthcare	21 September 1999	5 September 2011
Batumi Mothers and Children Health protection Republic Centre LLC	100%	100%	Healthcare	21 January 2000	26 August 2011
Podiatry institute, Allergy and Rheumatology Centre LLC	80%	80%	Healthcare	6 March 2000	27 March 2012
Children New Hospital LLC	75%	75%	Healthcare	18 July 2011	5 September 2011
Iashvili Children Central Hospital LLC	67%	67%	Healthcare	21 March 2000	30 May 2012

New Life LLC is a separate entity not to be confused with the Company under it's original name The Company and its subsidiaries are referred hereinafter as the "Group".

The Company had the following shareholders:

Shareholder	28 February 2014	31 December 2013
Unimedi Kakheti LLC	80%	—
Givi Kapanadze	—	75%
Giga Natsvlishvili	10%	12.5%
Erekle Natsvlishvili	10%	12.5%
Total	**100%**	**100%**

In 2013 the Company did not have any share capital which is allowed by the Georgian Law. The shares presented in the table above as at 31 December 2013 represent respective individual's share in Company's profits as set up in the foundation documents.

Primary business activities include providing medical services to inpatient and outpatient customers through a network of hospitals and clinics in Tbilisi and Batumi.

The Company's legal address is 2/6, Lubliana Street, Tbilisi, Georgia.

(Thousands of Georgian Lari unless otherwise stated)

1. Background (Continued)

Material partly owned subsidiaries

The following subsidiary have material non-controlling interests:

	Two months ended 28 February 2014			
	Ownership/voting rights held by non-controlling interests, %	Profit allocated to non-controlling interests during the period	Accumulated non-controlling interests at the end of the period	Dividends paid to non-controlling interests during the period
Iashvili Children Central Hospital LLC	33	95	2,839	—

	Two months ended 28 February 2013			
	Ownership/voting rights held by non-controlling interests, %	Profit allocated to non-controlling interests during the period	Accumulated non-controlling interests at the end of the period	Dividends paid to non-controlling interests during the period
Iashvili Children Central Hospital LLC	33	190	1,154	—

The summarized financial information of this subsidiary is presented below. This information is based on amounts before inter-company eliminations.

Iashvili Children Central Hospital LLC	28 February 2014	31 December 2013
Property and equipment	11,216	11,358
Other assets	14,901	14,981
Total assets	**26,117**	**26,339**
Borrowings	4,186	4,227
Other liabilities	3,794	3,792
Total liabilities	**7,980**	**8,019**
Equity	**18,137**	**18,320**

Iashvili Children Central Hospital LLC	For the year ended 28 February 2014	For the year ended 28 February 2013
Revenue	3,163	2,781
Profit and total comprehensive income for the year	284	571
Total comprehensive income for the year	**284**	**571**
Net cash flows from operating activities	195	(78)
Net cash flows from investing activities	(48)	(152)
Net cash flows from financing activities	(216)	(11)
Net increase/(decrease) in cash and cash equivalents	**(69)**	**(241)**

2. Basis of preparation

This historical financial information has been prepared in accordance with International Financial Reporting Standard 34 *Interim Financial Reporting* (“IAS 34”).

2. Basis of preparation (Continued)

This historical financial information has been prepared on a going concern basis and under the historical cost convention which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

This historical financial information has been presented in thousands of Georgian lari (GEL), except where otherwise stated.

3. Summary of significant accounting policies

Basis of consolidation

The historical financial information comprises the consolidated financial information of the Company and its subsidiaries as at 28 February 2014. 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.

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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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 parent 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 historical financial information 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.

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 and are free from contractual encumbrances.

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price which is deemed to be fair value at the date of initial recognition. They are subsequently measured at amortized 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.

3. Summary of significant accounting policies (Continued)

Property and equipment

Property and equipment, expect for assets acquired in business combinations that are initially recognized at deemed cost equal to their fair value, 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 carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as an expense.

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
Hospitals and clinics	100
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual values, useful lives and methods 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 capitalization.

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 derecognizing 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 year the asset is derecognised.

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Taxation

Income tax charge for the interim period is recognized using the tax rate applicable to expected total annual earnings, by applying the estimated weighted-average annual effective income tax rate to pre-tax income for the interim period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet 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 period 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.

3. Summary of significant accounting policies (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 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.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at their fair value less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized 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 amortization process.

Accounts payable

Accounts payable are recognized at their original invoiced value, deemed to be their fair value at initial recognition. Where the time value of money is material, payables are initially recognized at their present value. Subsequently payables are carried at amortized cost

Income and expense recognition

Healthcare services revenue

The Group recognizes revenue when the amount of revenue can be reliably measured or it is probable that future economic benefits will flow to the entity.

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing impatient and outpatient services and includes following components:

- Healthcare services revenue from insurance companies—The Group recognizes revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from state—The Group recognizes the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other—The Group recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually paid for in cash or by credit card. Other revenue from medical services includes revenue from other hospitals, which the Group has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

3. Summary of significant accounting policies (Continued)

Cost of healthcare services

Cost of healthcare services represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

Foreign currency translation

The historical financial information is presented in Georgian lari, which is the functional and presentation currency of the Company and its subsidiaries. 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 of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated profit or loss as Net losses from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The official NBG exchange rates at 28 February 2014 and 31 December 2013 were 1.7495 and 1.7363 Georgian lari to 1 US dollar, respectively.

Non-recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 20.

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.

3. Summary of significant accounting policies (Continued)

Adoption of new or revised accounting standards and interpretations

The Group has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities—Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's historical financial information as the Group has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting—Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group, since the Group has no transaction with derivatives.

Recoverable Amount Disclosures for Non-Financial Assets—Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance.

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the historical financial information, certain new standards, and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

3. Summary of significant accounting policies (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

4. Significant accounting judgments, estimates and assumptions

The preparation of the historical financial information 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 year. 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 year are discussed below.

Impairment of receivables from healthcare services

The impairment allowance for receivables from healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a evidence of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria for defining the evidence of such deterioration is the customers' debt servicing quality measured by the number of days in arrears (i.e. the number of days of overdue). Based on the respective analysis of the current and past debt servicing of the customers, the Group determines whether or not there is an objective evidence of an impairment. If yes, then the proper allowance rate is applied which reflects credit risk associated with that particular customer depending on its category of debt servicing. If not, then respective accounts receivable are assessed collectively, in a total pool for the good credit quality receivables, again based on the number of days overdue. Good credit quality receivables are considered those that are less than 30 days overdue.

Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance on receivables from healthcare services as at 28 February 2014 was GEL 7,091 (31 December 2013: GEL 6,571) (Note 6).

Current income tax recognition

The expected annual current income tax charge is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date. Georgian tax legislation provided healthcare companies with investment tax credit. Investment tax credit is calculated on the basis of expected reinvestments of profit generated in the current year within next 3 years. The judgment is applied at each reporting date in estimating the amount to be reinvested in in the Group core economical activities during the next 3 years in order to calculate eligible investment tax credit. This estimation is based on medium term business plan prepared by management.

(Thousands of Georgian Lari unless otherwise stated)

5. Cash and cash equivalents

Cash and cash equivalents as at 28 February comprise:

	28 February 2014	31 December 2013
Cash on hand	98	51
Current and on-demand accounts with banks	419	458
Total cash and cash equivalents	**517**	**509**

6. Receivables from healthcare services

Receivables from healthcare services as at 28 February comprise:

	28 February 2014	31 December 2013
Receivable from insurance companies	8,772	8,323
Receivable from state	2,382	1,594
Receivables from individuals and other	3,951	3,202
	15,105	**13,119**
Less—allowance for impairment (Note 17)	(7,091)	(6,571)
Total receivables from healthcare services	**8,014**	**6,548**

As at 28 February 2014, receivable from the state mainly represents amounts receivable under the Universal Healthcare Program ("UHC") introduced by the state in March 2013. Through the UHC, the state provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. The implementation of UHC took place in the following stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by state or private insurance programs (accounting for approximately 2 million people, including children above the age of six and adults).
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses.

(Thousands of Georgian Lari unless otherwise stated)

7. Property and equipment

The movements in property and equipment were as follows:

	Hospitals & clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Assets under construction	Total
Cost or deemed cost							
1 January 2013	**16,059**	**1,147**	**271**	**4,437**	**312**	**1,041**	**23,267**
Additions	151	92	1	359	—	—	**603**
Disposals	—	—	—	(21)	—	—	**(21)**
Transfer	—	16	1	(17)	—	—	**—**
28 February 2013	**16,210**	**1,255**	**273**	**4,758**	**312**	**1,041**	**23,849**
Cost or deemed cost							
1 January 2014	**19,133**	**1,332**	**369**	**5,689**	**283**	**873**	**27,679**
Additions	39	48	20	84	24	19	**234**
Disposals	—	(20)	—	(143)	—	—	**(163)**
Transfer	—	6	—	(9)	3	—	**—**
28 February 2014	**19,172**	**1,366**	**389**	**5,621**	**310**	**892**	**27,750**
Accumulated depreciation							
1 January 2013	**195**	**123**	**31**	**642**	**1**	**—**	**992**
Depreciation charge	27	29	11	142	27	—	**236**
Disposals	—	—	—	—	—	—	**—**
28 February 2013	**222**	**152**	**42**	**784**	**28**	**—**	**1,228**
Accumulated depreciation							
1 January 2014	**373**	**325**	**103**	**1,654**	**1**	**—**	**2,456**
Depreciation charge	32	28	12	148	28	—	**248**
Disposals	—	—	—	(57)	—	—	**(57)**
28 February 2014	**405**	**353**	**115**	**1,745**	**29**	**—**	**2,647**
Net book value							
1 January 2013	**15,864**	**1,024**	**240**	**3,795**	**311**	**1,041**	**22,275**
28 February 2013	**15,988**	**1,103**	**231**	**3,974**	**284**	**1,041**	**22,621**
1 January 2014	**18,760**	**1,007**	**266**	**4,035**	**282**	**873**	**25,223**
28 February 2014	**18,767**	**1,013**	**274**	**3,876**	**281**	**892**	**25,103**

Net carrying value of property and equipment held as collateral for borrowings amounted to GEL 19,659 as at 28 February 2014 (2013: GEL 19,633).

8. Other assets

Other assets as at 28 February comprise:

	28 February 2014	31 December 2013
Inventory	688	698
Loans issued	122	122
Prepaid operating taxes	36	34
Advances and prepayments	27	20
Other	139	144
Total other assets	**1,012**	**1,018**

(Thousands of Georgian Lari unless otherwise stated)

9. Accounts payable

Accounts payable as at 28 February comprise:

	28 February 2014	31 December 2013
Accounts payable for healthcare materials and supplies	2,452	2,386
Accounts payable for healthcare services	204	203
Other accounts payable	11	25
Total accounts payable	**2,667**	**2,614**

10. Borrowings

Borrowings as at 28 February comprise:

	28 February 2014	31 December 2013
Borrowings from local commercial banks and other parties	10,432	10,635
Borrowings from shareholders	—	7,683
Total borrowings	**10,432**	**18,318**

Borrowings from local commercial banks have an average interest rate of 13.14% per annum (2013: 13.03%), maturing on average in 2,831 days (2013: 1,770 days).

In February 2014 borrowings from shareholders of carrying amount of GEL 7,775 were converted to the share capital of the Company (Note 12).

11. Other liabilities

Other liabilities as at 28 February comprise:

	28 February 2014	31 December 2013
Payable to state	745	745
Operating taxes payable	597	494
Payable for purchase of property and equipment	200	151
Other	438	377
Total other liabilities	**1,980**	**1,767**

12. Equity

Share capital as at 28 February 2014 was GEL 7,775 (2013: nil) which is not divided in any fixed number of shares. In 2013 the Company did not have any share capital which is allowed by the Georgian Law.

In February 2014, shareholders converted borrowings with carrying value of GEL 7,775 in the share capital of the Company (Note 10).

13. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group.

(Thousands of Georgian Lari unless otherwise stated)

13. 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 authorities. Recent events within the Georgia suggest that the tax authorities are taking a more assertive position in its 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 year 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.

14. Healthcare services revenue

	Two months ended	
	28 February 2014	28 February 2013
Healthcare services revenue from insurance companies	2,826	3,048
Healthcare services revenue from state	1,728	1,021
Healthcare services revenue from out-of-pocket and other	1,769	1,324
Less: rebates	(153)	(61)
Total healthcare services revenue	**6,170**	**5,332**

Healthcare services revenue from state represents the revenue through UHC. A description of the program is provided in Note 6 above.

15. Cost of healthcare services

	Two months ended	
	28 February 2014	28 February 2013
Salaries and other employee benefits	(2,655)	(2,137)
Materials and supplies	(801)	(667)
Utilities and other	(314)	(319)
Total cost of healthcare services	**(3,770)**	**(3,123)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc. Indirect salaries that were not included to cost of healthcare services amounted in 2014 to GEL 486 (2013: GEL 360) and were presented as a separate line item in consolidated profit or loss. Total amount of salaries and other employee benefits recognized as expense in profit or loss for two months ended 28 February 2014 amounted to GEL 3,141 (2013: GEL 2,497).

(Thousands of Georgian Lari unless otherwise stated)

16. General and administrative expenses

General and administrative expenses comprise:

	Two months ended	
	28 February 2014	28 February 2013
Office supplies	(88)	(35)
Security	(54)	(7)
Communication	(15)	(12)
Professional services	(11)	(20)
Bank fees and commissions	(2)	(10)
Occupancy, maintenance and rent	(2)	(5)
Marketing and advertising	—	(9)
Representative expenses	—	(1)
Other	(65)	(59)
Total general and administrative expenses	**(237)**	**(158)**

In the two month periods ended 28 February 2014 and 2013 other general and administrative expenses mainly comprised of training and operating tax expeneses.

17. Impairment of healthcare service receivables

The movements in the allowance for healthcare services receivables are as follows:

	Two months ended	
	28 February 2014	28 February 2013
1 January	**(6,571)**	**(1,359)**
Impairment charge	(520)	(1,421)
28 February	**(7,091)**	**(2,780)**

Allowances for impairment of assets are deducted from the gross carrying amounts of the related assets.

18. Net non-recuring income

In two months ended 28 February 2013 year net non-recurring income includes gain from sale of building of GEL 182.

(Thousands of Georgian Lari unless otherwise stated)

19. Risk management

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. 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 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.

Financial risks

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service, aging of receivables, etc. Counterparty limits are established in combination with credit terms.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

	Notes	Neither past due nor impaired	Impaired	Total 28 February 2014
Receivable from healthcare services	6	495	14,610	**15,105**
Loans issued	8	122	—	**122**
Total		**617**	**14,610**	**15,227**

	Notes	Neither past due nor impaired	Impaired	Total 31 December 2013
Receivable from healthcare services	6	487	12,632	**13,119**
Loans issued	8	122	—	**122**
Total		**609**	**12,632**	**13,241**

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days. Those receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

(Thousands of Georgian Lari unless otherwise stated)

19. Risk management (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet 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.

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, and the redemption of borrowings when they fall due.

Management believes that the current level of the Group's liquidity is sufficient to meet its all present obligations and settle liabilities in timely manner.

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.

As at 28 February 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	1,855	780	8,000	5,355	**15,990**
Accounts payable	2,667	—	—	—	**2,667**
Other financial liabilities	945	—	—	—	**945**
Total undiscounted financial liabilities	**5,467**	**780**	**8,000**	**5,355**	**19,602**

As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	3,809	10,093	8,509	—	**22,411**
Accounts payable	2,614	—	—	—	**2,614**
Other financial liabilities	896	—	—	—	**896**
Total undiscounted financial liabilities	**7,319**	**10,093**	**8,509**	**—**	**25,921**

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 a single floating interest rate borrowing linked to Libor and is therefore exposed to interest rate risk. The Group determined that reasonably possible changes in Libor will not have significant effect on the Group's profit and equity.

(Thousands of Georgian Lari unless otherwise stated)

19. Risk management (Continued)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arises primarily with respect to US dollars.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities—lari. Most of the Group's operations are denominated in lari too. The main foreign exchange risk arises from US dollars denominated borrowings.

The tables below indicate the currencies to which the Group had significant exposure at 28 February 2014 and 31 December 2013 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 consolidated 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.

	28 February 2014	31 December 2013
	USD	
Assets		
Cash and cash equivalents	—	2
Total assets	**—**	**2**
Liabilities		
Borrowings	5,505	7,896
Total liabilities	**5,505**	**7,896**
Net position	**(5,505)**	**(7,894)**
Increase in currency rate in %	+5.48%	+0.8%
Effect on profit before tax	(527)	(63)
Decrease in currency rate in %	−5.48%	−0.8%
Effect on profit before tax	527	63

20. Fair values measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; 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. It also includes a comparison by class of the

(Thousands of Georgian Lari unless otherwise stated)

20. Fair values measurements (Continued)

carrying amounts and fair values of the Group's financial instruments that are carried in the historical financial information:

	Level 1	Level 2	Level 3	Total fair value 28 February 2014	Carrying value 28 February 2014	Unrecognised gain (loss) 28 February 2014
Assets for which fair values are disclosed						
Cash and cash equivalents	—	517	—	**517**	517	—
Loans issued	—	—	122	**122**	122	—
Receivables from healthcare services	—	—	8,014	**8,014**	8,014	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	**10,432**	**10,432**	**10,432**	—

	Level 1	Level 2	Level 3	Total fair value 31 December 2013	Carrying value 31 December 2013	Unrecognised gain (loss) 31 December 2013
Assets for which fair values are disclosed						
Cash and cash equivalents	—	509	—	**509**	509	—
Loans issued	—	—	122	**122**	122	—
Receivables from healthcare services	—	—	6,548	**6,548**	6,548	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	18,318	**18,318**	18,318	—

The following describes the methodologies and assumptions used to determine fair values for financial instruments.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by discounting related cash flows to be received or paid using prevailing money-market interest rates for assets or debts with similar credit risk and maturity.

21. Related party transactions

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.

(Thousands of Georgian Lari unless otherwise stated)

21. Related party transactions (Continued)

The volumes of related party transactions, outstanding balances at the year end, and related transactions, expense and income for the year are as follows:

	28 February 2014			31 December 2013		
	Shareholders	Other related parties	Key management personnel*	Shareholders	Other related parties	Key management personnel*
Assets						
Receivable from healthcare services	2,362	930	—	—	712	—
Allowance for impairment	(347)	(452)	—	—	(230)	—
Other assets	—	117	—	117	—	—
	2,015	**595**	**—**	**117**	**482**	**—**
Liabilities						
Borrowings	—	—	—	7,683	—	—
Accounts payable	—	1,751	—	—	1,427	—
	—	**1,751**	**—**	**7,683**	**1,427**	**—**

	Two months ended 28 February 2014			Two months ended 28 February 2013		
Transactions, income and expenses						
Purchase of inventory	—	387	—	—	260	—
Salaries and other employee benefits	—	—	(29)	—	—	(28)
Interest expense	(101)	—	—	(113)	(58)	—
Healthcare services revenue	—	990	—	—	324	—
Other operating income	—	—	—	—	—	—
Impairment of healthcare service receivables	—	(222)	—	—	—	—

* Key management personnel include the shareholders carrying out management activities and their close family members.

Other related parties are companies under control of holder of non-controlling interest in a subsidiary that is significant to the Group.

(Thousands of Georgian Lari unless otherwise stated)

22. Maturity analysis of assets and liabilities

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.

28 February 2014	Within one year	More than one year	Total
Assets			
Cash and cash equivalents	517	—	**517**
Receivables from healthcare services	8,014	—	**8,014**
Property and equipment	—	25,103	**25,103**
Goodwill	—	5	**5**
Current income tax assets	22	—	**22**
Deferred income tax assets	—	605	**605**
Other assets	1,012	—	**1,012**
Total assets	**9,565**	**25,713**	**35,278**
Liabilities			
Borrowings	1,488	8,944	**10,432**
Accounts payable	2,667	—	**2,667**
Accruals for employee compensation	2,205	—	**2,205**
Current income tax liabilities	108	—	**108**
Deferred income tax liabilities	—	264	**264**
Other liabilities	1,980	—	**1,980**
Total liabilities	**8,448**	**9,208**	**17,656**
	1,117	**16,505**	**17,622**

31 December 2013	Within one year	More than one year	Total
Assets			
Cash and cash equivalents	509	—	**509**
Receivables from healthcare services	6,548	—	**6,548**
Property and equipment	—	25,223	**25,223**
Goodwill	—	5	**5**
Current income tax assets	22	—	**22**
Deferred income tax assets	—	587	**587**
Other assets	1,018	—	**1,018**
Total assets	**8,097**	**25,815**	**33,912**
Liabilities			
Borrowings	12,394	5,924	**18,318**
Accounts payable	2,614	—	**2,614**
Accruals for employee compensation	1,578	—	**1,578**
Current income tax liabilities	67	—	**67**
Deferred income tax liabilities	—	222	**222**
Other liabilities	1,767	—	**1,767**
Total liabilities	**18,420**	**6,146**	**24,566**
	(10,323)	**19,669**	**9,346**

23. Events after the reporting period

On 5 March 2014. Unimed Kakheti LLC, a wholly owned subsidiary of Insurance Company Aldagi and holder of 80% of Company's shares, acquired remaining 20% of the shares of the Company.

In April 2015, entire LLC Avante Hospital Management Group, excluding Iashvili Children Central Hospital LLC and Podiatry institute, Allergy and Rheumatology Centre LLC was merged with Unimedi Kakheti LLC that was, at merger date, a wholly owned subsidiary of JSC Medical Corporation Evex. JSC Medical Corporation Evex was set up in 2014 as a part of Insurance Company Aldagi's reorganization process, and is untimately controlled by Bank of Georgia Holdings plc.

Avante Hospital Management Group LLC

Consolidated financial statements

For the year ended 31 December 2013
together with independent auditors' report

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Independent auditors' report

Notes to the consolidated financial statements

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Independent Auditors' Report

To the Shareholder and the Management Board of Joint-Stock Company "Medical Corporation EVEX"

We have audited the accompanying consolidated financial statements of LLC "Avante Hospital Management Group" and its subsidiaries, together referred to as "the Group", which comprise the consolidated statements of financial position as at 31 December 2013, 2012 and 1 January 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 2012 and 1 January 2012, and its financial performance and its cash flows for the years ended 31 December 2013 and 2012, in accordance with International Financial Reporting Standards.

EY Georgia LLC

29 July 2015

Avante Hospital Management Group LLC

Consolidated statement of financial position

For the year ended 31 December 2013

(Thousands of Georgian lari)

	Notes	2013	2012	As at 1 January 2012
Assets				
Cash and cash equivalents	6	509	471	240
Receivables from healthcare services	7	6,548	5,592	1,146
Property and equipment	8	25,223	22,275	9,761
Goodwill		5	5	—
Current income tax assets		22	56	11
Deferred income tax assets	9	587	544	501
Other assets	10	1,018	782	1,080
Total assets		**33,912**	**29,725**	**12,739**
Liabilities				
Borrowings	11	18,318	18,376	6,124
Accounts payable	12	2,614	1,979	751
Accruals for employee compensation		1,578	1,656	714
Current income tax liabilities		67	126	131
Deferred income tax liabilities	9	222	309	99
Other liabilities	13	1,767	2,561	1,514
Total liabilities		**24,566**	**25,007**	**9,333**
Equity				
Share capital		—	—	—
Retained earnings		5,728	3,712	2,804
Total equity attributable to shareholders of the Group		**5,728**	**3,712**	**2,804**
Non-controlling interest		3,618	1,006	602
Total equity		**9,346**	**4,718**	**3,406**
Total equity and liabilities		**33,912**	**29,725**	**12,739**

Signed and authorized for release on behalf of the Management:

Nikoloz Gamkrelidze — *Chief Executive Officer*, JSC Medical Corporation Evex

David Vakhtangishvili — *Deputy Chief Executive Officer—Finance*, JSC Medical Corporation Evex

29 July 2015

The accompanying notes on pages F-116 to F-140 are an integral part of these consolidated financial statements.

Avante Hospital Management Group LLC

Consolidated statement of comprehensive income

For the year ended 31 December 2013

(Thousands of Georgian lari)

	Notes	2013	2012
Healthcare services revenue	15	34,991	22,040
Cost of healthcare services	16	(20,309)	(13,816)
Gross profit		**14,682**	**8,224**
Other operating income		285	435
Salaries and other employee benefits		(2,542)	(1,706)
General and administrative expenses	17	(1,225)	(990)
Impairment of healthcare service receivables	18	(5,576)	(1,178)
Other operating expenses		(149)	(766)
		(9,492)	**(4,640)**
EBITDA		**5,475**	**4,019**
Depreciation	8	(1,483)	(873)
Interest income		25	7
Interest expense		(2,146)	(1,751)
Net losses from foreign currencies		(537)	(91)
Net non-recurring income (expense)	19	1,220	(33)
Profit before income tax expense		**2,554**	**1,278**
Income tax benefit	9	6	(109)
Profit for the year		**2,560**	**1,169**
Attributable to:			
—shareholders of the Group		2,016	908
—non-controlling interest		544	261

The accompanying notes on pages F-116 to F-140 are an integral part of these consolidated financial statements.

Avante Hospital Management Group LLC

Consolidated statement of changes in equity

For the year ended 31 December 2013

(Thousands of Georgian lari)

		Attributable to the shareholders of the Group				
	Notes	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2012		**—**	**2,804**	**2,804**	**602**	**3,406**
Profit for the year		—	908	**908**	261	**1,169**
Total comprehensive income		**—**	**908**	**908**	**261**	**1,169**
Non-controlling interest arising from business combinations	5	—	—	**—**	143	**143**
31 December 2012		**—**	**3,712**	**3,712**	**1,006**	**4,718**
Profit for the year		—	2,016	**2,016**	544	**2,560**
Total comprehensive income		**—**	**2,016**	**2,016**	**544**	**2,560**
Dividends paid by subsidiaries to non-controlling shareholders		—	—	**—**	(179)	**(179)**
Issue of share capital by subsidiaries		—	—	**—**	2,247	**2,247**
31 December 2013		**—**	**5,728**	**5,728**	**3,618**	**9,346**

The accompanying notes on pages F-116 to F-140 are an integral part of these consolidated financial statements.

Avante Hospital Management Group LLC

Consolidated statement of cash flows

For the year ended 31 December 2013

(Thousands of Georgian lari)

	Notes	2013	2012
Cash flows from operating activities			
Healthcare services revenue received		26,021	18,507
Cost of healthcare services paid		(18,933)	(13,482)
Salaries and other employee benefits paid		(1,367)	(1,284)
General and administrative expenses paid		(1,109)	(821)
Operating taxes paid		(142)	(108)
Other operating income received		231	273
Other operating expenses paid		(507)	(376)
Net cash flows from operating activities before income tax		**4,194**	**2,709**
Income tax paid		(110)	(43)
Net cash flows from operating activities		**4,084**	**2,666**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	5	—	96
Purchase of property and equipment		(3,311)	(2,114)
Interest income received		7	6
Loans issued		(102)	(3)
Net cash used in investing activities		**(3,406)**	**(2,015)**
Cash flows from (used in) financing activities			
Proceeds from borrowings		7,307	2,785
Repayment of borrowings		(6,760)	(2,601)
Interest expense paid		(1,012)	(604)
Dividends paid		(179)	—
Net cash used in financing activities		**(644)**	**(420)**
Effect of exchange rates changes on cash and cash equivalents		4	—
Net increase (decrease) in cash and cash equivalents		**38**	**231**
Cash and cash equivalents, beginning	6	**471**	**240**
Cash and cash equivalents, end	6	**509**	**471**

The accompanying notes on pages F-116 to F-140 are an integral part of these consolidated financial statements.

(Thousands of Georgian lari unless otherwise stated)

1. Background

LLC Avante Hospital Management Group ("the Company") was established on 5 August 2011 as a limited liability company under the Georgian law.

The Company was incorporated and is domiciled in Georgia. The Company was set up under the name of "New Life", by "Healthy Life" LLC. On 18 June 2012 the Company's name was changed to its current name—Avante Hospital Management Group LLC.

As at 31 December the Company had the following subsidiaries incorporated in Georgia:

	Ownership/voting					
Subsidiary	**31 December 2013**	**31 December 2012**	**1 January 2012**	**Industry**	**Date of incorporation**	**Date of acquisition**
New Life LLC	100%	100%	100%	Healthcare	21 September 1999	5 September 2011
Batumi Mothers and Children Health protection Republic Centre LLC	100%	100%	100%	Healthcare	21 January 2000	26 August 2011
Batumi Childbirth House LLC	—	100%	100%	Healthcare	28 December 1999	26 August 2011
Podiatry institute, Allergy and Rheumatology Centre LLC	80%	80%	—	Healthcare	6 March 2000	27 March 2012
Children New Hospital LLC	75%	75%	75%	Healthcare	18 July 2011	5 September 2011
Iashvili Children Central Hospital LLC	67%	67%	—	Healthcare	21 March 2000	30 May 2012
GMC LLC[(1)]	—	67%	—	Various	3 May 2011	30 May 2012

(1) GMC was merged with Iashvili Children Central Hospital LLC in 2013.

(2) New Life LLC is a separate entity to be confused with the Company under it's original name.

The Company and its subsidiaries are referred hereinafter as the "Group".

As at 31 December the Company had the following shareholders:

Shareholder	**2013**	**2012**	**1 January 2012**
Givi Kapanadze	75%	75%	—
Zaza Kapanadze	—	—	75%
Gia Natsvlishvili	—	—	25%
Giga Natsvlishvili	12.5%	12.5%	—
Erekle Natsvlishvili	12.5%	12.5%	—
Total	**100%**	**100%**	**100%**

The Company does not have any share capital which is allowed by the Georgian Law. The shares presented in the table above represent respective individual's share in Company's profits as set up in the foundation documents.

Primary business activities include providing medical services to inpatient and outpatient customers through a network of hospitals and clinics in Tbilisi and Batumi.

The Company's legal address is 2/6, Lubliana Street, Tbilisi, Georgia.

(Thousands of Georgian lari unless otherwise stated)

1. Background (Continued)

Material partly owned subsidiaries

The following subsidiary have material non-controlling interests:

	2013			
	Ownership/voting rights held by non-controlling interests, %	Profit/(loss) allocated to non-controlling interests during the year	Accumulated non-controlling interests at the end of the year	Dividends paid to non-controlling interests during the year
Iashvili Children Central Hospital LLC	33	289	2,744	—

	2012			
	Ownership/voting rights held by non-controlling interests, %	Profit/(loss) allocated to non-controlling interests during the year	Accumulated non-controlling interests at the end of the year	Dividends paid to non-controlling interests during the year
Iashvili Children Central Hospital LLC	33	438	964	—

The summarized financial information of these subsidiaries is presented below. This information is based on amounts before inter-company eliminations.

Iashvili Children Central Hospital LLC	31 December 2013	31 December 2012
Property and equipment	11,358	10,590
Other assets	14,981	6,491
Total assets	**26,339**	**17,081**
Borrowings	4,227	496
Other liabilities	3,792	3,201
Total liabilities	**8,019**	**3,697**
Equity	**18,320**	**13,384**

Iashvili Children Central Hospital LLC	For the year ended 31 December 2013	For the year ended 31 December 2012
Revenue	18,092	8,689
Profit and total comprehensive income for the year	876	1,326
Total comprehensive income for the year	**876**	**1,326**
Net cash flows from operating activities	857	124
Net cash flows from investing activities	(388)	(296)
Net cash flows from financing activities	(595)	446
Net increase/(decrease) in cash and cash equivalents	**(126)**	**274**

In 2013 the holders of non-controlling interests in Iashvili Children Central Hospital LLC contributed GEL 2,247 to its share capital by non-cash conversion of existing loan.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

2. Basis of preparation (Continued)

These consolidated financial statements have been prepared on a going concern basis and under the historical cost convention which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

These consolidated financial statements have been presented in thousands of Georgian lari (GEL), except otherwise stated.

First time adoption of International financial reporting standards

These consolidated financial statements, for the year ended 31 December 2013, are the first consolidated financial statements prepared in accordance with IFRS by the Group. Accordingly, these consolidated financial statements have been prepared to comply with IFRS applicable at the end of its first reporting period, being 31 December 2013, together with the comparative period data as at and for the years ended 31 December 2012 and 2011. The Group did not present financial statements for previous periods. The Group did not use any exemptions from retrospective application provided by IFRS 1.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial information of the Company and its subsidiaries as at 31 December 2013. 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.

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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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 parent 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

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

3. Summary of significant accounting policies (Continued)

acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled 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 and are free from contractual encumbrances.

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price which deemed to be their fair value at the date of initial recognition. They are subsequently measured at amortized 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.

Property and equipment

Property and equipment 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 carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as an expense.

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
Hospitals and clinics	50-100
Furniture and fixtures	5-10
Medical equipment	5-10
Computers	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

3. Summary of significant accounting policies (Continued)

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

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 derecognizing 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 year the asset is derecognised.

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

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 balance sheet 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 period 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.

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 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.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at their fair value less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized 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 amortization process.

3. Summary of significant accounting policies (Continued)

Accounts payable

Accounts payable are recognized at their original invoiced value. Where the time value of money is material, payables are carried at amortized cost.

Equity

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 authorized for issue.

Income and expense recognition

Healthcare services revenue

The Group recognizes revenue when the amount of revenue can be reliably measured or it is probable that future economic benefits will flow to the entity.

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing impatient and outpatient services and includes following components:

- Healthcare services revenue from insurance companies—The Group recognizes revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from state—The Group recognizes the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other—The Group recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually paid for in cash or by credit card. Other revenue from medical services includes revenue from other hospitals, which the Group has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

Cost of healthcare services

Cost of healthcare services represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

Foreign currency translation

The consolidated financial statements are presented in Georgian lari, which is the functional and presentation currency of the Company and its subsidiaries. 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 of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated profit or loss as Net gains (losses) from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3. Summary of significant accounting policies (Continued)

The official NBG exchange rates at 31 December 2013, 2012 and 1 January 2012 were 1.7363, 1.6567 and 1.6307 Georgian lari to 1 US dollar, respectively.

Non-recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 21.

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.

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising

3. Summary of significant accounting policies (Continued)

revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

4. Significant accounting judgments, estimates and assumptions

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 year. 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 year are discussed below.

Impairment of receivables from healthcare services

The impairment allowance for receivables from healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a evidence of deterioration in a major customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria for defining the evidence of such deterioration is the customers' debt servicing quality measured by the number of days in arrears (i.e. the number of days of overdue). Based on the respective analysis of the current and past debt servicing of the customers, the Group determines whether or not there is an objective evidence of an impairment. If yes, then the proper allowance rate is applied which reflects credit risk associated with that particular customer depending on its category of debt servicing. If not, then respective accounts receivable are assessed collectively, in a total pool for the good credit quality receivables, again based on the number of days overdue. Good credit quality receivables are considered those that are less than 30 days overdue.

Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The carrying amount of allowance on receivables from healthcare services as at 31 December 2013 was GEL 6,263 (31 December 2012: GEL 1,170; 1 January 2012: GEL 211).

Current income tax recognition

The current income tax charge is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date. Georgian tax legislation provided healthcare companies with investment tax credit. Investment tax credit is calculated on the basis of expected reinvestments of profit generated in the current year within next 3 years. The judgment is applied at each reporting date in estimating the amount to be reinvested in in the Group core economical activities during the next 3 years in order to calculate eligible investment tax credit. This estimation is based on medium term business plan prepared by management. Further details on taxation are disclosed in Note 9.

(Thousands of Georgian lari unless otherwise stated)

5. Business combinations

GMC LLC

On 30 May 2012 Avante Hospital Management Group LLC ("Acquirer"), acquired 67% of shares in GMC LLC ("Acquiree"), a healthcare company operating in Georgia, from group of individuals.

The estimated fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

The net cash outflow on acquisition was as follows:

	Fair value recognized on acquisition
Cash and cash equivalents	48
Receivables from healthcare services[(1)]	2,405
Property and equipment	10,070
Current income tax assets	28
Deferred income tax assets	144
Other assets	1268
Total assets	**13,963**
Borrowings	10,485
Accounts payable	1,547
Accruals and deffered income	717
Deferred income tax liability	302
Other liabilities	564
Total liabilities	**13,615**
Total identifiable net assets	**348**
Non-controlling interest	109
Gain from a bargain purchase[(2)]	(239)
Consideration given	**—**

The net cash outflow on acquisition was as follows:

Cash paid	—
Cash acquired with the subsidiary	(48)
Net cash Inflow	**(48)**

(1) The fair value of the accounts receivable amounted to GEL 2,405. The gross amount of receivables is GEL 2,873. GEL 468 of the accounts receivable has been impaired.

(2) Prior to acquisition, owners of company encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase.

In 2012, GEL 8,689 and GEL 287 of revenue and profit, respectively was generated by the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 28,246 and GEL 1,374 of revenue and profit respectively.

Podiatry institute, Allergy and Rheumatology Centre LLC

On 27 March 2012 Avante Hospital Management Group LLC ("Acquirer"), acquired 80% of shares in Podiatry institute, Allergy and Rheumatology Centre LLC ("Acquiree"), a healthcare company operating in Georgia, from individuals.

(Thousands of Georgian lari unless otherwise stated)

5. Business combinations (Continued)

The estimated fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	48
Receivables from healthcare services[1]	111
Property and equipment	1,009
Deferred income tax assets	24
Other assets	53
Total assets	**1,245**
Borrowings	485
Accounts payable	74
Accruals for employee compensation	416
Other liabilities	**119**
Total liabilities	**1,094**
Total identifiable net assets	**151**
Non-controlling interests	34
Gain from a bargain purchase	(48)
Consideration given[2]	**69**

The net cash outflow on acquisition was as follows:

Cash paid	—
Cash acquired with the subsidiary	(48)
Net cash inflow	**(48)**

(1) The fair value of the accounts receivable amounted to GEL 111. The gross amount of receivables is GEL 243. GEL 132 of the accounts receivable has been impaired.

(2) Consideration comprised GEL 69, which consists of pre-existing loan to Podiatry institute, Allergy and Rheumatology Centre LLC.

In 2012, GEL 599 and GEL 32 of revenue and profit, respectively was generated by the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 22,240 and GEL 1,180 of revenue and profit respectively.

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	31 December 2013	31 December 2012	1 January 2012
Cash on hand	51	68	20
Current and on-demand accounts with banks	458	403	220
Total cash and cash equivalents	**509**	**471**	**240**

(Thousands of Georgian lari unless otherwise stated)

7. Receivables from healthcare services

Receivables from healthcare services as at 31 December comprise:

	31 December 2013	31 December 2012	1 January 2012
Receivable from insurance companies	8,323	5,375	807
Receivable from state	1,594	882	267
Receivables from individuals and other	3,202	694	283
	13,119	**6,951**	**1,357**
Less—allowance for impairment	(6,571)	(1,359)	(211)
Total receivables from healthcare services	**6,548**	**5,592**	**1,146**

In 2013, Receivable from the state mainly represents amounts receivable under the Universal Healthcare Program (“UHC”) introduced by the state in March 2013. Through the UHC, the state provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. The implementation of UHC took place in the following stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by state or private insurance programs (accounting for approximately 2 million people, including children above the age of six and adults).
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses.

(Thousands of Georgian lari unless otherwise stated)

8. Property and equipment

The movements in property and equipment were as follows:

	Hospitals & clinics	Furniture and fixtures	Computers	Medical equipment	Motor vehicles	Assets under construction	Total
Gross book value							
1 January 2012	**7,699**	**610**	**103**	**1,402**	**40**	**41**	**9,895**
Acquisition through business combinations (Note 5)	7,447	173	88	2,247	30	1,094	**11,079**
Additions	213	353	89	876	268	1,254	**3,053**
Disposals	(357)	(16)	(2)	(91)	(26)	(268)	**(760)**
Transfer	1,057	27	(7)	3	—	(1,080)	**—**
31 December 2012	**16,059**	**1,147**	**271**	**4,437**	**312**	**1,041**	**23,267**
Additions	855	147	182	1,211	—	2,537	**4,932**
Disposals	—	(21)	(100)	(117)	(29)	(253)	**(520)**
Transfer	2,219	59	16	158	—	(2,452)	**—**
31 December 2013	**19,133**	**1,332**	**369**	**5,689**	**283**	**873**	**27,679**
Accumulated depreciation							
1 January 2012	**57**	**8**	**—**	**68**	**1**	**—**	**134**
Depreciation charge	138	119	31	574	11	—	**873**
Disposals	—	(4)	—	—	(11)	—	**(15)**
31 December 2012	**195**	**123**	**31**	**642**	**1**	**—**	**992**
Depreciation charge	178	206	72	1,017	10	—	**1,483**
Disposals	—	(4)	—	(5)	(10)	—	**(19)**
31 December 2013	**373**	**325**	**103**	**1,654**	**1**	**—**	**2,456**
Net book value							
1 January 2012	**7,642**	**602**	**103**	**1,334**	**39**	**41**	**9,761**
31 December 2012	**15,864**	**1,024**	**240**	**3,795**	**311**	**1,041**	**22,275**
31 December 2013	**18,760**	**1,007**	**266**	**4,035**	**282**	**873**	**25,223**

Net carrying value of property and equipment held as collateral for borrowings amounted to GEL 19,633 as at 31 December 2013 (2012: GEL 16,905)

9. Taxation

The corporate income tax expenses comprise:

	2013	2012
Current tax charge	124	76
Deferred tax benefit—origination and reversal of temporary differences	(130)	33
Income tax benefit	**(6)**	**109**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2013 and 2012.

(Thousands of Georgian lari unless otherwise stated)

9. Taxation (Continued)

The effective income tax rate differs from the statutory income tax rates. As of 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2013	2012
IFRS profit before tax	**2,379**	**1,278**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**357**	**192**
Non-taxable income	(1,196)	(601)
Non-deductible expenses	781	396
Change in unrecognized deferred tax asset	52	122
Income tax benefit	**(6)**	**109**

Non-taxable income mostly consists of utilized investment tax credit (Note 4).

(Thousands of Georgian Lari unless otherwise stated)

9. Taxation (Continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	As at 1 January 2012	In profit or loss	Acquired through business combination	2012	In profit or loss	2013
Tax effect of deductible temporary differences and tax loss carried forward						
Tax loss carried forward	—	89	—	89	—	89
Borrowings	6	81	36	123	141	264
Accruals for employee compensation	107	(33)	170	244	(12)	232
Other assets	3	26	—	29	(24)	5
Deferred tax assets	**116**	**163**	**206**	**485**	**105**	**590**
Tax effect of taxable temporary differences						
Property and equipment	(286)	189	340	243	(29)	214
Other liabilities	—	7	—	7	4	11
Deferred tax liabilities	**(286)**	**196**	**340**	**250**	**(25)**	**225**
Net deferred tax (liability) asset	**402**	**(33)**	**(134)**	**235**	**130**	**365**
Recognized in statement of financial position:						
Deferred income tax assets	501	(163)	206	544	43	587
Deferred income tax liabilities	99	(130)	340	309	(87)	222

(Thousands of Georgian Lari unless otherwise stated)

9. Taxation (Continued)

The amount of deferred tax asset and deferred tax liabilities offset in the statement of financial position was GEL 3 as at 31 December 2013 (2012: GEL 59, 1 January 2012: GEL 385).

The Group did not recognize deferred tax in amount of GEL 174 as at 31 December 2013 (2012: GEL 122, 1 January 2012: nil) in respect of tax losses carried forward, as it considered that it was not probable that future taxable profits will be available to utilize this tax loss.

Aggregate amount of temporary differences arising from investments to subsidiaries for which no deferred tax liability was recognized amounted to GEL 5,029 as at 31 December 2013 (31 December 2012: GEL 3,642)

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 been in force for periods not significant as compared to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia that are substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Group's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Group could have a material impact on the Group's operations or its financial position.

10. Other assets

Other assets as at 31 December comprise:

	31 December 2013	31 December 2012	1 January 2012
Inventory	698	681	213
Loans issued	122	—	68
Prepaid operating taxes	34	33	18
Advances and prepayments	20	50	264
Other	144	18	517
Total other assets	**1,018**	**782**	**1,080**

In 2013 year inventory obsolescence expense of GEL 149 (2012: GEL 766) was recognized and included in other operating rxpenses.

11. Borrowings

Borrowings as at 31 December comprise:

	31 December 2013	31 December 2012	1 January 2012
Borrowings from local commercial banks and other parties	10,635	11,102	3,418
Borrowings from shareholders	7,683	7,274	2,706
Total borrowings	**18,318**	**18,376**	**6,124**

Borrowings from local commercial banks have an average interest rate of 13.03% per annum (2012: 13.67%), maturing on average in 1,770 days (2012: 1,466 days).

(Thousands of Georgian Lari unless otherwise stated)

11. Borrowings (Continued)

Borrowings from shareholders have an average interest rate of 10.00% per annum (2012: 14.46%), maturing on average in 997 days (2012: 1,362 days).

Borrowings from local commercial banks and other parties included a borrowing from a related party in amount of GEL 2,120 as at 31 December 2012 (2013: nil, 1 January 2012: nil). These borrowings had interest rate of 13.00% per annum(Note 22).

12. Accounts payable

	31 December 2013	31 December 2012	1 January 2012
Accounts payable for healthcare materials and supplies	2,386	1,591	536
Accounts payable for healthcare services	203	388	148
Other accounts payable	25	—	67
Total accounts payable	**2,614**	**1,979**	**751**

13. Other liabilities

Other liabilities comprise:

	31 December 2013	31 December 2012	1 January 2012
Payable to state	745	745	—
Operating taxes payable	494	1,300	941
Payable for purchase of property and equipment	151	146	387
Other	377	370	186
Total other liabilities	**1,767**	**2,561**	**1,514**

14. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group.

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 regional and federal authorities. Recent events within the Georgia suggest that the tax authorities are taking a more assertive position in its 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 year 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.

(Thousands of Georgian Lari unless otherwise stated)

15. Healthcare services revenue

	2013	2012
Healthcare services revenue from insurance companies	20,187	7,495
Healthcare services revenue from state	6,883	12,859
Healthcare services revenue from out-of-pocket and other	8,895	1,937
Less: corrections & rebates	(974)	(251)
Total healthcare services revenue	**34,991**	**22,040**

Healthcare services revenue from state represents the revenue through UHC. A description of the program is provided in Note 7 above.

Healthcare services revenue from insurance companies peaked in 2013 mainly due to implementation of insurance program for covered pensioners, students and children by the state that were operated by insurance companies.

16. Cost of healthcare services

	2013	2012
Salaries and other employee benefits	(13,823)	(9,654)
Materials and supplies	(4,189)	(2,572)
Utilities and other	(2,297)	(1,590)
Total cost of healthcare services	**(20,309)**	**(13,816)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc. Indirect salaries that were not included to cost of healthcare services amounted in 2013 to GEL 2,542 (2012: GEL 1,706) and were presented as a separate line item in profit or loss. Total amount of salaries and other employee benefits recognized as expense in profit or loss for 2013 amounted to GEL 16,365 (2012: GEL 11,360).

17. General and administrative expenses

General and administrative expenses comprise:

	2013	2012
Security	(299)	(240)
Office supplies	(210)	(84)
Occupancy, maintenance and rent	(82)	(122)
Professional services	(159)	(184)
Communication	(90)	(62)
Bank fees and commissions	(19)	(7)
Representative expenses	(10)	(44)
Marketing and advertising	(10)	(11)
Other	(346)	(236)
Total general and administrative expenses	**(1,225)**	**(990)**

In 2013 and 2012 years other general and administrative expenses mainly comprised of training and operating tax expeneses.

(Thousands of Georgian Lari unless otherwise stated)

18. Impairment of healthcare service receivables

The movements in the allowance for healthcare services receivables are as follows:

	2013	2012
1 January	**(1,359)**	**(211)**
Impairment charge	(5,576)	(1,178)
Write-off	364	30
31 December	**(6,571)**	**(1,359)**

Allowances for impairment of assets are deducted from the gross carrying amounts of the related assets.

19. Net non-recurring income (expense)

In 2013 year net non-recurring income includes gain from sale of investment of GEL 517, gain from sale of building of GEL 182 and cancellation of incorrectly accrued tax penalties that were later written-off by tax authorities of GEL 521.

20. Risk management

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. 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 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.

Financial risks

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service, aging of receivables, etc. 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.

(Thousands of Georgian Lari unless otherwise stated)

20. Risk management (Continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

	Notes	Neither past due nor impaired	Past-due but not impaired	Impaired	Total 31 December 2013
Receivable from healthcare services	7	487	—	12,632	**13,119**
Loans issued	10	122	—	—	**122**
Total		**609**	**—**	**12,632**	**13,241**

	Notes	Neither past due nor impaired	Past-due but not impaired	Impaired	Total 31 December 2012
Receivables from healthcare services	7	2,055	1,452	3,444	**6,951**
Total		**2,055**	**1,452**	**3,444**	**6,951**

	Notes	Neither past due nor impaired	Past-due but not impaired	Impaired	Total 1 January 2012
Receivables from healthcare services	7	453	205	699	**1,357**
Loans issued	10	68	—	—	**68**
Total		**521**	**205**	**699**	**1,425**

Increase in impaired receivables from healthcare services in 2013 is mostly attributable to receivables from several insurance companies whose financial standing deteriorated in 2013.

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days. Those receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet 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 an assessment of expected cash flows and the availability of high turnover of receivables to ensure shortest possible days-sales-outstanding ratio.

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, and the redemption of borrowings when they fall due.

Management believes that the current level of the Group's liquidity is sufficient to meet its all present obligations and settle liabilities in timely manner.

(Thousands of Georgian Lari unless otherwise stated)

20. Risk management (Continued)

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.

As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	3,809	10,093	8,509	—	**22,411**
Accounts payable	2,614	—	—	—	**2,614**
Other financial liabilities	896	—	—	—	**896**
Total undiscounted financial liabilities	**7,319**	**10,093**	**8,509**	**—**	**25,921**

As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	3,208	10,937	7,746	—	**21,891**
Accounts payable	1,979	—	—	—	**1,979**
Other financial liabilities	891	—	—	—	**891**
Total undiscounted financial liabilities	**6,078**	**10,937**	**7,746**	**—**	**24,761**

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 exchanges.

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 a single floating interest rate borrowing linked to Libor and is therefore exposed to interest rate risk. The Group determined that reasonably possible changes in Libor will not have significant effect on the Group's profit and equity.

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arises primarily with respect to US dollars.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities—lari. Most of the Group's operations are denominated in lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US dollars denominated borrowings.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2013 and 2012 on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with

(Thousands of Georgian Lari unless otherwise stated)

20. Risk management (Continued)

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.

	2013	2012
	USD	
Assets		
Cash and cash equivalents	2	—
Total assets	**2**	**—**
Liabilities		
Borrowings	7,896	9,926
Total liabilities	**7,896**	**9,926**
Net position	**(7,894)**	**(9,926)**
Increase in currency rate in %	+0.8%	+1.2%
Effect on profit	(63)	(119)
Decrease in currency rate in %	−0.8%	−1.2%
Effect on profit	63	119

21. Fair values measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; 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. It also includes a comparison by class of the

(Thousands of Georgian Lari unless otherwise stated)

21. Fair values measurements (Continued)

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 December 2013	Carrying value 31 December 2013	Unrecognised gain (loss) 31 December 2013
Assets for which fair values are disclosed						
Cash and cash equivalents	—	509	—	**509**	509	—
Loans issued	—	—	122	**122**	122	—
Receivables from Healthcare Services	—	—	6,548	**6,548**	6,548	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	18,318	**18,318**	18,318	—
Assets for which fair values are disclosed						
Cash and cash equivalents	—	471	—	**471**	471	—
Receivables from Healthcare Services	—	—	5,592	**5,592**	5,592	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	18,376	**18,376**	18,376	—

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 financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by discounting related cash flows to be received or paid using prevailing money-market interest rates for assets or debts with similar credit risk and maturity.

22. Related party transactions

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.

(Thousands of Georgian Lari unless otherwise stated)

22. Related party transactions (Continued)

The volumes of related party transactions, outstanding balances at the year end, and related transactions, expense and income for the year are as follows:

	31 December 2013			31 December 2012			1 January 2012	
	Shareholders	Other related parties	Key management personnel*	Shareholders	Other related parties	Key management personnel*	Shareholders	Other related parties
Assets								
Receivable from healthcare services	—	712	—	—	1,098	—	—	—
Allowance for impairment	—	(230)	—	—	(56)	—	—	—
Other assets	117	—	—	—	—	—	—	—
	117	**928**	**—**	**—**	**1,099**	**—**	**—**	**—**
Liabilities								
Borrowings	7,683	—	—	7,274	2,120	—	2,706	—
Accounts payable	—	1,427	—	—	1,044	—	—	—
	7,683	**1,427**	**—**	**7,274**	**3,164**	**—**	**2,706**	**—**
Transactions, income and expenses								
Healthcare services revenue	—	498	—	—	939	—		
Purchase of inventory	—	2,483	—	—	1,784	—		
Other operating income	—	16	—	—	14	—		
Salaries and other employee benefits	—	—	(175)	—	—	(105)		
Impairment of healthcare service receivables	—	(174)	—	—	(39)	—		
Interest expense	(771)	—	—	(621)	(346)	—		

* Key management personnel include the shareholders carrying out management activities and their close family members.

Other related parties are companies under control of holder of non-controlling interest in a subsidiary that is significant to the Group.

(Thousands of Georgian Lari unless otherwise stated)

23. Maturity analysis of assets and liabilities

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31 December 2013	Within one year	More than one year	Total
Assets			
Cash and cash equivalents	509	—	**509**
Receivables from healthcare services	6,548	—	**6,548**
Property and equipment	—	25,223	**25,223**
Goodwill	—	5	**5**
Current income tax assets	22	—	**22**
Deferred income tax assets	—	587	**587**
Other assets	1,018	—	**1,018**
Total assets	**8,097**	**25,815**	**33,912**
Liabilities			
Borrowings	12,394	5,924	**18,318**
Accounts payable	2,614	—	**2,614**
Accruals for employee compensation	1,578	—	**1,578**
Current income tax liabilities	67	—	**67**
Deferred income tax liabilities	—	222	**222**
Other liabilities	1,767	—	**1,767**
Total liabilities	**18,420**	**6,146**	**24,566**
Net	**(10,323)**	**19,669**	**9,346**

31 December 2012	Within one year	More than one year	Total
Assets			
Cash and cash equivalents	471	—	**471**
Receivable from healthcare services	5,592	—	**5,592**
Property and equipment	—	22,275	**22,275**
Goodwill	—	5	**5**
Current income tax assets	56	—	**56**
Deferred income tax assets	—	544	**544**
Other assets	782	—	**782**
Total assets	**6,901**	**22,824**	**29,725**
Liabilities			
Borrowings	12,610	5,766	**18,376**
Accounts payable	1,979	—	**1,979**
Accruals for employee compensation	1,656	—	**1,656**
Current income tax liabilities	126	—	**126**
Deferred income tax liabilities	—	309	**309**
Other liabilities	2,561	—	**2,561**
Total liabilities	**18,932**	**6,075**	**25,007**
Net	**(12,031)**	**16,749**	**4,718**

24. Events after the reporting period

In January 2014, shareholders converted GEL 7,683 borrowing in the equity of the Group.

On 20 February 2014 Unimed Kakheti LLC, a wholly owned subsidiary of Insurance Company Aldagi, acquired 80% of the shares of the Company. The remaining 20% was acquired on 5 March 2014. Thus on 20 February 2014 the ultimate controlling party of the Group was changed to Bank of Georgia Holdings plc, ultimate parent of Insurance Company Aldagi.

In April 2015, enitre LLC Avante Hospital Management Group, excluding Iashvili Children Central Hospital LLC and Podiatry institute, Allergy and Rheumatology Centre LLC was merged with Unimedi Kakheti LLC that was, at merger date, a wholly owned subsidiary of JSC Medical Corporation Evex. JSC Medical Corporation Evex was set up in 2014 as a part of Insurance Company Aldagi's reorganization process, and is untimately controlled by Bank of Georgia Holdings plc

Traumatologist LLC

Financial statements

For the year ended 31 December 2014
together with independent auditors' report

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INDEPENDENT AUDITORS' REPORT

NOTES TO THE FINANCIAL STATEMENTS

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Independent Auditors' Report

To the Shareholder and the Management Board of Joint-Stock Company "Medical Corporation EVEX"

We have audited the accompanying financial statements of LLC "Traumatologist", referred to as "the Company", which comprise the statements of financial position as at 31 December 2014, 2013, 2012 and 1 January 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 December 2014, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, 2013, 2012 and 1 January 2012 and its financial performance and its cash flows for the years ended 31 December 2014, 2013 and 2012 in accordance with International Financial Reporting Standards.

EY Georgia LLC

21 August 2015

Traumatologist LLC

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2014

(Thousands of Georgian lari)

	Notes	2014	2013	2012	As at 1 January 2012
Assets					
Cash and cash equivalents	5	5	26	30	3
Receivables from healthcare services	6	1,429	766	1,053	756
Inventory	7	409	277	245	209
Current income tax assets		48	18	7	—
Property and equipment	8	2,646	2,552	2,267	2,143
Deferred income tax assets	9	11	76	—	23
Other assets		7	26	43	34
Total assets		**4,555**	**3,741**	**3,645**	**3,168**
Liabilities					
Accruals for employee compensation		295	304	193	157
Accounts payable	10	677	678	631	445
Current income tax liabilities		—	—	—	9
Borrowings	11	1,965	1,376	1,439	1,525
Deferred income tax liabilities	9	—	—	23	—
Other liabilities	12	173	286	279	373
Total liabilities		**3,110**	**2,644**	**2,565**	**2,509**
Equity	13				
Share capital		1	1	1	1
Additional paid-in capital		51	51	51	30
Retained earnings		1,394	1,046	1,029	629
Total equity attributable to shareholders of the Company		**1,445**	**1,097**	**1,080**	**659**
Total liabilities and equity		**4,555**	**3,741**	**3,645**	**3,168**

Signed and authorized for release on behalf of the Management:

Nikoloz Gamkrelidze — *Chief Executive Officer,* JSC Medical Corporation Evex

David Vakhtangishvili — *Deputy Chief Executive Officer—Finance,* JSC Medical Corporation Evex

21 August 2015

The accompanying notes on pages F-148 to F-165 are an integral part of these financial statements.

Traumatologist LLC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Thousands of Georgian lari)

	Notes	2014	2013	2012
Healthcare services revenue	15	8,030	7,522	5,620
Cost of healthcare services	16	(6,616)	(5,670)	(4,337)
Gross profit		**1,414**	**1,852**	**1,283**
Other operating income	17	194	11	3
Salaries and other employee benefits		(565)	(427)	(351)
General and administrative expenses	18	(135)	(182)	(152)
Impairment of healthcare service receivables		(42)	(938)	(12)
Other operating expenses		(3)	(30)	(23)
		(745)	**(1,577)**	**(538)**
EBITDA		**863**	**286**	**748**
Depreciation	8	(148)	(121)	(85)
Interest expense		(166)	(155)	(207)
Net losses from foreign currencies		(126)	(66)	13
Profit before income tax expense		**423**	**(56)**	**469**
Income tax (charge)/benefit	9	(75)	73	(69)
Profit for the year		**348**	**17**	**400**
Other comprehensive income for the year		—	—	—
Total comprehensive income for the year		**348**	**17**	**400**

The accompanying notes on pages F-148 to F-165 are an integral part of these financial statements.

Traumatologist LLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(Thousands of Georgian lari)

	Attributable to shareholders of the Company			
	Share capital	**Additional paid-in capital**	**Retained earnings**	**Total**
1 January 2012	**1**	**30**	**629**	**659**
Profit and total comprehensive income for the year	—	—	400	400
Contributions from shareholders (Note 13)	—	21	—	21
31 December 2012	**1**	**51**	**1,029**	**1,080**
Profit and total comprehensive income for the year	—	—	17	17
31 December 2013	**1**	**51**	**1,046**	**1,097**
Profit and total comprehensive income for the year	—	—	348	348
31 December 2014	**1**	**51**	**1,394**	**1,445**

The accompanying notes on pages F-148 to F-165 are an integral part of these financial statements.

Traumatologist LLC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(Thousands of Georgian lari)

	Notes	2014	2013	2012
Cash flows from operating activities				
Healthcare services revenue received		7,466	6,346	4,987
Cost of healthcare services paid		(6,753)	(4,946)	(3,883)
Salaries and other employee benefits paid		(552)	(408)	(360)
General and administrative expenses paid		(101)	(148)	(95)
Other operating income received		17	9	2
Net cash flows from operating activities before income tax		**77**	**853**	**651**
Income tax paid		(41)	(36)	(40)
Net cash flows from operating activities		**36**	**817**	**611**
Cash flows (used in) from investing activities				
Purchase of property and equipment		(220)	(423)	(209)
Restricted cash		—	5	(5)
Net cash flows used in investing activities		**(220)**	**(418)**	**(214)**
Cash flows (used in) from financing activities				
Proceeds from borrowings		2,142	—	1,437
Repayment of borrowings		(1,756)	(184)	(1,503)
Repayment of obligations to former shareholders		(60)	(75)	(90)
Interest expense paid		(159)	(144)	(213)
Net cash used in financing activities		**167**	**(403)**	**(369)**
Effect of exchange rates changes on cash and cash equivalents		(4)	—	(1)
Net (decrease) increase in cash and cash equivalents		**(21)**	**(4)**	**27**
Cash and cash equivalents, beginning	5	**26**	**30**	**3**
Cash and cash equivalents, ending	5	**5**	**26**	**30**

The accompanying notes on pages F-148 to F-165 are an integral part of these financial statements.

1. Background

LLC Traumatologist ("the Company") was established on 20 July 2011 as a limited liability company under the Georgian law.

The Company was incorporated and is domiciled in Georgia. On 30 September 2011 LLC Traumatologist acquired JSC Traumatologist from government of Georgia and merged with it.

As at 31 December the Company had the following shareholders:

	2014	2013	2012	1 January 2012
JSC Medical Corporation EVEX	100.00%	—	—	—
Davit Chkhatarashvili	—	34.00%	34.00%	34.00%
Izolda Gurgenidze	—	33.00%	33.00%	33.00%
Teim uraz Saldadze	—	33.00%	33.00%	33.00%
Total	100.00%	100.00%	100.00%	100.00%

On 30 September 2014 JSC Medical Corporation EVEX wholy owned subsidiary of Bank of Georgia Holdings plc acquired 100% of Traumatologist LLC.

Primary business activities include providing medical services to inpatient and outpatient.

The Company's legal address is 21, Lubliana Street, Tbilisi, Georgia.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements have been prepared on a going concern basis and under the historical cost convention which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

These financial statements have been presented in thousands of Georgian lari (GEL), except otherwise stated.

First time adoption of International financial reporting standards

These financial statements, for the year ended 31 December 2014, are the first financial statements prepared in accordance with IFRS by the Company. Accordingly, these financial statements have been prepared to comply with IFRS applicable at the end of its first reporting period, being 31 December 2014, together with the comparative period data as at 31 December 2013, 2012 and 1 January 2012 and for the years ended 31 December 2013 and 2012. The Company did not present financial statements for previous periods, therefore, no reconciliation with previously reported financial statements are provided. The Company did not use any exemptions from retrospective application provided by IFRS 1.

3. Summary of significant accounting policies

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 and are free from contractual encumbrances.

3. Summary of significant accounting policies (Continued)

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price which deemed to be their fair value at the date of initial recognition. They are subsequently measured at amortized 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 profit or loss.

Property and equipment

Property and equipment 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. Property and equipment is valued at cost except for the building acquired in a business combination and assets received free of charge from shareholders, which were recognized at deemed cost being equal to their fair value

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 profit or loss as an expense.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Hospitals and clinics	100
Furniture and fixtures	10
Medical equipment	10
Computers	5
Motor vehicles	10

The asset's residual values, useful lives and methods 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 capitalization.

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 derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

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 balance sheet 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

3. Summary of significant accounting policies (Continued)

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 period 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.

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 also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of general and administrative expenses.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

Borrowings are initially recognised at their fair value less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in the profit or loss when the borrowings are derecognised as well as through the amortization process.

Accounts payable

Accounts payable are recognized at their original invoiced value, deemed to be fair value at initial recognition. Where the time value of money is material, payables are initially recognized at their present value. Subsequently payables are carried at amortized cost.

Income and expense recognition

Healthcare services revenue

The Company recognizes revenue when the amount of revenue can be reliably measured or it is probable that future economic benefits will flow to the entity.

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes following components:

- Healthcare services revenue from insurance companies—The Company recognizes revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.

3. Summary of significant accounting policies (Continued)

- Healthcare services revenue from state—The Company recognizes the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other—The Company recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Company. Sales are usually paid for in cash or by credit card. Other revenue from medical services includes revenue from other hospitals, which the Company has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

Cost of healthcare services

Cost of healthcare services represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

Foreign currency translation

The financial statements are presented in Georgian lari, which is the functional and presentation currency of the Company. 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 of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the profit or loss as Net gains (losses) from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The official NBG exchange rates at 31 December 2014, 2013, 2012 and 1 January 2012 were 1.8636, 1.7363, 1.6567 and 1.6703 Georgian lari to 1 US dollar, respectively.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 21.

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 Company. 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.

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting

3. Summary of significant accounting policies (Continued)

period and which the Company has not early adopted. Such standards that are expected to have an impact on the Company, or the impacts of which are currently being assessed are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15.

4. Significant accounting judgments, estimates and assumptions

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 year. 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 year are discussed below.

Impairment of receivables from healthcare services

The impairment allowance for receivables from healthcare services is based on the Company's assessment of the collectability of specific customer accounts. If there is a evidence of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria for defining the evidence of such deterioration is the customers' debt servicing quality measured by the number of days in arrears (i.e. the number of days of overdue). Based on the respective analysis of the current and past debt servicing of the customers, the Com determines whether or not there is an objective evidence of an impairment. If yes, then the proper allowance rate is applied which reflects credit risk associated with that particular customer depending on its category of debt servicing. If not, then respective accounts receivable are assessed collectively, in a total pool for the good credit quality receivables, again based on the number of days overdue. Good credit quality receivables are considered those that are less than 30 days overdue.

(Thousands of Georgian lari unless otherwise stated)

4. Significant accounting judgments, estimates and assumptions (Continued)

Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Company'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 carrying amount of allowance on receivables from healthcare services as at 31 December 2014 was GEL 1,225 (31 December 2013: GEL 392; 31 December 2012 GEL 879, 1 January 2012: GEL 691).

Current income tax recognition

The current income tax charge is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date. Georgian tax legislation provided healthcare companies with investment tax credit. Investment tax credit is calculated on the basis of expected reinvestments of profit generated in the current year within next 3 years. The judgment is applied at each reporting date in estimating the amount to be reinvested in in the Company core economical activities during the next 3 years in order to calculate eligible investment tax credit. This estimation is based on medium term business plan prepared by management. Further details on taxation are disclosed in Note 9.

5. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	31 December 2014	31 December 2013	31 December 2012	1 January 2012
Cash on hand	2	1	5	2
Current and on-demand accounts with banks	3	25	25	1
Total cash and cash equivalents	5	26	30	3

6. Receivables from healthcare services

Receivables from healthcare services as at 31 December comprise:

	31 December 2014	31 December 2013	31 December 2012	1 January 2012
Receivable from state	1,291	359	26	6
Receivable from insurance companies	1,055	1,406	1,082	801
Receivables from individuals and other	138	13	19	12
	2,484	**1,778**	**1,127**	**819**
Less—allowance for impairment	(1,055)	(1,012)	(74)	(63)
Receivables From Healthcare services	**1,429**	**766**	**1,053**	**756**

In 2014, Receivable from the state mainly represents amounts receivable under the Universal Healthcare Program ("UHC") introduced by the state in March 2013. Through the UHC, the state provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. The implementation of UHC took place in the following stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by state or private insurance programs (accounting for approximately 2 million people, including children above the age of six and adults).
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses.

(Thousands of Georgian lari unless otherwise stated)

7. Inventory

	31 December 2014	31 December 2013	31 December 2012	1 January 2012
Medicine and Blood	127	152	139	117
Materials and supplies	282	125	106	92
Other assets	**409**	**277**	**245**	**209**

8. Property and equipment

The movements in property and equipment were as follows:

	Hospitals & Clinics	Medical equipment	Furniture & fixtures	Computers	Motor & vehicles	Total
Cost or deemed cost						
31 December 2013	**1,718**	**889**	**115**	**37**	**7**	**2,766**
Additions	—	222	14	6	—	242
31 December 2014	**1,718**	**1,111**	**129**	**43**	**7**	**3,008**
Accumulated depreciation						
31 December 2013	**40**	**144**	**20**	**9**	**1**	**214**
Depreciation charge	17	110	12	8	1	148
31 December 2014	**57**	**254**	**32**	**17**	**2**	**362**
Net book value:						
31 December 2013	**1,678**	**745**	**95**	**28**	**6**	**2,552**
31 December 2014	**1,661**	**857**	**97**	**26**	**5**	**2,646**

	Hospitals & Clinics	Medical equipment	Furniture & fixtures	Computers	Motor & vehicles	Total
Cost or deemed cost						
31 December 2012	**1,718**	**555**	**83**	**13**	**7**	**2,376**
Additions	—	395	33	24	—	452
Write-off	—	(61)	(1)	—	—	(62)
31 December 2013	**1,718**	**889**	**115**	**37**	**7**	**2,766**
Accumulated depreciation						
31 December 2012	**23**	**72**	**10**	**4**	**—**	**109**
Depreciation charge	17	88	10	5	1	121
Write-off	—	(16)	—	—	—	(16)
31 December 2013	**40**	**144**	**20**	**9**	**1**	**214**
Net book value:						
31 December 2012	**1,695**	**483**	**73**	**9**	**7**	**2,267**
31 December 2013	**1,678**	**745**	**95**	**28**	**6**	**2,552**

(Thousands of Georgian lari unless otherwise stated)

8. Property and equipment (Continued)

	Hospitals & Clinics	Medical equipment	Furniture & fixtures	Computers	Motor & vehicles	Total
Cost or deemed cost						
1 January 2012	**1,718**	**382**	**64**	**7**	**—**	**2,171**
Additions	—	197	20	6	7	230
Write-off	—	(24)	(1)	—	—	(25)
31 December 2012	**1,718**	**555**	**83**	**13**	**7**	**2,376**
Accumulated depreciation						
1 January 2012	**6**	**18**	**3**	**1**	**—**	**28**
Depreciation charge	17	58	7	3	—	85
Write-off	—	(4)	—	—	—	(4)
31 December 2012	**23**	**72**	**10**	**4**	**—**	**109**
Net book value:						
1 January 2012	**1,712**	**364**	**61**	**6**	**—**	**2,143**
31 December 2012	**1,695**	**483**	**73**	**9**	**7**	**2,267**

Net carrying value of property and equipment held as collateral for borrowings amounted to GEL 1,661 as at 31 December 2014 (2013: GEL 1,678, 2012: GEL 1,695)

9. Taxation

The corporate income tax expenses comprise:

	2014	2013	2012
Current tax charge	(10)	(26)	(23)
Deferred tax (charge)/benefit—origination and reversal of temporary differences	(65)	99	(46)
Income tax (charge)/benefit	**(75)**	**73**	**(69)**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2014, 2013 and 2012.

The effective income tax rate differs from the statutory income tax rates. As of 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	2013	2012
IFRS profit (loss)before tax	**423**	**(56)**	**469**
Statutory tax rate	15%	15%	15%
Theoretical income tax (charge)/benefit at the statutory rate	**(63)**	**8**	**(70)**
Non-taxable income	—	84	24
Income recognized for tax purposes only	(9)	(21)	(19)
Non-deductible expenses	(3)	2	(4)
Income tax (charge)/benefit	**(75)**	**73**	**(69)**

Non-taxable income mostly consists of utilized investment tax credit (Note 4).

(Thousands of Georgian lari unless otherwise stated)

9. Taxation (Continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	As at 1 January 2012	In the profit or loss	2012	In the profit or loss	2013	In the profit or loss	2014
Tax effect of deductible temporary differences							
Borrowings	1	(1)	—	1	1	(1)	—
Trade receivables	6	1	7	134	141	12	153
Accruals for employee compensation	24	5	29	17	46	(1)	45
Other assets	8	2	10	4	14	—	14
Deferred tax assets	**39**	**7**	**46**	**156**	**202**	**10**	**212**
Tax effect of taxable temporary differences							
Property and equipment	14	54	68	57	125	48	173
Borrowings	—	—	—	—	—	26	26
Other liabilities	2	(1)	1	—	1	1	2
Deferred tax liabilities	**16**	**53**	**69**	**57**	**126**	**75**	**201**
Net deferred tax assets (liabilities)	**23**	**(46)**	**(23)**	**99**	**76**	**(65)**	**11**

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 been in force for periods not significant as compared to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. 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 Company is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Company's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Company could have a material impact on the Company's operations or its financial position.

10. Accounts payable

Accounts payable include accounts payable for healthcare materials and services. As at 31 Decemeber 2014 GEL 361 was payable to related party (2013: nil, 2012: nil, 1 January 2012: nil).

(Thousands of Georgian lari unless otherwise stated)

11. Borrowings

Borrowings as at 31 December comprise:

	31 December 2014	31 December 2013	31 December 2012	1 January 2012
Borrowings from local commercial banks	1,934	1,376	1,432	1,518
Government Loan	31	—	—	—
Borrowings from shareholders	—	—	7	7
Total borrowings	**1,965**	**1,376**	**1,439**	**1,525**

Borrowings from local commercial banks have an average interest rate of 9.55% per annum (2013: 9.96%, 2012: 11.61%), maturing on average in 2,214 days (2013: 2,541 days, 2012: 2,906 days).

In 2014 the Company received long-term, interest-free loan from Ministry of Labour Health and Social Affairs of Georgia as a compensation for losses incurred in respect of impaired receivables from Insurance Company Archimedes in the amount of GEL 205. The Company treated it as a government grant in form of below-market loan from government. Related income from government grant in amount of gain at initial recognition of the loan is presented as Other operating income (Note 17).

Borrowings from local commercial banks included a borrowing from a related party in amount of GEL 1,934 as at 31 December 2014 (2013: nil, 2012: nil, 1 January 2012: nil) (Note 21).

12. Other liabilities

Other liabilities comprise:

	31 December 2014	31 December 2013	31 December 2012	1 January 2012
Dividends payable	46	106	181	272
Operating Taxes payable	74	79	50	45
Lease payable	13	55	—	—
Other	40	46	48	56
Total other liabilities	**173**	**286**	**279**	**373**

Dividends payable includes payable to Ministry of Economy of Georgia, the former owner of JSC Traumatologist 2011 (Note 1). Prior to privatization, the Company was obliged by the owner to gradually repay retained earning amount of privatized entity to the state.

13. Equity

Share capital as at 31 December 2014 was GEL 0.5 (2013: 0.5, 2012: 0.5 and 1 January 2012: 0.5).

Additional paid-in Capital consists of shareholder contributions in the form of Medical Equipment contributed to the Company.

14. Commitments and contingencies

Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Company.

(Thousands of Georgian lari unless otherwise stated)

14. 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 Company may be challenged by the relevant authorities. Recent events within the Georgia suggest that the tax authorities are taking a more assertive position in its 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 year 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 Company's tax, currency and customs positions will be sustained.

15. Healthcare services revenue

Revenue from Healthcare service comprises of:

	2014	2013	2012
Healthcare services revenue from state	4,820	830	—
Healthcare services revenue from insurance companies	1,668	5,096	3,836
Healthcare services revenue from out-of-pocket and other	1,542	1,596	1,784
Healthcare services revenue	**8,030**	**7,522**	**5,620**

Healthcare services revenue from state represents the revenue through UHC. A description of the program is provided in Note 6 above.

Healthcare services revenue from insurance companies peaked in 2013 mainly due to implementation of insurance program for covered pensioners, students and children by the state that were operated by insurance companies.

16. Cost of healthcare services

Cost of healthcare services comprises of:

	2014	2013	2012
Salaries and other em ployee benefits	(3,464)	(3,110)	(2,240)
Materials and supplies	(2,894)	(2,345)	(1,920)
Utilities and other	(258)	(215)	(177)
Total cost of healthcare services	**(6,616)**	**(5,670)**	**(4,337)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc. Indirect salaries that were not included to cost of healthcare services amounted in 2014 to GEL 565 (2013: GEL 427, 2012: GEL 351) and were presented as a separate line item in profit or loss. Total amount of salaries and other employee benefits recognized as expense in profit or loss for 2014 amounted to GEL 4,029 (2013: GEL 3,537, 2012: GEL 2,591).

17. Other operating income

In 2014 year other operating income includes gain from interest free government loan received in amount of GEL 174.

(Thousands of Georgian lari unless otherwise stated)

18. General and administrative expenses

General and administrative expenses comprise:

	2014	2013	2012
Maintenance	(78)	(105)	(76)
Security	(21)	(23)	(19)
Office supplies	(10)	(24)	(31)
Professional services	(11)	(7)	(7)
Communication	(9)	(9)	(10)
Bank fees and commissions	(6)	(3)	(2)
Representative expenses	—	(6)	(1)
Other	—	(5)	(6)
Total cost of healthcare services	**(135)**	**(182)**	**(152)**

19. Risk management

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to 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 Company's strategic planning process.

Financial risks

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company 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 Company establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Company 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, aging of receivables, etc. Counterparty limits are established in combination with credit terms.

The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(Thousands of Georgian lari unless otherwise stated)

19. Risk management (Continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company based on number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

	Notes	Neither past due nor impaired	Impaired	Total 31 December 2014
Receivable from healthcare services	6	204	2,280	2,484
Total		**204**	**2,280**	**2,484**

	Notes	Neither past due nor impaired	Impaired	Total 31 December 2013
Receivable from healthcare services	6	374	1,404	1,778
Total		**374**	**1,404**	**1,778**

	Notes	Neither past due nor impaired	Impaired	Total 31 December 2012
Receivable from healthcare services	6	174	953	1,127
Total		**174**	**953**	**1,127**

	Notes	Neither past due nor impaired	Impaired	Total 1 January 2012
Receivable from healthcare services	6	65	754	819
Total		**65**	**754**	**819**

Increase in impaired receivables from healthcare services in 2014 and 2013 is mostly attributable to receivables from several insurance companies whose financial standing deteriorated in these years.

Receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Company 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

Liquidity risk is the risk that the Company will be unable to meet 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.

The Company manages the maturities of its assets and liabilities for better matching, which helps the Company additionally mitigate the liquidity risk. The major liquidity risks confronting the Company are the daily calls on its available cash resources in respect of supplier contracts, and the redemption of borrowings when they fall due.

Management believes that the current level of the Company's liquidity is sufficient to meet its all present obligations and settle liabilities in timely manner.

(Thousands of Georgian lari unless otherwise stated)

19. Risk management (Continued)

The table below summarises the maturity profile of the Company'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.

Financial liabilities As at 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	677	—	—	—	677
Borrowings	104	313	1,663	443	2,523
Other financial liabilities	295	—	—	—	295
Total undiscounted financial liabilities	**1,076**	**313**	**1,663**	**443**	**3,495**

Financial liabilities As at 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	678	—	—	—	678
Borrowings	67	202	1,076	538	1,883
Other financial liabilities	304	—	—	—	304
Total undiscounted financial liabilities	**1,049**	**202**	**1,076**	**538**	**2,865**

Financial liabilities As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	631	—	—	—	631
Borrowings	66	202	1,076	807	2,151
Other financial liabilities	193	—	—	—	193
Total undiscounted financial liabilities	**890**	**202**	**1,076**	**807**	**2,975**

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 Company has exposure to market risks. The Company structures the levels of market risk it accepts through a Company market risk policy that determines what constitutes market risk for the Company.

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 Company has a single floating interest rate borrowing linked to Libor and is therefore exposed to interest rate risk. The Company determined that reasonably possible changes in Libor will not have significant effect on the Company's profit and equity.

Currency risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arises primarily with respect to US dollars.

The Company's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Company entities—lari. Most of the Company's operations are

(Thousands of Georgian lari unless otherwise stated)

19. Risk management (Continued)

denominated in lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from US dollars denominated borrowings.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2014, 2013 and 2012 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.

	2014	2013	2012
	USD	USD	USD
Assets			
Cash and cash equivalents	—	14	14
Total assets	—	14	14
Liabilities			
Borrowings	1,934	1,376	1,432
Total liabilities	**1,934**	**1,376**	**1,432**
Net position	**(1,934)**	**(1,362)**	**(1,418)**
Increase in currency rate in %	23.40%	0.80%	1.20%
Effect on profit before tax	(453)	(11)	(17)
Decrease in currency rate in %	−23.40%	−0.80%	−1.20%
Effect on profit before tax	453	11	17

20. Fair values measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Company 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. It also includes a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements:

31 December 2014	Level 1	Level 2	Level 3	Total fair value	Carrying value	Unrecognised gain (loss)
Assets for which fair values are disclosed						
Cash and cash equivalents	—	5	—	5	5	—
Receivables from Healthcare Services	—	—	1,429	1,429	1,429	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	1,965	1,965	1,965	—

(Thousands of Georgian lari unless otherwise stated)

20. Fair values measurements (Continued)

31 December 2013	Level 1	Level 2	Level 3	Total fair value	Carrying value	Unrecognised gain (loss)
Assets for which fair values are disclosed						
Cash and cash equivalents	—	26	—	26	26	—
Receivables from Healthcare Services	—	—	766	766	766	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	1,376	1,376	1,376	—

31 December 2012	Level 1	Level 2	Level 3	Total fair value	Carrying value	Unrecognised gain (loss)
Assets for which fair values are disclosed						
Cash and cash equivalents	—	30	—	30	30	—
Receivables from Healthcare Services	—	—	1,053	1,053	1,053	—
Liabilities for which fair values are disclosed						
Borrowings	—	—	1,439	1,439	1,439	—

The following describes the methodologies and assumptions used to determine fair values for financial instruments.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by discounting related cash flows to be received or paid using prevailing money-market interest rates for assets or debts with similar credit risk and maturity.

21. Related party transactions

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.

(Thousands of Georgian lari unless otherwise stated)

21. Related party transactions (Continued)

The volumes of related party transactions, outstanding balances at the year end, and related transactions, expense and income for the year are as follows:

	2014			2013	2012	2011
	Parent	Other related parties	Key management personnel	Key management personnel	Key management personnel	Key management personnel
Assets						
Cash and Cash equivalents	—	3	—	—	—	—
Receivable from healthcare services	—	77	—	—	—	—
	—	80	—	—	—	—
Liabilities						
Borrowings	—	1,934	—	—	7	7
Accounts payable	322	—	15	12	12	12
	322	1,934	15	12	19	19
Transactions, income and expenses						
Healthcare services revenue	—	74	—	—	—	
Purchase of healthcare services	(397)	—	—	—	—	
Salaries and other employee benefits	—	—	(216)	(174)	(174)	
Interest expense	—	(44)	—	—	—	

Other related parties are companies under control of Bank of Georgia Holdings plc.

22. Maturity analysis of assets and liabilities

The table below analyses assets and liabilities of the Company into their relevant maturity Companys based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

	31 December 2014		
	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	5	—	5
Receivables from healthcare services	1,429	—	1,429
Inventory	409	—	409
Current income tax assets	48	—	48
Property and equipment	—	2,646	2,646
Deferred income tax assets	—	11	11
Other assets	7	—	7
Total assets	**1,898**	**2,657**	**4,555**
Accruals for employee compensation	295	—	295
Accounts payable	677	—	677
Borrowings	4	1,961	1,965
Other liabilities	173	—	173
Total liabilities	**1,149**	**1,961**	**3,110**
Net	**749**	**696**	**1,445**

(Thousands of Georgian lari unless otherwise stated)

22. Maturity analysis of assets and liabilities (Continued)

	31 December 2013			31 December 2012		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	26	—	26	30	—	30
Receivables from healthcare services	766	—	766	1,053	—	1,053
Inventory	277	—	277	245	—	245
Current income tax assets	18	—	18	7	—	7
Property and equipment	—	2,552	2,552	—	2,267	2,267
Deferred income tax assets	—	76	76	—	—	—
Other assets	26	—	26	43	—	43
Total assets	**1,113**	**2,628**	**3,741**	**1,378**	**2,267**	**3,645**
Accruals for employee compensation	304	—	304	193	—	193
Accounts payable	678	—	678	631	—	631
Current income tax liabilities	—	—	—	—	—	—
Borrowings	1	1,375	1,376	8	1,431	1,439
Deferred income tax liabilities	—	—	—	—	23	23
Other liabilities	286	—	286	279	—	279
Total liabilities	**1,269**	**1,375**	**2,644**	**1,111**	**1,454**	**2,565**
Net	**(156)**	**1,253**	**1,097**	**267**	**813**	**1,080**

23. Events after the reporting period

In April 2015, LLC Traumatologist was merged with JSC Medical Corporation Evex. JSC Medical Corporation Evex was set up in 2014 as a part of Insurance Company Aldagi's reorganization process, and is untimately controlled by Bank of Georgia Holdings plc.

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