

**ADMINISTRATORS' REPORT  
MED LIFE GROUP**

**YEAR ENDED DECEMBER 31, 2017**

## 1. Presentation of the Group

Med Life S.A. ("Med Life" or the "Parent Company" or the "Company") is a joint-stock company incorporated in 1996, in accordance with the laws and regulations of Romania. The Company's activity resides in the performance of healthcare services activities through medical centres located in Bucharest, Brasov, Cluj, Timisoara, Iasi, Galati and Constanta.

The registered office of Med Life is located in Bucharest, Calea Grivitei, no. 365. Med Life Group is offering a large range of medical service having opened 18 Hyperclinics in Bucharest, Timisoara, Brasov, Arad, Iasi, Galati, Craiova, Braila, Cluj and Constanta, 33 Clinics, 8 hospitals – located in Bucharest, Arad and Brasov, 29 Laboratories, 10 Pharmacies and 9 Dental Clinics.

The Group has also more than 140 private Clinic partners around Romania.

Details of Med Life SA's subsidiaries at December 31, 2017 and January 1, 2017 are as follows:

	Name of subsidiary	Principal Activity	Place of operation	December 31, 2017	January 1, 2017
1	Policlinica de Diagnostic Rapid SA	Medical Services	Brasov, Romania	80.01%	80.01%
2	Medapt SRL	Medical Services	Brasov, Romania	80.01%	80.01%
3	Histo SRL	Medical Services	Brasov, Romania	48.01%	48.01%
4	Policlinica de Diagnostic Rapid Medis SRL	Medical Services	Sfantu Gheorge, Romania	64.01%	64.01%
5	Bahtco Invest SA	Development of building projects	Bucharest, Romania	100%	100%
6	Medsanrom SRL (Med Life Occupational SRL)	Medical Services	Bucharest, Romania	100%	100%
7	Pharmalife Med SRL	Distribution of Pharmaceutical Products in specialised stores	Bucharest, Romania	100%	100%
8	Asilife Insurance Broker SRL	Insurance broker	Bucharest, Romania	99%	99%
9	Accipiens SA	Rental activities	Arad, Romania	58%	55%
10	Genesys Medical Clinic SRL	Medical services	Arad, Romania	58%	55%
11	Biofarm Farmec SRL	Distribution of Pharmaceutical Products in specialised stores	Arad, Romania	58%	55%
12	RUR Medical SA	Medical services	Brasov, Romania	100%	100%
13	Biotest Med	Medical services	Constanta, Romania	100%	100%
14	Vital Test	Medical services	Iasi, Romania	100%	100%
15	Bactro SRL (indirectly)	Other healthcare services	Deva, Romania	58%	55%
16	Centrul Medical Sama S.A.	Medical Services	Craiova, Romania	55%	55%
17	Ultratest S.A.	Other healthcare services	Craiova, Romania	55%	55%
18	Diamed Center SRL	Medical Services	Bucharest, Romania	100%	100%
19	Prima Medical SRL	Medical Services	Craiova, Romania	100%	100%
20	Stem Cells Bank SA	Medical Services	Timisoara, Romania	100%	60%
21	Dent Estet Clinic SA	Dental healthcare activities	Bucharest, Romania	60%	60%
22	Centrul Medical Panduri SA	Medical Services	Bucharest, Romania	90%	90%

	Name of subsidiary	Principal Activity	Place of operation	December 31, 2017	January 1, 2017
23	Almina Trading SA	Medical services	Targoviste, Romania	80%	-
24	Anima Specialty Medical Services SRL	Medical services	Bucharest, Romania	100%	-
25	Anima Promovare si Vanzari SRL	Medical services	Bucharest, Romania	100%	-
26	Valdi Medica SRL	Medical services	Cluj, Romania	55%	-

MedLife's business model focuses on servicing corporations and private clients. The Group seeks to capture the private healthcare spending of these clients throughout all stages of a medical condition: prevention, diagnosis and treatment, by offering a wide range of medical services delivered in modern, high quality facilities by professional teams of doctors, nurses and support personnel. The Group puts considerable emphasis on client service, operating an IT infrastructure and customer service and sales operation that has served over 5 million unique patients, representing over 1 in 4 Romanians.

The Group divides its operations into six business lines:

- **Corporate:** The Corporate business line offers HPP to corporate clients as part of their employee benefit packages. These programmes, which focus on prevention through regular check-ups and access to diagnostic services, complement the legally required occupational health services that corporate clients also contract from MedLife under the HPP offering.
- **Clinics:** The Clinics business line includes the Group's ambulatory clinics and diagnostic imaging services. Clinics offer general practitioner and specialist consultations and include the Group's 140 outpatient diagnostic imaging services. Certain of its clinics also undertake day hospitalisation services.
- **Laboratories:** The Laboratories business line provides biochemistry, haematology, coagulation, immunology, microbiology, anatomy, pathology, cytology, molecular biology and toxicology laboratories tests.
- **Hospitals:** The Hospitals business line covers the Group's inpatient activities, which consist of a wide range of medical and surgical specializations. The Group holds 5 inpatient hospital licenses, which encompass the business line's activities. One of the licences was issued for one hospital unit and 3 other external sections, accounting for the Group's 8 hospital locations. In addition to these, the Group was granted licenses for three additional 1-day inpatient units, which operate within Clinic locations and provide only 1-day inpatient services (i.e. Iași, Craiova and Timișoara). The financial results from these three 1-day hospital services are accounted for in the Clinics division. The Group regards these units as functional parts of the hyperclinics located in Iași, Craiova and Timișoara.
- **Pharmacies:** The Pharmacies business line offers prescription, over the counter and other related medical products in 9 pharmacies opened within the Group's clinics.
- **Stomatology:** The Stomatology business line provides a wide range of dental services from simple check-ups to complicated surgery.

## 2. Developments in 2017

### 2.1. Acquisitions completed in 2017

The Group signed the Sales Purchase Agreement for the acquisition of shares in the following companies:

- 80% of share capital of Almina Trading SA
- 100% of share capital in Anima Specialty Medical Services SRL and Anima Promovare si Vanzari SRL
- 55% of share capital in Valdi Medica SRL

### **Almina Trading acquisition**

Almina Trading ("Almina") has an activity of 20 years on the local market and it is the largest healthcare operator in Dambovita County. The company has eight medical centers – five in Targoviste, two in Pucioasa and one in Buftea – and two laboratories (Targoviste and Buftea), providing its patients with integrated outpatient, imaging and laboratory analysis services. The eight units are fitted with high-performing medical equipment and they are staffed with a medical team of over 125 specialists. Almina Trading transaction concluded on the March 29, 2017.

### **Anima acquisition**

Anima Specialty Medical Services and Anima Promovare si Vanzari ("Anima") consists of 6 clinics and a laboratory, has over 200 employees, medical specialists and support staff and is the first private healthcare provider with its own family medicine network in Romania. At the same time, Anima is one of the largest private outpatient healthcare services provider which has agreements with the Bucharest Health Insurance Fund (CASMB), covering over 15 medical specialties, including family medicine, ob-gyn, ENT, endocrinology, ophthalmology, dermatovenerology, cardiology, psychiatry, rheumatology, gastroenterology, allergology and clinical immunology. According to the company's representatives, Anima currently has some 75,000 corporate subscribers, mostly focusing on subscriptions covering occupational health services. Anima transaction concluded on May 26, 2017.

### **Stake increase Stem Cells Bank SA and Accipiens SA**

The Company acquired in June, a new stake of 40% in Stem Cells Bank SA in Timișoara, one of the most modern and well-equipped stem cells bank in south-eastern Europe. In addition, in June, MedLife took over another 3% in Accipiens SA, which controls 100% of Genesys Medical Clinic SRL in Arad, one of the largest private healthcare operators in the western Romania, with the Company currently owning a stake of 58%.

### **Valdi Medica acquisition**

The Company finalised in September 2017 the acquisition of a 55% stake in Valdi Medica SRL. Valdi Medica SRL operates the Humanitas hospital from Cluj. Humanitas Hospital was opened at the end of 2016 and it is the newest private hospital in Cluj-Napoca; it provides a wide range of services and advanced surgical treatments, including: endocrine surgery, oncological and reconstructive surgery, plastic surgery, reparative surgery of the abdominal wall and aesthetic surgery, which are performed by physicians with great professional training and who are dedicated to their work. At the same time, the hospital is fitted with state-of-the-art equipment, and the operating theatre includes 2 operating rooms and an anaesthesia and intensive care department.

### **Acquisition of other companies:**

MedLife signed in October the acquisition of the 100% stake in Polisano medical services, one of the largest private medical operators in Romania. Founded in the 90's, Polisano is the first fully integrated medical group in Romania. It includes a series of four clinics with its own laboratories located in Bucharest and Sibiu, a private hospital – Polisano European Hospital in Sibiu – recognized as one of the most modern and performing hospital units in Romania, one in vitro fertilization centre and the biggest private maternity in Transylvania. The transaction will be completed following the validation by the Competition Council and approval of the condition precedents.

## Valuation of investments in other companies

Management conducts impairment tests on an annual basis or whenever there is an indication of impairment to assess the recoverability of the carrying value of investments at individual level. This is performed using discounted cash flow models.

There are a number of key sensitive judgements made in determining the inputs into these models which include:

- Revenue growth
- Operating margins and
- The discount rates applied to the projected future cash flows.

Management have engaged specialists to assist with the determination of the discount rates for the significant Cash Generating Units to which the cost of investment relates.

### 2.2. Second Public Offering

In 2017, as a result of a Second Public Offering, Med Life S.A. issued 2,053,082 new shares with a nominal value of RON 0.25 per share, increasing the share capital from RON 5,023,000 to RON 5,536,271. The subscribers of the share increase will benefit from full rights related to the acquired shares starting from the date of the registration by the Central Depository. The shares were subscribed in 2017. The Central Depository registered the newly subscribed shares on January 11, 2018.

### 2.3. New facilities

In February 2017, Med Life extended its presence in Brasov and opened a new hyperclinic and a new laboratory. These two investments are the result of an investment of EUR 1.3 million.

In November 2017, Med Life opened the first hyperclinic in Braila. The investment in this unit reached approximately EUR 700,000.

### 2.4. Acquisition of a new headquarter

In 2017, Med Life SA purchased a building located in Banu Manta Street from Telekom and performed a sale and leaseback through financial leasing.

## 3. Credit facilities contracted by the Group

	<b>December 31, 2017</b>	<b>January 1, 2017</b>
Current portion of long term debt	38,656,209	20,395,035
Long term debt	242,797,699	202,761,616
<b>TOTAL</b>	<b>281,453,908</b>	<b>223,156,651</b>
<b>Overdraft</b>		
	<b>December 31, 2017</b>	<b>January 1, 2017</b>
Short term loan Transilvania Bank and Others	2,013,469	1,267,442
<b>TOTAL</b>	<b>2,013,469</b>	<b>1,267,442</b>

As at December 31, 2017, the Group's drawn and undrawn financing facilities included the following:

- a secured club loan agreement entered into between the Company and BCR, BRD, ING and Raiffeisen for a maximum amount of EUR 48,764,589.98 and RON 27,000,000. The loan matures on 15 November 2023. The outstanding amount as at 31 December 2016 was EUR 32,904,018, equivalent to RON 176,420,437, and RON 27,000,000. The balance as at December, 31 2017 is of EUR 37,909,567, equivalent of RON 176,647,209, and RON 27,000,000;
- a secured loan agreement with the International Finance Corporation, member of the World Bank Group, amended and restated as at 30 September 2016, with an outstanding amount of EUR 2,619,048, having the last repayment date on 15 May 2023;
- a secured loan agreement with the International Finance Corporation, member of the World Bank Group, in the amount of EUR 10,000,000 signed at 30 September 2016. The outstanding amount as at December 31, 2017 is EUR 9,166,667;
- seven secured loan agreements entered into between Banca Transilvania and Centrul Medical Sama for the acquisition of medical equipment and the construction of a clinic, having a total outstanding amount of RON 1,194,480, as at December 31, 2017;
- three secured loan agreements entered into between Banca Transilvania and Genesys Medical Center S.R.L, having at December 31, 2017 a balance of EUR 2,337,641 and RON 231,279 RON;
- an overdraft facility entered into between Unicredit Tiriac Bank and Prima Medical S.R.L. having as maximum credit limit of RON 800,000, fully drawn as at December 31, 2017;
- a credit facility entered into between Garanti Bank and Dent Estet having an outstanding amount as at December 31, 2017 is of RON 1,099,974;
- two secured agreement between Banca Transilvania and Anima Specialty Medical Services; the outstanding amount as at December 31, 2017 is of RON 4,060,384;
- three secured agreement between Banca Transilvania and Almina Trading, having an outstanding amount as at December 31, 2017 is of RON 700,759;
- a secured agreement between Bancpost and Medlife Ocupational in amount of EUR 225,000; the outstanding amount as at December 31, 2017 is of EUR 119,810;
- an overdraft facility between Banca Transilvania and Anima Specialty with a limit of 1,000,000 RON until June 2018; the outstanding amount as at December 31, 2017 is 420,188 RON;
- a credit facility entered between Banca Transilvania and Sama from September 2016, having an outstanding amount 166,648 RON as at December 31, 2017;
- a credit facility entered between Banca Transilvania and Genesys, having an outstanding amount 310,640 RON as at December 31, 2017;

As at December 31, 2017, none of the Group members was in breach of any applicable term of the financing facilities.

#### 4. Financial Analysis

##### Analysis of the individual profit and loss

Sales for the 12 month period ended December 31, 2017 amounted to RON 623,219,949, higher by 24% compared to sales recorded in the 12 month period ended December 31, 2016. This increase was mainly the result of significant growth in all of the Group's business lines, led on a percentage basis by Stomatology, Clinics and Laboratories as well as the impact of the acquisitions completed by the Group in 2016 and 2017.

Sales consist of medical services, net of VAT, including revenues from prevention packages of corporate customers and fees for services rendered within Med Life's clinics and various hospitals within Romania. Please see breakdown below.

<b>Business Line</b>	<b>12 months 2017 Sales</b>	<b>% of Total Sales</b>	<b>12 months 2016 Sales</b>	<b>% of Total Sales</b>
Clinics	166,650,648	26.7%	130,109,363	25.9%
Stomatology	37,565,681	6.0%	18,504,217	3.7%
Hospitals	119,106,274	19.1%	104,977,229	20.9%
Laboratories	115,259,329	18.5%	93,161,917	18.5%
Corporate	144,621,716	23.2%	127,988,835	25.4%
Pharmacies	29,526,655	4.7%	23,597,580	4.7%
Other revenue	10,489,645	1.7%	4,647,649	0.9%
<b>TOTAL</b>	<b>623,219,949</b>	<b>100%</b>	<b>502,986,790</b>	<b>100%</b>

The main operational indicators of the Group.

<b>Business Line</b>		<b>12 months ending December 31, 2017</b>	<b>12 months ending December 31, 2016</b>
Clinics	<b>Sales</b>	<b>166,650,648</b>	<b>130,109,363</b>
Clinics	Visits	1,153,218	909,132
Clinics	Avg fee	144.5	143.1
Stomatology	<b>Sales</b>	<b>37,565,681</b>	<b>18,504,217</b>
Stomatology	Visits	99,682	69,111
Stomatology	Avg fee	376.9	267.7
Hospitals	<b>Sales</b>	<b>119,106,274</b>	<b>104,977,229</b>
Hospitals	Pacients	58,610	56,283
Hospitals	Avg fee	2,032.2	1,865.2
Laboratories	<b>Sales *</b>	<b>115,259,329</b>	<b>93,161,917</b>
Laboratories	Analyses	5,320,695	4,223,840
Laboratories	Avg fee	21.7	22.1
Corporate	<b>Sales</b>	<b>144,621,716</b>	<b>127,988,835</b>
Corporate	PPM	568,593	420,933
Corporate	Avg fee	254.4	304.1
Pharmacies	<b>Sales</b>	<b>29,526,655</b>	<b>23,597,580</b>
Pharmacies	Clients	269,104	264,604
Pharmacies	Avg fee	109.7	89.2
Other Sales	<b>Sales</b>	<b>10,489,645</b>	<b>4,647,649</b>

\* Sales obtained for stem cells bank services are classified for the twelve month period ended 31 December, 2017 on Other Sales business line. Stem cells bank services sales were previously classified in Laboratories business line. In order to ensure comparison between periods, we have reclassified stem cell banks services sales for the twelve month period ended 31 December 2016 from Laboratories business line to Other Sales business line.

Other operating revenues recorded a significant increase in the 12 month period ended December 31, 2017 as compared to the corresponding period of 2016, amounting to RON 7,496,681 as at December 31, 2017.

Operating expenses include variable and fixed costs, as well as the cost of goods and materials used to provide the Group's services. The Group recorded operating expenses of RON 595,857,844 in the year ended December 31, 2017, representing an increase of 22%, or RON 106,956,817 as compared to the year ended December 31, 2016.

The Group's operating expenses as a percentage of total operating income dropped to 94.4% in the 12 month period ended December 31, 2017 compared to 96.2% in the corresponding period of 2016.

Operating expenses evolution is presented below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Consumable materials & repair materials	97,974,250	83,701,521
Commodities expenses	24,115,025	18,908,567
Utilities	6,573,637	5,074,199
Repairs maintenance	6,435,809	5,133,520
Rent	38,281,750	28,055,943
Insurance premiums	2,103,123	1,868,261
Promotion expense	10,976,803	10,371,665
Communications	3,326,050	3,249,114
Third party expenses (including doctor's agreements)	165,638,063	133,552,240
Salary and related expenses	152,403,119	113,810,954
Social contributions	34,608,368	25,748,024
Depreciation	43,078,621	36,093,805
Impairment gains recognized in profit and loss	-	(970,918)
Other administration & operating exp.	10,343,226	24,304,132
<b>TOTAL</b>	<b><u>595,857,844</u></b>	<b><u>488,901,027</u></b>

Operating profit recorded an 78% increase in the 12 month period ended December 31, 2017 as compared to the 12 month period ended 31 December 2016, from RON 19,554,353 at December 31, 2016 to RON 34,858,786 as at December 31, 2017.

Financial loss increased in the 12 month period ended December 31, 2017 by RON 2,197,000 from a loss of RON 18,385,241 in the twelve month period ended December 31, 2016 to a loss of RON 20,582,241 in the analyzed period of 2017, mainly due to net foreign exchange losses recorded in the first 12 months of 2017 in amount of RON 7,109,598 compared to net foreign exchange loss of RON 2,608,878 recorded in 2016.

The net result for the 12 month period ended December 31, 2017 increased by RON 9,973,615 as compared to the corresponding period in 2016, from a loss of RON 1,241,990 in the 12 month period ended 31 December 2016 to a profit of RON 8,731,625 in the year 2017. The increase was mainly due to the translation of the Operating Profit increase in the net result.

## Analysis of the consolidated statement of financial position

Non-current assets amount to RON 432,342,667 as of December 31, 2017, recording an increase of RON 56,977,954 or 15% as compared to December 31, 2016. The increase is mainly linked to Almina Trading, Anima and Valdi Medica acquisitions, which generated an increase in goodwill.

Current assets increased by 80,248,073 RON or 88% from RON 90,754,747 as at December 31, 2016 to RON 171,002,820 as of December 31, 2017. The increase is linked mainly to the funds attracted through the share capital increase process.

Prepayments recorded as at 31 December 2017 amount to RON 7,068,126. As compared to December 31, 2016, an increase of RON 332,098 was recorded. The increase is linked to accrued expenses and prepaid local tax liabilities.

Current liabilities (excluding interest bearing debt items) increased by RON 7,869,391, or 7%, from RON 117,874,182 as at December 31, 2016, to RON 125,743,573 as at December 31, 2017.

Interest bearing debt increased by RON 54,172,909, from RON 240,570,412 as of December 31, 2016 to RON 294,743,321 as of December 31, 2017. The increase is mainly due to financing of the Banu Manta building, Almina Trading, Anima and Valdi acquisitions and refinancing of leasing contracts through a new loan agreement.

### 5. Main Financial Indicators

			Period ended at December 31, 2017
<b>1</b>	<b><i>Current ratio</i></b>		
	Current assets	171,002,820	=
	Current liabilities	167,577,744	= 1.02
<b>2</b>	<b><i>Debt to equity ratio</i></b>		Period ended at December 31, 2017
	Long Term Debt	252,909,151	=
	Equity	167,661,959	= 151%
	Long Term Debt	252,909,151	=
	Capital Assets	420,571,110	= 60%
<b>3</b>	<b><i>Trade receivables turnover (days)</i></b>		Period ended at December 31, 2017
	Average receivables	50,827,190	=
	Sales	623,219,949	= 29.36
<b>4</b>	<b><i>Fixed assets turnover</i></b>		Period ended at December 31, 2017
	Sales	623,219,949	=
	Net Fixed Assets	432,342,667	= 1.44

## **6. Non-Financial Information**

### **Overview**

Med Life provides its services via the largest single pool of private doctors and nurses in Romania, totaling approximately 2,300 doctors and 1,500 nurses. The Group's policy is to facilitate the employment of medical staff on an exclusive basis, unlike many competitors which share their medical staff with other private healthcare providers or with the public healthcare facilities. The Group engages part-time professionals only for specific specialties or functions. In addition, committed to providing quality medical services, the Group has consistently invested in medical equipment supporting its marketing position as a technology leader in diagnostic imaging.

The Group registers a high satisfaction level from patients, obtained a high score of awareness of its brand among clients and a high number of patients recommend its services. Med Life has been recognized as the "Most Trusted Brand" by Readers' Digest in the Romanian Private Clinics category for six years in a row, during the period 2009-2015, obtained four Superbrand distinctions including in 2017, Qudal distinction in 2016 and 2017 and is placed first among the competitors in the survey carried out by Exact Cercetare si Consultanta in 2017 to assess top-of-mind brand awareness. The Group surveys patients on a weekly basis for feedback on the medical services it provides.

### **Business Model**

Med Life's concept of Hyperclinics, large scale ambulatory clinics, as well as the integration of various segments (in the Group) provides substantial potential for revenue capture. For example, an HPP client visiting a Group clinic for a preventative check-up may be advised to undertake further tests or seek further consultations not covered by the HPP. These additional services or consultations are often available within the same Hyperclinic, facilitating the client to choose the Group's services. The Group's ability to acGroup the patients in many cases from prevention to diagnosis through treatment provides a continuity of treatment for the patient as well as the capture of FFS revenue for the Group. The Group's Pharmacies business line is another example of revenue capture. When a prescription is given in one of the Group's consulting rooms, patients will often use the most convenient location to fill it: a pharmacy that is within the same building where the prescription was given. The Group's expansion into the Stomatology business line adds a further leg to this strategy. Preventative dental check-ups can be included in some Health Prevention Packages, ("HPP") which may lead patients to choose the Group for any follow-up treatment as a FFS client.

### **Sales largely from cash-pay and HPP with low dependency on National Health Houses ("NHIH") funding**

Many private healthcare providers in Romania remain dependent for a significant portion of their sales on contracts awarded by the NHIH to service State insured patients. This increases their exposure to changes in the NHIH healthcare priorities, pricings and allocation systems. With only 8% of its sales during 2017 deriving from the treatment of NHIH insured patients, MedLife can independently determine its policies and priorities.

### **The largest number of HPP clients in Romania**

With over 570,000 HPP subscribers as at 30 September 2017, the Group has access to a significant potential client base for its FFS activities. This base is further expanded when the HPP subscribers bring family members and provide referrals to others for the Group's FFS offering. The HPP client base also provides opportunities for up-selling as many of the HPP clients begin with basic medical services packages and gradually move to more comprehensive services.

The Group's continuous investments in new medical facilities set the basis for potential new HPP clients, as the Group's ability to service HPP subscribers in its own medical facilities is often key to the clients' purchasing decision. The market outside Bucharest remains, in the Group's view, underdeveloped for HPP and as such represents an opportunity for further growth by acquiring and integrating local and regional providers, thus expanding its footprint on a regional level and increasing its appeal to HPP clients.

## **Experienced management able to generate and manage activity development both by organic growth and acquisitions**

The Group's track record of organic and acquisition growth is largely due to the Group's strong management team. The Group has developed systems for screening potential acquisitions, completing detailed analysis and decision making in a timely manner, and implementing, post transaction, a fast and efficient integration process. The Group has a reputation in the market as a "friendly acquirer", mainly because the targets' founder/owners are often given the opportunity to stay in the business as minority shareholders, and managers of the subsidiary. Through this approach, MedLife retains their accumulated experience and market knowledge while being able to fully integrate the acquisition into its own systems and revenue capture opportunities. The Group has opened and acquired 102 facilities since 2009, providing the Group with valuable knowledge and experience to find the best path for continued and successful expansion.

## **Strategy**

MedLife's strategy focuses on maintaining its leadership position. The Group seeks to grow its portfolio of facilities and services to profitably provide national coverage to the Group's existing and new clients. The Group targets opportunities that provide additional revenue capture and synergies within its existing network and services. This goal is expected to be achieved through a combination of organic growth and acquisitions of smaller medical healthcare providers in the market. At the same time, the Group remains committed to ensuring quality and safe medical treatment to its clients, balancing the medical risks and opportunities with the Group's commercial goals.

## **Organic growth**

During the period 2014 – December 2017, the Group opened a number of new clinics and other facilities, particularly sampling points for its Laboratories business line. Many of these facilities are believed to still have the capacity to service greater numbers of patients, which should allow for the increase in their revenue and profit contribution, as they reach fuller utilization. Further, the Group and the Group continue to optimize the range of services offered at its other facilities to the specific local market conditions, seeking to improve the revenue and margins of each location. As a result, the constant and accelerated ramp-up of these facilities is expected to improve margins as well as deliver further sales growth.

## **People and resources**

The Group services patients through the largest private pool of doctors and nurses in Romania. As of December 31, 2017, the Group, on an overall level, was collaborating with a number of approximately 2,300 physicians and 1,500 qualified nurses across its business lines, including both employees working exclusively for the Group and collaborators, providing services as independent professionals. In addition, more than 1,500 full time employees were working in support and administrative functions as of December 31, 2017.

The Group's objective is that its medical staff be formed exclusively of full-time employees, even if certain specialties and functions either do not justify full-time engagements or such personnel are not available. In these circumstances, the Group enters into part-time employment or collaboration arrangements with the respective staff. The type of contractual arrangement between the Group and its medical staff depends on various criteria, such as the professional context or the time that the medical staff can allocate to services provided to the Group. Medical staff under services agreements are seen by the Group as commercial partners, providing services to the Group as independent contractors, in compliance with the applicable legislation.

The Group seeks to provide adequate compensation and incentives to physicians and other medical staff in exchange for quality medical care and commitments to promote the MedLife business model. The usual compensation package offered by the Group to its employees includes fixed remuneration, to which a variable remuneration is added, determined based on a revenue sharing mechanism connected to appointment and consulting activity. Collaborators are compensated based on their appointment and consulting activity.

The Group does not operate pension plans or long-term incentive schemes.

## **Quality Standards**

MedLife has implemented the following standards for Quality, Environment and Occupational Health & Safety management systems:

- ISO 9001:2008 (Quality Assessment) is based on the management of the organization's processes, oriented towards the client and the assessment of the client's satisfaction, as well as towards' top management's engagement for a continuous improvement.
- ISO 14001:2005 (Environmental management) provides requirements on the Group to declare its operations concerning control and decrease of its impact on the environment.
- OHSAS 18001:2007 (Occupational health & safety management system) represents a working model for the organizations that intend to have a better control over the professional risks.

All of the Group's laboratory facilities are accredited by the Romanian Accreditation Association with ISO 15189 for Quality management.

## **Health, Safety, Security and Environment**

The Group is subjected, and complies with Romanian laws and regulations related to health, safety, security and environment matters. These laws and regulations refer, among other things, to management and disposal of hazardous substances and medical waste, exposure to hazardous materials and protection of health and safety of employees. The Group is required to obtain environmental permits, licenses and authorizations and provide notification to local authorities prior to opening new administrative and medical units.

As of December 31, 2017, the Group is in various stages of procedures for obtaining or updating its fire prevention authorizations for certain of its medical units and other premises. The completion of these procedures is subject to various requirements, such as the performance of certain works and upgrades to the Group's facilities. The Group regards the amounts of the required investments as being immaterial; however, the completion of the necessary works and upgrades is subject to, in certain cases, additional authorizations and clearances, or other procedures in which the Group has engaged. As at December 31, 2017, the Group does not have all fire prevention authorizations in place.

## **Equipment and Technology**

The Group purchases computerized optical coherence tomography systems, investigation equipment through MRI and CT equipment, bone densitometer, dermatoscopy fotofinder, fibro scan equipment, laser, lypocryo cold vacuum systems, endoscopic capsule diagnostic systems.

## **Information Technology**

The Group relies on international providers for its IT hardware infrastructure. With regards to communication between the Group's various locations, the Group uses a virtual private network, which ensures effectiveness, security and privacy of communications.

The Group has also implemented a robust IT infrastructure within all its hospitals, which covers admission and surgery appointments, medical procedures, patient check-in and check-out, medical supplies and consumables management, billing on a per-customer basis and generating general management reports.

The Laboratories business line has been equipped with software to manage the lab test processes including the management of samples, patient records, barcode labelling and automated procedures for final results.

## 7. Corporate Governance

### The corporate governance statement

MedLife and its board members comply with the corporate governance regime established by the Companies Law with the following exceptions:

- Because some members of the Board of Directors and some executive managers hold various positions in the administration, management or control bodies in the subsidiaries of the Company, any lending by the Company to such subsidiaries can be considered a loan by the Company to its directors which is prohibited under the Companies Law;
- Because some members of the Board of Directors and some executive managers hold various positions in the administration, management or control bodies in the subsidiaries of the Company and other positions within the Company (e.g. executive managers, legal advisors, employees) there is the possibility of occurrence of conflicts of interests.

As of 4 January 2016, a new corporate governance code issued by the Bucharest Stock Exchange entered into force and is applicable to all issuers of securities traded on the spot regulated market operated by the Bucharest Stock Exchange. The new Corporate Governance Code is applicable to the Company after the admission of its shares to trading on the spot regulated market managed by the Bucharest Stock Exchange.

MedLife took measures to ensure that within a 12-month period as of the admission of shares on the spot regulated market operated by the Bucharest Stock Exchange, at least two independent members were appointed in the Board of Directors.

In 2017, Med Life SA published on its website: the Organization and Deployment Policy for the Shareholders Assembly Meetings, the Code of Ethics and Conduct, the Social Responsibility Code, the Forecast Policy and the Corporate Governance Statute.

### 7.1. Shareholding structure

As of December 31, 2017 the shareholders' structure of Med Life SA, the parent company of Med Life Group, is as presented below:

	<b>No. of shares</b>	<b>%</b>
Marcu Mihail	4,219,320	21.00%
Marcu Nicolae	3,013,800	15.00%
Cristescu Mihaela Gabriela	3,028,892	15.08%
Others	9,829,988	48.92%
<b>TOTAL</b>	<b>20,092,000</b>	<b>100%</b>

The shareholders' structure of Med Life SA in place following the share capital increase process, as presented in the Central Depository notification, dated January 11, 2018, is as presented below:

	<b>No. of shares</b>	<b>%</b>
Marcu Mihail	4,219,320	19.05%
Marcu Nicolae	3,013,800	13.61%
Cristescu Mihaela Gabriela	3,243,892	14.65%
Others	11,668,070	52.69%
<b>TOTAL</b>	<b>22,145,082</b>	<b>100%</b>

## 7.2. Company Management

The Company is managed in one tier system by the Board of Directors that delegated management of the Company to the managers. The Board of Directors consists of seven (7) members appointed by the Ordinary General Meeting of Shareholders for a term of 4 years, with the possibility of re-election for subsequent 4 years terms of office. The Chairman and Vice-Chairman of the Board of Directors are elected by the Board of Directors among its members.

The Board of Directors is responsible for all useful and necessary acts to fulfil the object of activity of the Company, except for the duties that are allocated by law to the shareholders' meetings.

### Board of Directors

As at the date of December 31, 2017, the Board of Directors consists of the following members:

Name	Date of Birth	Title
Mihail Marcu	30.09.1970	Member and Chairman of the Board of Directors
Ana Maria Mihaescu	29.07.1955	Member of the Board of Directors
Ion Nicolae Scorei	22.12.1974	Member of the Board of Directors
Dimitrie Pelinescu-Onciul	11.08.1947	Member of the Board of Directors
Dorin Preda	03.04.1976	Member of the Board of Directors
Marius-Leonard Gherghina	21.02.1964	Member of the Board of Directors
Nicolae Marcu	26.10.1968	Member of the Board of Directors

The venue where the members of the Board of Directors carry out their duties is the registered office of the Company.

### Executives

The individuals holding positions of executive manager in the Company as at December 31, 2017 or the persons to whom management of the Company has been delegated pursuant to the Articles of Association, are presented in the table below.

Name	Title
Mihail Marcu	Chief Executive Officer (CEO)
Nicolae Marcu	Chief Healthcare and Operations Officer
Dorin Preda	Chief Finance and Treasury
Adrian Lungu	Chief Financial Officer
Radu Petrescu	Human Resource Manager
Geanina Durigu	Laboratory Manager
Mariana Brates	Purchasing Manager
Mihai-Stelian Vârciu	Medical Manager
Vera Firu	Accounting and Tax Manager
Mirela Dogaru	Corporate Manager

## 7.2. Audit Committee

The audit committee has two members:

Name	Date of Birth	Title
Ion Nicolae Scorei	22.12.1974	Member of the Board of Directors (Non-Executive)
Marius-Leonard Gherghina	21.02.1964	Member of the Board of Directors (Non-Executive)

## **8. Internal Control**

MedLife established a system of internal control throughout the group. Internal control is an activity of objective and independent evaluation with consultative purpose performed in order to increase value added and improving the activity of the Group.

Internal control supports the Group to reach the objectives agreed upon through systematic and disciplined approach of evaluation and improvement of risk management efficiency, internal controls systems efficiency and general management efficiency.

The objectives of the internal control are:

- Assessment and evaluation of the accuracy of realized tasks
- Evaluation of conformity with internal procedures
- Detection of inefficiency, waste, abuse and other irregularities
- Presentation to the Board of Directors of objective information from areas covered by internal control and of recommendations in order to eliminate identified issues and follow-up
- Rendering of services in terms of assessments, evaluations, recommendations for the Board of Directors

The Group's internal control checked: compliance with the laws in force; application of the decisions made by the management; good operation of the internal activity; efficient use of resources; prevention and control of the risk of failing to reach the goals set; ensuring an accounting management and financial monitoring of the Company's activities.

Internal control is applicable:

- prior to conducting the operations, upon the preparation of the budget, which would allow subsequently to conducting the operations, the budget control;
- during the operations and after their completion, a case where it is analysed the profitability of the operations and it is ascertained the existence of the conformity or possible irregularities, which need to be adjusted.

## **9. Risk exposures**

### **Capital risk**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes borrowings from bank and IFC and also financial leasing, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

The Group's risk management reviews the capital structure regularly. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

### **Financial risk management objectives**

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

### **Foreign exchange risk**

The Group conducts its business and makes transactions expressed in various currencies. Management analyzes the exposure to currency risks.

**Credit risk**

The financial assets that might expose the Group to a credit risk concentration mainly consist of receivables (trade receivables and similar receivables). Given the large number of clients of the Group, credit risk is rather limited.

**Liquidity risk**

The Group's policy is to maintain sufficient liquidities to pay for its obligations when such become due.

**Fiscal environment**

The taxation system in Romania is still developing and is subject to various interpretations and constant changes, which may sometimes be retroactive. Although the actual tax due for a transaction may be minimum, delay interests may be significant, as they can be calculated at the value of the transaction and at a rate of 0.02% per day (interest) and 0.01% (penalties) per day in 2017.

In Romania the statute of limitation for tax controls (audits) is of 5 years. Management believes that the tax obligations included in these financial statements are adequate.

**Transfer pricing**

The fiscal legislation from Romania includes the "market value" principle, according to which the transactions between related parties have to be performed at the market value. The local tax payers, who carry transactions with related parties, have to prepare and make available to the tax authorities from Romania, at their written request, the transfer pricing documentation file. If the companies do not prepare the documentation or they present an incomplete transfer pricing file may attract penalties for non-conformity, and additionally to the information presented in the transfer pricing file, the fiscal authorities may have a different interpretation of the transactions and the circumstances compared to the management's assessment and, as a result, they may impose additional fiscal obligations as a result of adjusting transfer prices. The management of the Group is confident that, if required, they will submit the necessary information in due time to the fiscal authorities. The transactions with related parties and group companies are performed based on the market value principle.

**Litigation**

The Group is involved in various litigations as part of normal course of business. Management has assessed the legal status together with the Group's legal advisors and all necessary adjustments have been recorded in the consolidated financial statements.

**10. Subsequent events**

In February 2018, Med Life SA acquired 90% of the share capital of Ghencea Medical Center.

In March 2018, Med Life SA acquired 80% of the share capital of Solomed Group, a group of medical clinics in Pitesti, Costesti and Curtea de Arges.

There were no other significant subsequent events after December 31, 2017.

**Administrator**