

**ADMINISTRATORS' REPORT
MED LIFE GROUP**

YEAR ENDED DECEMBER 31, 2016

1. Presentation of the Group

Med Life S.A. ("MedLife" 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.

Med Life Group is offering a large range of medical service having opened 17 Hyperclinics in Bucharest, Timisoara, Brasov, Arad, Iasi, Galati, Craiova, Cluj and Constanta; 8 hospitals – located in Bucharest, Arad and Brasov, 19 Medical Centers and 24 Laboratories for analysis, as well as 3 maternity hospitals. The Group has also more than 140 private Clinic partners around Romania.

MedLife is one of the leading health care services providers in Romania, having a significant market share at a national level.

The registered office of MedLife is located in Bucharest, Calea Grivitei, no. 365.

Details of the Company's subsidiaries at December 31, 2016, December 31, 2015 and December 31, 2014 are as follows:

	Name of subsidiary	Principal Activity	Place of operation	Proportion of ownership interest and voting power held		
				December 31, 2016	December 31, 2015	December 31, 2014
1	Policlinica de Diagnostic Rapid SA	Medical Services	Brasov, Romania	80.01%	80.01%	80.01%
2	Medapt SRL	Medical Services	Brasov, Romania	80.01%	80.01%	80.01%
3	Histo SRL	Medical Services	Brasov, Romania	48.01%	48.01%	48.01%
4	Policlinica de Diagnostic Rapid Medis SRL	Medical Services	Gheorge, Romania	64.01%	64.01%	64.01%
5	Bahtco Invest S.A.	Development of building projects	Bucharest, Romania	100%	100%	100%
6	Medsanrom SRL (Med Life Occupational SRL)	Medical Services	Bucharest, Romania	100%	100%	100%
7	Pharmalife Med SRL	Distribution of Pharmaceutical Products in specialised stores	Bucharest, Romania	100%	100%	100%
8	Asilife Insurance Broker SRL	Insurance broker	Bucharest, Romania	95%	95%	95%
9	Accipiens	Rental activities	Bucharest, Romania	55%	55%	55%
10	Genesys SRL	Medical services	Bucharest, Romania	55%	55%	55%
11	Biofarm Farmec SRL	Distribution of Pharmaceutical Products in specialised stores	Bucharest, Romania	55%	55%	55%
12	RUR Medical Services	Medical services	Bucharest, Romania	100%	100%	100%
13	Biotest Med	Medical Services	Bucharest	100%	100%	100%
14	Vital Test	Medical Services	Bucharest	100%	100%	100%

During the year 2015, the Group also acquired control of the following companies:

Name of subsidiary	Principal Activity	Place of operation	Proportion of ownership interest and voting power held		
			December 31, 2016	December 31, 2015	December 31, 2014
15 Agis 2000 SRL	Other healthcare services	Arad, Romania	-	55%	-
16 Bactro SRL	Other healthcare services	Deva, Romania	55%	55%	-
17 Centrul Medical Sama S.A.	Medical Services	Craiova, Romania	55%	55%	-
18 Ultratest S.A.	Other healthcare services	Craiova, Romania	55%	55%	-

Agis 2000 SRL was disposed of in 2016.

During the year 2016, the Group also acquired control of the following companies:

Name of subsidiary	Principal Activity	Place of operation	Proportion of ownership interest and voting power held	
			December 31, 2016	December 31, 2015
1 Diamed Center SRL	Medical Services	Bucharest, Romania	100%	-
2 Prima Medical SRL	Medical Services	Craiova, Romania	100%	-
3 Stem Cells Bank SA	Medical Services	Timisoara, Romania	60%	-
4 Dent Estet Clinic SA	Dental healthcare activities	Bucharest, Romania	60%	-
5 Centrul Medical Panduri	Medical Services	Bucharest, Romania	90%	-

One of the companies acquired in 2016, Dent Estet Clinic SA also owns the following companies as described below:

Name of subsidiary	Principal Activity	Place of operation	Proportion of ownership interest and voting power held by Dent Estet Clinic SA
			December 31, 2016
Green Dental Clinic SRL	Dental healthcare activities	Bucharest, Romania	51%
Dentist 4 Kids SRL	Dental healthcare activities	Bucharest, Romania	52%
Dent A Porter SRL	Dental healthcare activities	Bucharest, Romania	51.61%
Dentestet Kids	Dental healthcare activities	Bucharest, Romania	52.94%
Aspen Laborator Dentar	Dental healthcare activities	Bucharest, Romania	75 %

MedLife's business model focuses on servicing corporations and private clients. The Company 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 Company 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 2016

Organic growth

During 2016, the Med Life SA opened in Ploiesti the 17th Hyperclinic from MedLife portfolio. The new unit offers patients investigation and treatment for 22 medical specialties, including pediatrics, ENT, gastroenterology, orthopedics, dermatology, general surgery and neurosurgery. The new facility covers an area of 700 square meters, is located on two levels and includes 14 medical offices for consultations, clinical and laboratory investigations. The medical team consists of more than 50 doctors and support staff.

Acquisitions completed in 2016

During 2016, the Med Life SA completed the purchase of:

- Dent Estet, which has provided to MedLife Group ("the Group") a strong platform for the further development of a standalone Stomatology business line, following the opening of the Group's first standalone stomatology clinic in May 2015. The acquisition makes the Group the leader in this highly fragmented segment. The Group has already identified and is assessing further potential acquisitions in the Stomatology business line.
- Diamed Center, a laboratory operator, which is being used as a launching base for the "Sfânta Maria" laboratories brand.
- Prima Medical, an imagistic center located in Craiova, which complements the Group's existing footprint in the region.
- Stem Cells Bank, a complementary activity to the Group's maternity services. The Group had previously outsourced this activity and the addition of Stem Cells Bank allows the Group to capture additional revenue and profit.
- Centrul Medical Panduri S.A., a medical company operating two clinics and one laboratory in Bucharest, which further expands the Group's position in Bucharest.

Sales evolution in 2016

Sales recorded for the year ended December 31, 2016 are presented below:

	<u>December 31, 2016</u>	<u>Proportion in total sales</u>	<u>December 31, 2015</u>	<u>Proportion in total sales</u>
Clinics	130,109,363	25.87%	101,014,108	25.84%
Stomatology	18,504,217	3.68%	1,973,307	0.50%
Laboratories	96,725,937	19.23%	76,187,985	19.49%
Corporate	127,988,835	25.45%	111,190,772	28.44%
Hospitals	104,977,229	20.87%	80,483,227	20.59%
Pharmacies	23,597,580	4.69%	19,573,149	5.01%
Other revenues	<u>1,083,629</u>	<u>0.22%</u>	<u>556,349</u>	<u>0.14%</u>
TOTAL	<u>502,986,790</u>	<u>100.00%</u>	<u>390,978,897</u>	<u>100.00%</u>

Credit facilities contracted by the Company

1. Club Loan

Med Life SA, together with Bahtco Invest SA, Accipiens SA and Policlinica de Diagnostic Rapid SA ("PDR") (as borrowers) concluded on March 2, 2016 a Club Loan, a credit facility agreement with a club of credit institutions composed of the Banca Comercială Română S.A., BRD – Groupe Société Générale S.A., ING Bank N.V. Amsterdam – Bucharest Branch and Raiffeisen Bank S.A.. The financing parties have provided to borrowers three credit facilities with maximum limits of EUR 48,764,589.89 and RON 27,000,000, as follows:

(a) Term facility in EUR, amounting to 28,764,589.98, allocated as follows:

- Up to EUR 15,711,008.29 to the Company,
- Up to EUR 972,937.81 to Accipiens,
- Up to EUR 6,486,252.13 to Bahtco Invest,
- Up to EUR 5,594,391.75 to PDR,

intended for the total refinancing of the sums owed by each of the above entities under a credit facility agreement concluded with BCR on August 28, 2014.

(b) Revolving type facility in RON, amounting to RON 27,000,000, granted to the Company in order to refinance in full the amounts owed by it under a credit facility agreement concluded with BCR on August 28, 2014 and financing current needs of the Company;

(c) A term facility in euro, amounting to EUR 20,000,000, granted to the Company for the acquisition of shareholdings in companies with similar or complementary activities to those of borrowers ("**Target companies covered by the Club Loan**"), respectively, within EUR 3,000,000 to the Companies Targeted by the Club Loan that will join as borrowers to the credit facility agreement to refinance their financial debts.

2. Loans from International Finance Corporation, a member of World Bank Group

The Company (as borrower) together with Accipiens SA, Bahtco Invest SA and PDR (as co-debtors) concluded the term loan agreement dated September 30, 2016, in the maximum amount of EUR 10,000,000 intended to finance the investment plan of the Company and of co-borrowers to expand their operations, both organically and through acquisitions of holdings in companies with activities similar or complementary to those of the borrowers.

3. Listing and Trading

Starting from 21th of December 2016, the shares issued by Med Life SA are traded on the stock market managed by the Bucharest Stock Exchange, Premium Category, with the "M" trading symbol.

The listing was made through the initial public offering initiated by V4C Eastern Europe Holding V Limited and International Finance Corporation, member of the World Bank Group through the sale of 8,840,480 ordinary shares owned by the selling shareholders, as follows: a number of 7,283,360 Shares owned by V4C Eastern Europe Holdings V Limited and a number of up to 1,557,120 Shares owned by International Finance Corporation.

4. Corporate governance

The corporate governance statement

During 11 months of 2016, the shares were not admitted to trading on a regulated market. Thus, the Company was required to comply with corporate governance regime established mainly by the Companies Law.

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

- The Company has not entered into management contracts with current members of the Board of Directors and mandate contracts with executive managers. Some executive managers have concluded labour contracts. According to the Companies Law, labour contracts concluded by members of the Board of Directors or executive managers are suspended during the period in which such persons hold this position;
- 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.

The Company intends to take 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 will be appointed in the Board of Directors.

1. Shareholding structure

The shareholders' structure as of December 31, 2016 is presented below:

	No. of shares	%	Value
Marcu Mihail	4,219,320	21.00%	1,054,830
Marcu Nicolae	3,013,800	15.00%	753,450
Cristescu Mihaela Gabriela	3,013,800	15.00%	753,450
Other shareholders	9,845,080	49.00%	2,461,270
TOTAL	20,092,000	100%	5,023,000

Information regarding shareholders' rights is public and can be found in the published Prospectus of the Company.

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, 2016, 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
Mihaela-Gabriela Cristescu	28.02.1942	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, 2016 or the persons to whom management of the Company has been delegated pursuant to the Articles of Association, are presented in the table below. As at December 31, 2016, all these persons fulfil these functions based on labor contracts of indefinite duration, although, according to the applicable law, while holding the position of executive manager, labor contracts are suspended, and the Company is obliged to conclude with the executive managers mandate contracts. The executive managers carry out their duties at the registered office of the Company.

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
Adrian Stanese	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

3. 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.

5. 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. As at December 31, 2016 the exchange rate was of 4.3033 RON for 1 USD and of 4.5411 RON for 1 EUR. As at December 31, 2015 the exchange rate was of RON 4.1477 for 1 USD and of RON 4.5245 for 1 EUR.

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 0.03% per day (interest) and 0.02% (penalties) per day in 2015. Starting with January 2016, the level of interest charged was reduced to 0.02% per day and the level of penalties charged was reduced 0.01% per day.

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.

6. Subsequent events

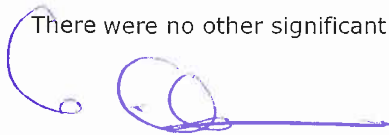
Med Life SA purchased a building located in Banu Manta Street from Telekom and performed a sale and leaseback through financial leasing.

Med Life SA signed the Sales Purchase Agreement for the acquisition of shares/social parts of the share capital of the following companies:

- 80% of share capital of Almina Trading SRL
- 100% of share capital in Anima Speciality Medical Services SRL.

Neither transaction has been closed by the approval of the consolidated financial statements.

There were no other significant subsequent events after December 31, 2016.



Mihail Marcu,
Administrator