GEORGIA HEALTHCARE GROUP

1st quarter 2018 results

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Name of authorised official of issuer responsible for making notification:
Ketevan Kalandarishvili, Head of Investor Relations

An investor/analyst conference call, organised by GHG, will be held on Tuesday, 15 May 2018, at 14:00 UK / 15:00 CET / 09:00 U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

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Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's first quarter 2018 consolidated financial results. Unless otherwise mentioned, comparatives are for the first quarter of 2017. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted in the European Union ("**EU**"), are unaudited and extracted from management accounts.

PERFORMANCE HIGHLIGHTS

GHG announces today the Group's 1Q18 consolidated results, reporting a profit of GEL 16.0 million (US$6.6 million/GBP 4.7 million) and earnings per share ("**EPS**") of GEL 0.08 (US$0.03 per share/GBP 0.02 per share).

GEL million; unless otherwise noted	**1Q18**	**1Q17**	**Change, Y-o-Y**
GHG *– the leading integrated player in the Georgian healthcare ecosystem*			
Revenue	207.7	186.4	11.4%
EBITDA	31.4	25.1	25.3%
Net Profit	16.0	13.0	22.8%
EPS, GEL	0.08	0.07	17.1%
ROIC *(%)*	10.6%	10.3%	+0.3 ppts
ROIC adjusted[1] *(%)*	13.5%	13.0%	+0.5 ppts
Healthcare services business			
Revenue	73.5	66.3	10.9%
Gross profit	31.3	27.9	12.0%
EBITDA	18.6	16.8	10.3%
EBITDA margin *(%)*	25.2%	25.3%	-0.1 ppts
Net Profit	5.3	7.2	-26.5%
Pharmacy and distribution business			
Revenue	126.9	111.4	13.9%
Revenue from retail sales	95.1	81.5	16.6%
Gross profit	31.3	27.0	16.0%
Gross profit margin *(%)*	24.7%	24.2%	+0.5 ppts
EBITDA	12.6	8.7	45.6%
EBITDA margin *(%)*	10.0%	7.8%	+2.2 ppts
Net Profit	10.8	7.0	55.5%
Medical insurance business			
Net insurance premiums earned	13.3	14.0	-4.7%
Loss ratio *(%)*	84.3%	84.6%	-0.3 ppts
Expense ratio *(%)*	15.7%	20.2%	-4.5 ppts
Combined ratio *(%)*	100.0%	104.8%	-4.8 ppts
EBITDA	0.2	(0.4)	NMF
Net Profit/ (Loss)	(0.1)	(1.1)	-93.0%

[1] Return on invested capital ("ROIC") adjusted to exclude newly launched Regional Hospital (previously called "Deka") and Tbilisi Referral Hospital

CHIEF EXECUTIVE OFFICER's STATEMENT

I am pleased with the Group's earnings progress and delivery of strategic priorities in the first quarter of 2018. The Group grew its operations across the Georgian healthcare ecosystem, delivering good levels of organic growth in the healthcare services, pharmacy and medical insurance businesses, building on what was a year of significant investment and transition in 2017; the benefits of which we are starting to capture.

The Group delivered a profit of GEL 16.0 million in the first quarter of 2018, an increase of 23% compared to the first quarter of last year. Significant recent milestones in the performance of the healthcare services business are the continued roll-out and patient number growth in the polyclinics and the complete launch of both Regional Hospital (previously known as Deka) and the Tbilisi Referral Hospital (previously known as Sunstone). Strong sales growth and the completion of the integration of the pharmacy and distribution businesses have resulted in continued strong EBITDA margins and earnings growth; and the medical insurance business has returned to positive EBITDA following the repricing of the portfolio and the termination of certain loss-making client contracts.

Revenues totalled GEL 207.7 million for the quarter, an increase of 11%, supported by consistent double-digit revenue growth across the business units. Group EBITDA was GEL 31.4 million in the first quarter, a 25% increase year-on-year, despite the additional expense of the cost of roll-out of a number of hospital and polyclinic facilities. Healthcare services business EBITDA increased 10% y-o-y and the EBITDA margin was broadly flat at 25.2% (the EBITDA margin for referral hospitals and community clinics stood at 28.6% excluding the roll-out impact). The pharma business EBITDA increased 46% year-on-year to GEL 12.6 million, and its EBITDA margin increased 220 basis points year-on-year to 10.0%, an extremely strong performance and substantially in excess of our targeted "more than 8%" margin.

In our healthcare services business, we have now largely completed our investment in the development of both Regional Hospital and Tbilisi Referral Hospital. With the final phase of Tbilisi Referral Hospital completed in December 2017, the first quarter of 2018 was focused on building capacity utilisation of what is now a full service 332 bed multi-profile hospital and during the quarter the occupancy rate reached 43%, a significant achievement. Most importantly the hospital has already started to generate positive EBITDA on the back of this occupancy. The fully renovated 306 bed Regional Hospital was opened at the end of February 2018, and the hospital now serves as our major flagship hospital that is fast becoming the hospital of choice for high-quality elective medical care throughout Georgia. Our early recruitment of specialist elective care medical teams has supported the hospital's successful roll-out, and we are seeing quite impressive numbers of patients within a month of its opening.

Our polyclinic network is growing fast (revenue up 38% y-o-y), and these polyclinics now clearly stand out from their competition as new, modern facilities that provide a diverse range of high-quality services in one location. The number of our registered patients in Tbilisi has grown substantially to c.108,000, and we are targeting to reach c.200,000 over the next twelve months.

Our pharmacy and distribution business posted record quarterly revenues of GEL 126.9 million, with 14% year-on-year growth supported by various sales initiatives implemented across the two combined pharmacy chains, as well as the further expansion in the number of pharmacies - which now total 256 pharmacies in major cities. We plan to further expand this network to over 300 pharmacies over the next couple of years. Our position as the largest pharmaceuticals purchaser in the country has allowed us to further improve our operating cost efficiency and obtain higher product discounts from manufacturers. This has supported the 56% growth in profit from the business, to GEL 10.8 million in the quarter.

Our medical insurance business is starting to make substantial progress towards stabilising its earnings, following the cancellation of a number of loss-making contracts during 2017. In addition, during the quarter, the medical insurance business acquired a significant new client – the Georgian Ministry of Internal Affairs – which added c.68,000 new clients to the portfolio and will underpin our growth. As a result, the business delivered positive EBITDA of GEL 0.2 million, compared to an EBITDA loss of GEL 0.4 million in the same period last year. Both the expense ratio and loss ratio of the business improved year-on-year, with the resulting combined ratio improving to 100.0% in the first quarter of 2018, compared to 104.8% a year ago. More importantly, we continue to improve the level of medical insurance claims retained within the Group and, in the first quarter of 2018, 38.2% of medical expense claims were retained within the Group. We expect this ratio to continue to increase further over the next few years.

The first quarter performance reflects the significant recent progress against the Group's strategic priorities. Over the last three years we have been in a significant business roll-out phase in all areas of our operations. Much of the heavy lifting has now been completed, and we are starting to see the benefits materialise: in the healthcare services business with two major new hospital renovations and launches, and the development of a nationwide chain of polyclinics; and in the pharmacy business with significant benefits achieved from the acquisitions and integration of what is now the largest pharmacy and distribution business in the country.

We expect substantial further growth across all of our business segments, and there are some significant opportunities to further improve efficiencies and utilise our position in all areas of Georgia's healthcare environment to boost Group-wide synergies. From a capital expenditure perspective, we have now completed the vast majority of our major development projects-- the only significant project left is Mega Lab, the first and largest laboratory in Georgia as well as in the Caucasus region, which will become operational over the next 6 months. The bulk of our polyclinic roll-out will be behind us by early next year. Accordingly, we will now be focusing on the improvement of returns on capital.

Nikoloz Gamkrelidze,

CEO of Georgia Healthcare Group PLC

DISCUSSION OF GROUP RESULTS

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem of GEL 3.5 billion aggregated value. GHG is comprised of three main business lines: healthcare services business, pharmacy and distribution business and medical insurance business.

***GHG is the single largest market participant in the healthcare services industry in Georgia**, accounting for 26.4% of total hospital bed capacity of the country, as of 31 March 2018. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting the mass market segment, through its vertically integrated network of hospitals and clinics. In 1Q18 we operated 16 referral hospitals with a total of 2,825 beds, which provide secondary or tertiary level healthcare services and 21 community clinics with a total of 495 beds, which provide basic outpatient and inpatient healthcare services. We operated with 17 district polyclinics and 24 express outpatient clinics, which provide outpatient diagnostic and treatment services. Polyclinics are located in Tbilisi and major regional cities.*

***GHG is the largest pharmaceuticals retailer and wholesaler in Georgia**, with a 30% market share by revenue. GHG's pharmacy chain operate under two separate brand names, **Pharmadepot** and **GPC**, with a total of 256 pharmacies, of which 24 also have express outpatient clinics. 21 of our pharmacies are located within our healthcare facilities.*

***GHG is also the second largest provider of medical insurance in Georgia** with a 27.9% market share based on 2017 net insurance premiums. Our medical insurance business consists of private medical insurance operations in Georgia. We have a wide distribution network and offer a variety of medical insurance products primarily to the Georgian corporate sector and also to retail clients. We have approximately 159,000 persons insured as of 31 March 2018. The medical insurance business plays an important role in our business model, as it is a significant feeder for our pharmacy and distribution business and healthcare services business, particularly for the polyclinics, and we believe that role will grow in the future as we roll out our polyclinic growth strategy.*

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	1Q18	1Q17	Change, Y-o-Y
Revenue, gross	**207,689**	**186,447**	**11.4%**
Corrections & rebates	(693)	(623)	11.2%
Revenue, net	**206,996**	**185,824**	**11.4%**
Revenue from healthcare services	72,855	65,725	10.8%
Revenue from pharma	126,868	111,399	13.9%
Net insurance premiums earned	13,302	13,965	-4.7%
Eliminations	(6,029)	(5,265)	14.5%
Costs of services	**(143,153)**	**(129,746)**	**10.3%**
Cost of healthcare services	(41,547)	(37,777)	10.0%
Cost of pharma	(95,550)	(84,408)	13.2%
Cost of insurance services	(11,894)	(12,734)	-6.6%
Eliminations	5,840	5,173	12.9%
Gross profit	**63,843**	**56,078**	**13.8%**
Salaries and other employee benefits	(20,439)	(17,728)	15.3%
General and administrative expenses	(12,637)	(13,352)	-5.4%
Impairment of receivables	(1,188)	(1,121)	6.0%
Other operating income	1,820	1,182	54.0%
EBITDA	**31,399**	**25,059**	**25.3%**
Depreciation and amortisation	(7,715)	(5,872)	31.4%
Net interest expense	(8,563)	(7,119)	20.3%
Net gains/(losses) from foreign currencies	1,899	2,778	-31.6%
Net non-recurring income/(expense)	(1,006)	(1,792)	-43.9%
Profit before income tax expense	**16,014**	**13,054**	**22.7%**
Income tax benefit/(expense)	(2)	(19)	-89.5%
Profit for the period	**16,012**	**13,035**	**22.8%**
Attributable to:			
- shareholders of the Company	10,542	8,832	19.4%
- non-controlling interests	5,470	4,203	30.1%

Revenue. We delivered revenue of GEL 207.7 million in 1Q18 (up 11.4% y-o-y). The y-o-y revenue growth was mainly organic and was driven by double-digit growth in both the pharmacy and healthcare services businesses, up 13.9% and 10.8% respectively.

In 1Q18, 60% of our revenues came from the pharmacy and distribution business, 34% from the healthcare services business, and the remaining 6% from the medical insurance business. The Group's revenue continues to be well-diversified by payment sources. In 1Q18, the Group's total revenue from out-of-pocket payments was 55%[2]; from UHC payments 23%; and from other sources 22%.

Gross Profit. We delivered gross profit of GEL 63.8 million in 1Q18 (up 13.8% y-o-y). The gross margin in the pharmacy and distribution business was up 50 bps y-o-y, mainly as a result of realised procurement synergies throughout 2017, as the largest pharmaceuticals purchaser, favourable product mix and the introduction of our private label products in our pharmacies. Due to the usual seasonal promotions in March 2018, the q-o-q margin was down 50 bps. The healthcare services gross margin progressed by 50 bps y-o-y, despite the impact of the Government's changes to UHC effective from May 2017 (described below in more detail) and the dilutive effect of launching two large, flagship hospitals. This was achieved by the successful ramp-up of the recently launched hospitals, as well as the introduction of cost control measures. The gross margin decreased q-o-q due to the impact of seasonally-high utility costs**.** After the successful implementation of new initiatives in our medical insurance business from the second quarter of 2017, mainly to adapt to changes in the Government's Universal Healthcare Programme, the loss ratio improved by 30 bps y-o-y.

EBITDA. We reported EBITDA of GEL 31.4 million in 1Q18 (**up 25.3% y-o-y)**. The healthcare services business was the main contributor to the Group's 1Q18 EBITDA, contributing 59% in total, with a 25.2% EBITDA margin. The next largest contributor was the pharmacy and distribution business with 40% contribution, while posting a 10.0% EBITDA margin, significantly exceeding our target of more than 8%. Our medical insurance business also posted positive EBITDA of GEL 0.2 million, compared to the negative GEL 0.4 million EBITDA posted in 1Q17.

Throughout 2017 the Group was actively engaged in sizeable development projects with significant investment in our healthcare facilities. This was reflected in the y-o-y growth of depreciation and amortisation expense. The y-o-y increase in net interest expense was in line with the increased balance of borrowed funds to finance planned capital expenditure. 1Q18 interest expense also includes GEL 0.3 million on the mark to market of the Pharmadepot put option (GEL 0.5 million in 1Q17), which is a non-cash expense.

After launching Regional Hospital (previously called "Deka") the Group has now largely completed its major investment programme in creating high-quality care facilities with the necessary capacity to serve our patients. Going forward our main focus will be on the successful ramp-up of the newly launched hospitals and improving the utilisation and efficiency across our healthcare facilities, as well as Group-wide.

The gain from foreign currency is attributable to the pharmacy and distribution business, due to the appreciation of GEL against foreign currency in 1Q18.

Profit. Our profit totalled GEL 16.0 million in 1Q18 (up 22.8% y-o-y). The pharmacy and distribution business was the main driver of the 1Q18 Group profit, contributing GEL 10.8 million, followed by the healthcare services business contributing GEL 5.3 million.

[2] Includes: healthcare services out-of-pocket revenue, pharma and medical insurance businesses' revenue from retail

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**31-Mar-18**	**31-Dec-17**	**Change, Q-o-Q**
Total assets, of which:	**1,181,113**	**1,167,800**	**1.1%**
Cash and bank deposits	45,667	63,608	-28.2%
Receivables from healthcare services	97,520	100,944	-3.4%
Receivables from sale of pharmaceuticals	19,873	19,798	0.4%
Insurance premiums receivable	33,561	20,233	65.9%
Property and equipment	662,026	642,859	3.0%
Goodwill and other intangible assets	144,196	143,674	0.4%
Inventory	109,836	118,811	-7.6%
Prepayments	37,710	30,354	24.2%
Other assets	30,724	27,519	11.6%
Total liabilities, of which:	**628,301**	**619,400**	**1.4%**
Borrowed funds	367,921	360,503	2.1%
Accounts payable	86,492	92,925	-6.9%
Insurance contract liabilities	31,940	20,953	52.4%
Other liabilities	141,948	145,019	-2.1%
Total shareholders' equity attributable to:	**552,812**	**548,400**	**0.8%**
Shareholders of the Company	*487,013*	*483,684*	*0.7%*
Non-controlling interest	*65,799*	*64,716*	*1.7%*

As a result of substantial investments in renovation of hospitals, elective care services and new polyclinic roll-outs during the last several years, our balance sheet reached GEL 1,181.1 million as at 31 March 2018. The increase in the property and equipment balance q-o-q by GEL 19.2 million reflects investment in the renovation of our Regional Hospital which was launched during the quarter. As noted above, the Group has now completed its intensive capital expenditure phase. At the same time as we focus going forward on successful roll-out of newly launched hospitals and services, we plan to improve return on invested capital through efficiency measures and driving more synergies across the Group.

The majority of medical insurance contracts mature and renew in January every year, causing the insurance premium receivable as well as insurance contract liabilities balances to increase in 1Q18 compared to year end. From January 2018 our medical insurance business has acquired a significant new corporate client, which has also contributed to q-o-q growth in insurance premium receivable and insurance contract liabilities balances.

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Main operating performance highlights and notable developments, healthcare services business

Continued investment in facilities and services

- In 1Q18 we continued to invest in the development of our healthcare facilities, primarily to finalise the renovation works on our Regional Hospital (formerly Deka). We spent a total of GEL 24.8 million on capital expenditures, of which maintenance capex was GEL 2.3 million.
    - The 306-bed Regional Hospital was fully renovated and opened at the end of February 2018. It now serves as one of the Group's flagship hospitals, and we intend for it to become the hospital of choice for high-quality elective medical care countrywide. To ensure patients receive the best quality of care, prior to the opening we recruited teams of doctors specialising in elective care services in the following fields: gynaecology, ophthalmology, bariatric surgery, general surgery, intensive care and cardio surgery. About 70% of the work these teams perform is paid for out-of-pocket by the patients, in line with our strategy to decrease our dependency on state revenue while gaining market share in planned treatments.
    - Tbilisi Referral Hospital – another of our flagships which was opened in April 2017, and where additional capacity was added in December 2017 – continued to improve the occupancy rate to reach 43% in 1Q18.
    - In 2018 we are continuing the process to launch new services at our referral hospitals to fill the medical service gaps in the country. During 1Q18, we have launched three new services (urology, oncological gynaecology and surgical gynaecology) in three different referral hospitals and the process will continue throughout the year.
    - In 1Q18 we opened another district polyclinic in Tbilisi. GHG now operates 17 district polyclinics and 24 express outpatient clinics (the latter are integrated into our pharmacies and play a facilitating role for our pharma and district polyclinic patients). Our polyclinics stand out from the competition being new, modern and providing a diverse range of services in one location, unlike the majority of our competitors, and therefore represent an increasingly attractive proposition for insured customers.
    - Through the acquisition of polyclinics and various campaigns, we have increased the number of registered patients in Tbilisi to c.108,000 as of March 2018. We plan to further grow our polyclinic business both organically and through further acquisitions. Our target is to reach c.200,000 registered patients by early 2019.

Government changes to UHC implemented from May 2017

- As reported last year, effective from May 2017 the Government introduced two changes to UHC:
    - Revised reimbursement mechanism relating to the provision of intensive care, reducing the UHC reimbursement of these services that has slightly suppressed our hospitals margins.
    - Adopted a new regulation which bases UHC coverage eligibility on the income level of citizens and introduced deductible amounts for planned and certain urgent services.
      The intent of this UHC change is to make spending more efficient and shift part of the spending from Government funded healthcare programmes to out-of-pocket payments by patients and private medical insurance companies.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	**1Q18**	**1Q17**	**Change, Y-o-Y**
Healthcare service revenue, gross	**73,548**	**66,348**	**10.9%**
Corrections & rebates	(693)	(623)	11.2%
Healthcare services revenue, net	**72,855**	**65,725**	**10.8%**
Costs of healthcare services	**(41,547)**	**(37,777)**	**10.0%**
Gross profit	**31,308**	**27,948**	**12.0%**
Salaries and other employee benefits	(8,519)	(7,179)	18.7%
General and administrative expenses	(4,285)	(4,082)	5.0%
Impairment of receivables	(1,202)	(980)	22.7%
Other operating income	1,250	1,112	12.4%
EBITDA	**18,552**	**16,819**	**10.3%**
EBITDA margin	***25.2%***	***25.3%***	
Depreciation and amortisation	(6,963)	(4,939)	41.0%
Net interest income (expense)	(5,692)	(4,116)	38.3%
Net gains/(losses) from foreign currencies	(25)	695	NMF
Net non-recurring income/(expense)	(595)	(1,276)	-53.4%
Profit before income tax expense	**5,277**	**7,183**	**-26.5%**
Income tax benefit/(expense)	(2)	(11)	-81.8%
Profit for the period	**5,275**	**7,172**	**-26.5%**
Attributable to:			
- shareholders of the Company	3,885	5,764	-32.6%
- non-controlling interests	1,390	1,408	-1.3%

Healthcare services business recorded a record high quarterly revenue of GEL 73.5 million. Despite the fact that 1Q18 revenue was affected by the Government's two new UHC initiatives that reduced the tariffs on intensive care services and differentiated UHC coverage between citizens based on income levels, both effective from May 2017, revenue was up 10.9% y-o-y. The business has also posted strong y-o-y organic revenue growth of 8.3%.[3]

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	**1Q18**	**1Q17**	**Change, Y-o-Y**
Healthcare services revenue, net	**72,855**	**65,725**	**10.8%**
Referral hospitals	61,689	56,446	9.3%
Clinics:	11,166	9,279	20.3%
Community	*6,165*	*5,661*	*8.9%*
Polyclinics	*5,001*	*3,618*	*38.2%*

In 1Q18, referral hospitals contributed 85% of the total revenue from our healthcare services. The 9.3% y-o-y revenue growth is a result of launching new medical services, the acquisition of Khashuri hospital and the successful ramp-up of our two new hospitals. Even compared q-o-q to the seasonally strong 4Q, referral hospitals revenue in 1Q18 was up 6.2%.

Tbilisi Referral Hospital was opened in 2Q17, and inpatient services at Regional Hospital were launched at the end of February 2018 (we had opened diagnostic part in August 2016). The collective contribution to q-o-q revenue growth from our two newly launched hospitals was 1.7 percentage points total growth. Their revenue growth is shown below.

Revenue dynamics of Tbilisi Referral Hospital

GEL millions	**1Q18**	**4Q17**	**3Q17**
Gross Revenue	3.7	2.7	2.2
Change Q-o-Q	*34.4%*	*24.4%*	

[3] Y-o-y organic revenue growth excludes Khashuri Referral Hospital and Kareli Community Clinic's revenues, both acquired in July 2017.

Revenue dynamics of Regional Hospital

GEL millions	**1Q18**	**4Q17**
Gross Revenue	1.2	1.0
Q-o-Q change%	*23.7%*	

Apart from the contribution from our newly launched hospitals, the revenue increase both y-o-y and q-o-q is attributable to the increased utilisation of our existing healthcare facilities, mainly as a result of continuous investment in developing new, high-quality elective care services in Georgia, to cover existing medical service gaps, in line with our strategy to improve the quality of care throughout the country.

In 1Q18, clinics contributed 15% of the total revenue from healthcare services, out of which 7% came from polyclinics and 8% from community clinics.

The growth in polyclinics revenue (up 38.2% y-o-y and 15.4% q-o-q) is driven by: 1) an increase in the number of polyclinics in our network (we added four new polyclinics in the last 12 months), in line with our strategy to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia; and 2) increased number of registered patients, that reached c.108,000 in 1Q18 (up from c.3,000 in 1Q17).

Revenue from community clinics was also up due to new medical services and the acquisition of Kareli Community Clinic. These clinics play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	**1Q18**	**1Q17**	**Change, Y-o-Y**
Healthcare services revenue, net	**72,855**	**65,725**	**10.8%**
Government-funded healthcare programmes	48,150	45,831	5.1%
Out-of-pocket payments by patients	18,860	15,048	25.3%
Private medical insurance companies, *of which*	5,845	4,846	20.6%
GHG medical insurance	*2,655*	*2,401*	*10.6%*

Despite the Government initiatives described above, a strong business performance resulted in revenue growth from all payment sources, including from Government-funded healthcare programmes. We have further diversified our revenue stream and the share of the Government financing in the healthcare services business revenue decreased by 3.6 percentage points, from 69.7% in 1Q17 to 66.1% in 1Q18.

The goal to diversify our earnings is also furthered by growing out-of-pocket payments by patients (up 25.3% y-o-y and up 10.5% q-o-q). This is driven by two main factors: 1) growth in the number of elective services we provide that are partially or fully funded out-of-pocket. The recent launch of Regional Hospital will further contribute to this goal as the hospital's main focus is on providing elective care services; and 2) the enhanced footprint of our polyclinics, the revenue from which is primarily out-of-pocket, as the Government provides minimal coverage for outpatient services.

The growth in revenue from private medical insurance also continues to be supported by the roll-out of polyclinics as well as an enhanced relationship with other insurance companies who redirect their customers to our hospitals. The quarterly increase in revenue from our medical insurance business is due to acquiring the country's largest insurance client by number of insured from January 2018.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	1Q18	1Q17	Change, Y-o-Y
Cost of healthcare services	**(41,547)**	**(37,777)**	**10.0%**
Cost of salaries and other employee benefits	(25,639)	(23,095)	11.0%
Cost of materials and supplies	(11,441)	(10,467)	9.3%
Cost of medical service providers	(761)	(372)	104.6%
Cost of utilities and other	(3,706)	(3,843)	-3.6%
Gross profit	**31,308**	**27,948**	**12.0%**
Gross margin	**42.6%**	**42.1%**	
Cost of healthcare services as % of revenue			
Direct salary rate	34.9%	34.8%	
Materials rate	15.6%	15.8%	

The growth in the cost of salaries and other employee benefits was driven by the expansion of the hospital business, the roll-out of new healthcare facilities and the launch of new medical services. As a result of focused efficiency initiatives, the direct salary rate was down 80 bps q-o-q, despite the launch of Regional Hospital where revenue generation lags behind the respective salary expense growth. We expect the direct salary rate to improve further as we complete the ramp-up phase of the newly launched healthcare facilities and services. The cost of materials and supplies was well controlled.

In 2018, our focus will be on the successful roll out of the newly launched hospitals and services, with the main goal to drive efficiencies across our healthcare facilities and improve our margins.

As a result of the above, the healthcare services business reported gross profit of GEL 31.3 million in 1Q18 (up 12.0% y-o-y). The gross margin improved by 50 bps y-o-y.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	1Q18	1Q17	Change, Y-o-Y
Operating expenses	**(12,756)**	**(11,129)**	**14.6%**
Salaries and other employee benefits	(8,519)	(7,179)	18.7%
General and administrative expenses	(4,285)	(4,082)	5.0%
Impairment of receivables	(1,202)	(980)	22.7%
Other operating income	1,250	1,112	12.4%
EBITDA	**18,552**	**16,819**	**10.3%**
EBITDA margin	***25.2%***	***25.3%***	

The increase in operating expenses is primarily driven by the expansion of the business as well as new openings, while general and administrative expenses growth favourably lagged behind growth in respective revenues.

We reported quarterly EBITDA of GEL 18.6 million (up 10.3% y-o-y). The EBITDA margin stood at 25.2% in 1Q18 and remained broadly flat compared to the same period last year despite the fact that this year's margin was affected by the Government's UHC changes which reduced our revenue from May 2017. The EBITDA margin for referral hospitals and community clinics in 1Q18 was 26.2% compared to 25.9% in 1Q17, excluding dilutive effect of roll-outs the EBITDA margin was 28.6% in 1Q18 (28.1% in 1Q17). The EBITDA margin of our polyclinics stood at 13.5% in 1Q18. Overall the margins remain suppressed due to the roll-out of our two new flagship hospitals and polyclinics.

With the gradual ramp-up of the newly opened healthcare facilities we expect the healthcare services EBITDA margin to improve over the course of 2018.

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	**1Q18**	**1Q17**	**Change, Y-o-Y**
Depreciation and amortisation	(6,963)	(4,939)	41.0%
Net interest income (expense)	(5,692)	(4,116)	38.3%
Net gains/(losses) from foreign currencies	(25)	695	NMF
Net non-recurring income/(expense)	(595)	(1,276)	-53.4%
Profit before income tax expense	**5,277**	**7,183**	**-26.5%**
Income tax benefit/(expense)	(2)	(11)	-81.8%
Profit for the period	**5,275**	**7,172**	**-26.5%**

The increase in depreciation expense reflects the increased asset base from our expansion and the associated capital expenditures. The increase in net interest expense reflects the increase in our total borrowing balance to finance planned capital expenditure.

Increased depreciation and amortisation expense due to the healthcare facilities and services launches and higher expense on the increased levels of borrowings, translated into a profit of GEL 5.3 million in 1Q18, down 26.5% y-o-y.

Other performance highlights and notable developments, healthcare services business

- Our healthcare services market share by number of beds was 26.4% as of 31 March 2018.
- Our referral hospital bed occupancy rate[4] was 65.7% in 1Q18 (68.1% in 1Q17, 60.4% in 4Q17). Our referral hospital bed occupancy rate adjusted to exclude the Tbilisi Referral Hospital beds, was 68.4%.
- The average length of stay[5] at referral hospitals was 5.6 days in 1Q18 (5.6 days in 1Q17, 5.5 days in 4Q17).

[4] This calculation excludes emergency beds and beds of Regional Hospital, launched end of February 2018
[5] This calculation excludes data for the emergency department and beds of Regional Hospital, launched end of February 2018

Discussion of Pharmacy and Distribution Business Results

Income Statement, pharmacy and distribution business

GEL thousands; unless otherwise noted	**1Q18**	**1Q17**	**Change, Y-o-Y**
Pharma revenue	**126,868**	**111,399**	**13.9%**
Costs of pharma	**(95,550)**	**(84,408)**	**13.2%**
Gross profit	**31,318**	**26,991**	**16.0%**
Salaries and other employee benefits	(11,194)	(9,616)	16.4%
General and administrative expenses	(8,250)	(8,762)	-5.8%
Impairment of receivables	(20)	(28)	-28.6%
Other operating income	790	101	NMF
EBITDA	**12,644**	**8,686**	**45.6%**
EBITDA margin	***10.0%***	***7.8%***	
Depreciation and amortisation	(548)	(711)	-22.9%
Net interest income (expense)	(2,757)	(2,793)	-1.3%
Net gains/(losses) from foreign currencies	1,886	2,095	-10.0%
Net non-recurring income/(expense)	(411)	(316)	30.1%
Profit before income tax expense	**10,814**	**6,961**	**55.4%**
Income tax benefit/(expense)	-	(8)	NMF
Profit for the period	**10,814**	**6,953**	**55.5%**

Our pharmacy and distribution business posted record quarterly revenue of GEL 126.9 million, posting double digit y-o-y growth.

(GEL thousands, unless otherwise noted)	**1Q18**	**1Q17**	**Change, Y-o-Y**
Pharmacy and distribution revenue	**126,868**	**111,399**	**13.9%**
Revenue from Retail	95,080	81,544	16.6%
Revenue from Distribution	31,788	29,855	6.5%

The y-o-y results were attributable to strong business performance and variable sales initiatives implemented since the merger of our two pharmacy chains (but not their brands), together with an expansion in the number of pharmacies. This resulted in pharmacy and distribution revenues increasing by 13.9% y-o-y, with a same-store growth rate of 6.6% for the same period. The share of para-pharmacy sales in retail revenue was 28.8% in 1Q18.

Revenue also increased 4.5% q-o-q, due to active marketing campaigns and promotions that the business carried out in 1Q18. As a result, the number of bills issued and the average bill size increased by 1.3% and 2.1% q-o-q, respectively.

In addition to the retail revenue growth, revenue from wholesale was also up 6.5% y-o-y and up 3.5% q-o-q. This was mainly a result of increased activity in line with our strategy to acquire new corporate accounts.

The acquisition of the Pharmadepot chain strengthened our position as the largest purchaser of pharmaceuticals in Georgia, and from our new position we intensified price negotiations with manufacturers. As a result we estimate that during 2017, on an annualised basis, we have achieved GEL 8.9 million procurement synergies. Going forward, we expect margins to benefit from the introduction of higher-margin private label products at our pharmacies. The introduction of private label medicines has begun and private label personal care products are expected to follow in mid-2018.

As a result of the above, in 1Q18 the y-o-y increase in costs of pharma (up 13.2%), lagged behind the increase in respective revenue (up 13.9%), which resulted in an improved gross margin of 24.7%, up 50 bps y-o-y.

In 1Q18 the pharmacy and distribution business gross profit reached GEL 31.3 million (up 16.0% y-o-y).

EBITDA, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	**1Q18**	**1Q17**	**Change, Y-o-Y**
Operating expenses	**(18,674)**	**(18,305)**	**2.0%**
Salaries and other employee benefits	(11,194)	(9,616)	16.4%
General and administrative expenses	(8,250)	(8,762)	-5.8%
Impairment of receivables	(20)	(28)	-28.6%
Other operating income	790	101	NMF
EBITDA	**12,644**	**8,686**	**45.6%**
EBITDA margin	***10.0%***	***7.8%***	

Disciplined cost management resulted in positive operating leverage of 14.0% y-o-y.

The y-o-y increase in salaries and other employee benefits reflects the expansion of the business and the addition of new pharmacies. The decrease in general and administrative expenses in 1Q18 by 5.8% y-o-y reflects the elimination of unnecessary costs that the business exercised throughout 2017 as well as decreasing rental costs for GPC pharmacies.

The business reported EBITDA of GEL 12.6, up 45.6% y-o-y. We continued to deliver strong quarterly EBITDA margin of 10.0%, still exceeding our "more than 8%" medium term target.

The foreign currency gain is mainly due to the decrease in the GEL value of US Dollar and EUR denominated payables to suppliers due to the appreciation of GEL in 1Q18.

Consequently, the pharmacy and distribution business reported a net profit of GEL 10.8 million in 1Q18 (up 55.5% y-o-y).

Other operating highlights and notable developments, pharmacy and distribution business

- In total, we operate a country-wide network of 256 pharmacies. We have 21 pharmacies located in our hospitals and clinics.

- In 1Q18, the pharmacy and distribution business had:
  - c.2.2 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.9
  - Total number of bills issued was 6.7 million

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	1Q18	1Q17	Change, Y-o-Y
Net insurance premiums earned	**13,302**	**13,965**	**-4.7%**
Cost of insurance services	**(11,894)**	**(12,734)**	**-6.6%**
Gross profit	**1,408**	**1,231**	**14.4%**
Salaries and other employee benefits	(783)	(1,048)	-25.3%
General and administrative expenses	(350)	(507)	-31.0%
Impairment of receivables	(98)	(113)	-13.3%
Other operating income	27	(7)	NMF
EBITDA	**204**	**(444)**	**NMF**
EBITDA margin	***1.5%***	***-3.2%***	
Depreciation and amortisation	(204)	(222)	-8.1%
Net interest income (expense)	(114)	(210)	NMF
Net gains/(losses) from foreign currencies	38	(12)	NMF
Net non-recurring income/(expense)	-	(200)	-100.0%
Profit before income tax expense	**(76)**	**(1,088)**	-93.0%
Income tax benefit/(expense)	-	-	-
Profit / (Loss) for the period	**(76)**	**(1,088)**	**-93.0%**

Medical insurance business posted GEL 13.3 million revenue in 1Q18, down 4.7% y-o-y. The decrease was a result of initiatives the business started to implement from the second quarter of 2017, to adjust the pricing of existing contracts that had become loss-making. This resulted in the termination of certain loss-making contracts. In 1Q18, the medical insurance business acquired a significant new client, the Georgian Ministry of Internal Affairs (“MIA”), by winning a tender, that resulted in increase in revenue by 7.5% q-o-q. MIA is the country’s largest insurance client by number of insured, c.68,000.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	1Q18	1Q17	Change, Y-o-Y
Cost of insurance services	**(11,894)**	**(12,734)**	**-6.6%**
Net insurance claims incurred	(11,218)	(11,812)	-5.0%
Agents, brokers and employee commissions	(676)	(922)	-26.7%
Gross profit	**1,408**	**1,231**	**14.4%**
Loss ratio	**84.3%**	**84.6%**	

As a result of the measures described above, we managed to decrease the loss ratio by 30 bps to 84.3%, compared to the same period of last year. Going forward we expect to see further stabilisation of medical insurance business earnings, with a targeted loss ratio of less than 80%.

Our insurance business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies, and the acquisition of the MIA contract further supported our goal to improve the retention rates within the Group. In 1Q18, our medical insurance claims expense was GEL 11.2 million, of which GEL 4.4 million (39.6% of total) was inpatient, GEL 4.4 million (39.4 % of total) was outpatient and GEL 2.4 million (21.0% of total) accounted for drugs. In 1Q18, GEL 4.3 million, or 38.2% (35.6% in 1Q17) of our total medical insurance claims were retained within the Group, of which GEL 2.7 million and GEL 1.6 million were retained in the healthcare services and pharmacy and distribution businesses, respectively. The feeder role of our medical insurance business is particularly important for the Group’s outpatient services. In 1Q18, GEL 1.7 million, or 38.7% (32.0% in 4Q17), of our medical insurance claims on outpatient services were retained within the Group.

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

The business posted gross profit of GEL 1.4 million in 1Q18, up 14.4% y-o-y.

In 2017, our medical insurance business started to concentrate on the optimisation of its operating expenses. This is reflected in y-o-y decreases in salaries and other employee benefits, down 25.3% y-o-y. The optimisation in general and administrative expenses is a result of savings in rent expenses, as well as decreasing administrative expenses due to the re-negotiation of terms and conditions with different service providers. General and administrative expenses were down 31.0% y-o-y. As a result, the expense ratio improved by 450 bps y-o-y and stood at 15.7% in 1Q18. The ratio also improved by 190 bps q-o-q.

The business contributed positively to EBITDA, compared to a negative contribution in the same period last year, and was up 88.9% q-o-q.

In 1Q18, the medical insurance business refinanced a foreign currency denominated loan by sourcing less expensive funding from a local commercial bank, decreasing its net interest expense as a result.

Other operating highlights and notable developments, medical insurance business

- The number of persons insured was approximately 159,000 as of March 2018.
- Our medical insurance market share was 27.9%[6] based on net insurance premium revenue, as at 31 December 2017.
- Our insurance renewal rate was 70.6% in 1Q18.

[6] Excluding the MIA contract, which commenced January 2018

SELECTED FINANCIAL INFORMATION

Income Statement, *Quarterly*	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**1Q18**	**1Q17**	**Change, Y-o-Y**	**4Q17**	**Change, Q-o-Q**	**1Q18**	**1Q17**	**Change, Y-o-Y**	**4Q17**	**Change, Q-o-Q**	**1Q18**	**1Q17**	**Change, Y-o-Y**	**4Q17**	**Change, Q-o-Q**	**1Q18**	**1Q17**	**4Q17**	**1Q18**	**1Q17**	**Change, Y-o-Y**	**4Q17**	**Change, Q-o-Q**
Revenue, gross	**73,548**	**66,348**	**10.9%**	**68,444**	**7.5%**	**126,868**	**111,399**	**13.9%**	**121,367**	**4.5%**	**13,302**	**13,965**	**-4.7%**	**12,376**	**7.5%**	**(6,029)**	**(5,265)**	**(4,549)**	**207,689**	**186,447**	**11.4%**	**197,637**	**5.1%**
Corrections & rebates	(693)	(623)	11.2%	(349)	98.6%	-	-	-	-	-	-	-	-	-	-	-	-	-	(693)	(623)	11.2%	(349)	98.6%
Revenue, net	**72,855**	**65,725**	**10.8%**	**68,094**	**7.0%**	**126,868**	**111,399**	**13.9%**	**121,367**	**4.5%**	**13,302**	**13,965**	**-4.7%**	**12,376**	**7.5%**	**(6,029)**	**(5,265)**	**(4,549)**	**206,996**	**185,824**	**11.4%**	**197,288**	**4.9%**
Costs of services	**(41,547)**	**(37,777)**	**10.0%**	**(38,227)**	**8.7%**	**(95,550)**	**(84,408)**	**13.2%**	**(90,743)**	**5.3%**	**(11,894)**	**(12,734)**	**-6.6%**	**(11,163)**	**6.5%**	**5,840**	**5,173**	**5,882**	**(143,153)**	**(129,746)**	**10.3%**	**(134,252)**	**6.6%**
Cost of salaries and other employee benefits	(25,639)	(23,095)	11.0%	(24,440)	4.9%	-	-	-	-	-	-	-	-	-	-	938	855	329	(24,702)	(22,240)	11.1%	(24,111)	2.5%
Cost of materials and supplies	(11,441)	(10,467)	9.3%	(10,363)	10.4%	-	-	-	-	-	-	-	-	-	-	2,104	1,363	2,006	(9,337)	(9,104)	2.6%	(8,357)	11.7%
Cost of medical service providers	(761)	(372)	104.6%	(463)	64.4%	-	-	-	-	-	-	-	-	-	-	28	14	13	(733)	(358)	104.7%	(450)	62.9%
Cost of utilities and other	(3,706)	(3,843)	-3.6%	(2,961)	25.2%	-	-	-	-	-	-	-	-	-	-	137	142	665	(3,570)	(3,701)	-3.5%	(2,296)	55.5%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(11,218)	(11,812)	-5.0%	(10,299)	8.9%	2,633	2,799	2,119	(8,585)	(9,013)	-4.7%	(8,180)	5.0%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(676)	(922)	-26.7%	(864)	-21.8%	-	-	-	(676)	(922)	-26.7%	(864)	-21.8%
Cost of pharma - wholesale	-	-	-	-	-	(26,097)	(22,496)	16.0%	(25,244)	3.4%	-	-	-	-	-	-	-	750	(26,097)	(22,496)	16.0%	(24,494)	6.5%
Cost of pharma - retail	-	-	-	-	-	(69,453)	(61,912)	12.2%	(65,499)	6.0%	-	-	-	-	-	-	-	-	(69,453)	(61,912)	12.2%	(65,499)	6.0%
Gross profit	**31,308**	**27,948**	**12.0%**	**29,867**	**4.8%**	**31,318**	**26,991**	**16.0%**	**30,624**	**2.3%**	**1,408**	**1,231**	**14.4%**	**1,213**	**16.1%**	**(189)**	**(92)**	**1,333**	**63,843**	**56,078**	**13.8%**	**63,036**	**1.3%**
Salaries and other employee benefits	(8,519)	(7,179)	18.7%	(7,942)	7.3%	(11,194)	(9,616)	16.4%	(11,029)	1.5%	(783)	(1,048)	-25.3%	(747)	4.8%	57	116	(801)	(20,439)	(17,728)	15.3%	(20,519)	-0.4%
General and administrative expenses	(4,285)	(4,082)	5.0%	(4,085)	4.9%	(8,250)	(8,762)	-5.8%	(7,997)	3.2%	(350)	(507)	-31.0%	(394)	-11.2%	248	-	210	(12,637)	(13,352)	-5.4%	(12,266)	3.0%
Impairment of other receivables	(1,202)	(980)	22.7%	(1,115)	7.8%	(20)	(28)	-28.6%	(5)	NMF	(98)	(113)	-13.3%	(111)	-11.7%	132	-	97	(1,188)	(1,121)	6.0%	(1,133)	4.9%
Other operating income	1,250	1,112	12.4%	1,616	-22.6%	790	101	NMF	837	NMF	27	(7)	NMF	147	NMF	(247)	(24)	(839)	1,820	1,182	54.0%	1,761	3.4%
EBITDA	**18,552**	**16,819**	**10.3%**	**18,341**	**1.2%**	**12,644**	**8,686**	**45.6%**	**12,430**	**1.7%**	**204**	**(444)**	**NMF**	**108**	**88.9%**	**-**	**-**	**-**	**31,399**	**25,059**	**25.3%**	**30,879**	**1.7%**
EBITDA margin	***25.2%***	***25.3%***		***26.8%***		***10.0%***	***7.8%***		***10.2%***		***1.5%***	***-3.2%***		***0.9%***					***15.1%***	***13.4%***		***15.6%***	
Depreciation and amortisation	(6,963)	(4,939)	41.0%	(6,295)	10.6%	(548)	(711)	-22.9%	(459)	19.4%	(204)	(222)	-8.1%	(212)	-3.8%	-	-	-	(7,715)	(5,872)	31.4%	(6,967)	10.7%
Net interest income (expense)	(5,692)	(4,116)	38.3%	(5,185)	9.8%	(2,757)	(2,793)	-1.3%	(2,941)	-6.3%	(114)	(210)	NMF	(177)	NMF	-	-	-	(8,563)	(7,119)	20.3%	(8,303)	3.1%
Net gains/(losses) from foreign currencies	(25)	695	NMF	30	NMF	1,886	2,095	-10.0%	(2,871)	NMF	38	(12)	NMF	16	137.5%	-	-	-	1,899	2,778	-31.6%	(2,825)	NMF
Net non-recurring income/(expense)	(595)	(1,276)	-53.4%	(513)	16.0%	(411)	(316)	30.1%	(125)	228.8%	-	(200)	-100.0%	-	NMF	-	-	-	(1,006)	(1,792)	-43.9%	(638)	57.7%
Profit before income tax expense	**5,277**	**7,183**	**-26.5%**	**6,378**	**-17.3%**	**10,814**	**6,961**	**55.4%**	**6,034**	**79.2%**	**(76)**	**(1,088)**	**-93.0%**	**(265)**	**-71.3%**	**-**	**-**	**-**	**16,014**	**13,054**	**22.7%**	**12,146**	**31.8%**
Income tax benefit/(expense)	(2)	(11)	-81.8%	-	NMF	-	(8)	NMF	(187)	NMF	-	-	-	-	-	-	-	-	(2)	(19)	-89.5%	(187)	-98.9%
Profit for the period	**5,275**	**7,172**	**-26.5%**	**6,378**	**-17.3%**	**10,814**	**6,953**	**55.5%**	**5,847**	**84.9%**	**(76)**	**(1,088)**	**-93.0%**	**(265)**	**-71.3%**	**-**	**-**	**-**	**16,012**	**13,035**	**22.8%**	**11,959**	**33.9%**
Attributable to:																							
- shareholders of the Company	3,885	5,764	-32.6%	5,278	-26.4%	6,734	4,157	62.0%	2,774	142.8%	(76)	(1,088)	-93.0%	(265)	-71.3%	-	-	-	10,542	8,832	19.4%	7,785	35.4%
- non-controlling interests	1,390	1,408	-1.3%	1,100	26.4%	4,080	2,796	45.9%	3,073	32.8%	-	-	-	-	-	-	-	-	5,470	4,203	30.1%	4,174	31.0%

Selected Balance Sheet items	**Healthcare services**					**Pharma**					**Medical insurance**				
GEL thousands; unless otherwise noted	**31-Mar-18**	**31-Mar-17**	**Change, Y-o-Y**	**31-Dec-17**	**Change, Q-o-Q**	**31-Mar-18**	**31-Mar-17**	**Change, Y-o-Y**	**31-Dec-17**	**Change, Q-o-Q**	**31-Mar-18**	**31-Mar-17**	**Change, Y-o-Y**	**31-Dec-17**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	32,157	82,893	-61.2%	43,081	-25.4%	4,423	6,924	-36.1%	10,464	-57.7%	9,087	10,412	-12.7%	10,063	-9.7%
Property and equipment	622,284	579,505	7.4%	610,810	1.9%	27,389	22,922	19.5%	26,212	4.5%	15,081	6,002	151.3%	5,837	158.4%
Inventory	19,373	14,282	35.6%	19,873	-2.5%	90,463	82,256	10.0%	98,938	-8.6%	-	212	NMF	-	-
Liabilities:															
Borrowed Funds	276,848	228,596	21.1%	262,772	5.4%	82,475	83,463	-1.2%	88,145	-6.4%	8,598	9,032	-4.8%	9,586	-10.3%
Accounts payable	34,727	41,844	-17.0%	53,458	-35.0%	55,956	63,440	-11.8%	63,387	-11.7%	-	-	-	-	-

Selected Balance Sheet items	**Consolidation and eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**31-Mar-18**	**31-Mar-17**	**31-Dec-17**	**31-Mar-18**	**31-Mar-17**	**Change, Y-o-Y**	**31-Dec-17**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	45,667	100,229	*-54.4%*	63,608	-28.2%
Property and equipment	(2,728)	-	-	662,026	608,429	*8.8%*	642,859	3.0%
Inventory	-	-	-	109,836	96,750	*13.5%*	118,811	-7.6%
Liabilities:								
Borrowed Funds	-	-	-	367,921	321,091	*14.6%*	360,503	2.1%
Accounts payable	(4,191)	(11,159)	(23,920)	86,492	94,125	*-8.1%*	92,925	-6.9%

Selected ratios and KPIs

	1Q18	1Q17	4Q17
GHG			
EPS, GEL	0.08	0.07	0.06
ROIC *(%)*	10.6%	10.3%	11.0%
ROIC adjusted[7] *(%)*	13.5%	13.0%	14.0%
Group rent expenditure	4,724	5,019	4,302
of which, Pharma	*4,055*	*4,485*	*4,174*
Group capex (maintenance)	2,295	2,630	2,081
Group capex (growth)	22,505	17,866	15,679
Number of employees	15,491	14,593	15,078
Number of physicians	3,553	3,278	3,496
Number of nurses	3,305	2,980	3,205
Nurse to doctor ratio, referral hospitals	0.93	0.93	0.92
Total number of shares	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(2,800,166)	(3,452,534)	(3,379,629)
Shares outstanding	128,881,654	128,229,286	128,302,191
Of which:			
Total free float	53,763,151	43,610,783	53,183,688
Shares held by BGEO GROUP PLC	75,118,503	84,618,503	75,118,503
Healthcare services			
EBITDA margin of healthcare services	25.2%	25.3%	26.8%
Direct salary rate (direct salary as % of revenue)	34.9%	34.8%	35.7%
Materials rate (direct materials as % of revenue)	15.6%	15.8%	15.1%
Administrative salary rate (administrative salaries as % of revenue)	11.6%	10.8%	11.6%
SG&A rate (SG&A expenses as % of revenue)	5.8%	6.2%	6.0%
Number of hospitals	37	35	37
Number of polyclinics	17	13	16
Number of express outpatient clinics	24	24	24
Number of beds	3,320	2,731	3,014
Number of referral hospital beds	2,825	2,266	2,519
Bed occupancy rate, referral hospitals[8]	65.7%	68.1%	60.4%
Average length of stay (days), referral hospitals[9]	5.6	5.6	5.5
Pharmacy and distribution			
EBITDA margin	10.0%	7.8%	10.2%
Number of bills issued	6.70mln	6.39mln	6.57mln
Average bill size	13.9	13.4	13.6
Revenue from wholesale as a percentage of total revenue from pharma	25.1%	26.8%	25.3%
Revenue from retail as a percentage of total revenue from pharma	74.9%	73.2%	74.7%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	28.8%	30.9%	30.2%
Number of pharmacies	256	245	255
Medical insurance			
Loss ratio	84.3%	84.6%	83.2%
Expense ratio, *of which*	15.7%	20.2%	17.6%
Commission ratio	*5.1%*	*6.6%*	*7.0%*
Combined ratio	100.0%	104.8%	100.8%
Renewal rate	70.6%	77.3%	71.8%

[7] Return on invested capital is adjusted to exclude newly launched Regional Hospital and Tbilisi Referral Hospital
[8] Excluding emergency beds and beds of Regional Hospital, launched end of February 2018. Occupancy rate excluding beds of Tbilisi referral Hospital was 68.4% in 1Q18
[9] Excludes data for the emergency department and beds of Regional Hospital, launched end of February 2018

Annexes:

- Corrections and rebates are corrections of invoices due to errors or faults by third parties
- Eliminations are intercompany transactions between medical insurance and healthcare services
- Gross margin – Gross margin equals gross profit divided by gross revenue excluding corrections and rebates
- Materials rate equals cost of materials and supplies divided by gross revenue excluding corrections and rebates
- Direct salary rate equals cost of salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Admin salary rate equals administrative Salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Selling, general and administrative expenses rate (SG&A rate) equals General and administrative expenses divided by gross revenue excluding corrections and rebates
- 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
- Operating leverage is calculated as the difference between percentage increase in gross profit and percentage increase in total operating costs and other operating incomes
- Organic growth – percentage increase in healthcare service revenue, excluding growth derived from any acquisitions during a given period
- 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
- EBITDA margin equals EBITDA divided by gross revenue excluding corrections and rebates
- The Group's rent expense comprises of operating lease contracts
- The Group's maintenance capital expenditure are short-term expenditures
- The Group's expansion capital expenditures are longer term by nature and include acquisition of properties with longer useful lives
- Net Debt to EBITDA equals Borrowings less Cash and bank deposits divided by EBITDA
- Earnings per share (EPS) equals profit for the period / net profit attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period
- Bed occupancy rate is calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year
- Average length of stay is calculated as number of inpatient days divided by number of patients. This calculation excludes data for the emergency department
- Renewal rate is calculated by dividing number of clients who renewed insurance contracts during given period by total number of clients
- Commission ratio equals agents, brokers and employee commissions divided by net insurance premiums earned
- Loss ratio is defined as net insurance claims divided by net insurance revenue
- Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue
- Combined ratio is the sum of loss ratio and expense ratio
- Day's sales outstanding ratio ("**DSO**") equals receivables from sales of pharmaceuticals divided by wholesale revenue of pharmacy and distribution, multiplied by number of days in a given period
- Revenue cash conversion equals revenue received from all business lines divided by net revenue.
- EBITDA cash conversion cycle equals Net cash flows from / (used in) operating activities before income tax divided by EBITDA
- Other operating income is presented on a net basis and is derived from financial statements after subtracting other operating expense
- Net interest income (expense) and cost of currency derivatives includes interest expense as well as cost of currency derivatives as presented in the financial statements

COMPANY INFORMATION

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