4th quarter and full year 2017 Preliminary Results

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

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Forward looking statements

This announcement contains forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things: business integration risk; compliance risk; recruitment and retention of skilled medical practitioners risk: clinical risk; concentration of revenue and the Universal Healthcare Programme; currency and macroeconomic; information technology and operational risk; regional tensions and political risk; and other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including the 'Principal Risks and Uncertainties' included in Georgia Healthcare Group PLC's Annual Report and Accounts 2016 and in its Half Year 2017 Results announcement. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

An investor/analyst conference call, organised by GHG, will be held on Thursday, 15 February 2018, at 14:00 UK / 15:00 CET / 09:00 U.S Eastern Time. Please find dial ins:

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The financial information is unaudited and do not constitute the Company's statutory accounts for the financial year ended 31 December 2017 within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the financial year ended 31 December 2016 have been reported on by the Company's auditor and delivered to the Registrar of Companies. The statutory accounts for the financial year ended 31 December 2017 will be delivered in due course. The report of the auditor for the financial year ended 31 December 2016 was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's fourth quarter and full year 2017 consolidated financial results. Unless otherwise mentioned, comparatives are for the fourth quarter of 2016. 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 4Q17 and FY17 consolidated results, reporting a full year profit of GEL 45.9 million (US$17.7 million/GBP 13.1 million) and earnings per share ("**EPS**") of GEL 0.23 (US$0.09 per share/GBP 0.06 per share).

GEL million; unless otherwise noted	**4Q17**	**Change, Y-o-Y**	**Change, Q-o-Q**	**FY17**	**Change, Y-o-Y**
GHG – *the leading integrated player in the Georgian healthcare ecosystem*					
Gross Revenue	197.6	45.3%	10.4%	747.8	75.3%
EBITDA	30.9	27.1%	18.2%	108.1	38.6%
Profit before tax	12.1	-6.7%	23.5%	46.3	15.3%
EPS, GEL	0.06	-0.02[1]	0.01	0.23	-0.01[1]
ROAE normalised[2]	11.8%	-0.8%[3]	1.8%	11.6%	0.1%[3]
Healthcare services business					
Gross Revenue	68.4	1.2%	6.9%	265.4	7.8%
Gross profit	29.9	-6.7%	11.9%	112.8	-0.3%
EBITDA	18.3	-14.8%	10.4%	70.1	-5.7%
EBITDA margin *(%)*	26.8%	-5.1 ppts	0.8 ppts	26.4%	-3.8 ppts
Profit before tax	6.4	-51.2%	8.8%	27.4	-35.5%
Pharma business*[4]*					
Revenue	121.4	114.5%	13.8%	450.3	238.6%
Revenue from retail sales	90.7	131.3%	16.2%	336.4	250.0%
Gross profit	30.6	153.3%	16.1%	110.1	299.9%
Gross profit margin *(%)*	25.2%	+3.8 ppts	+0.5 ppts	24.5%	+3.8 ppts
EBITDA	12.4	266.2%	41.0%	38.9	577.4%
EBITDA margin *(%)*	10.2%	+4.2 ppts	+2.0 ppts	8.6%	+4.3 ppts
Profit before tax	6.0	186.9%	61.8%	21.2	815.0%
Medical insurance business					
Net insurance premiums earned	12.4	-24.1%	-11.3%	53.7	-12.7%
Loss ratio *(%)*	83.2%	-2.1 ppts	+3.3 ppts	84.2%	+0.1 ppts
Expense ratio *(%)*	17.6%	-2.4 ppts	+0.9 ppts	18.3%	-2.3 ppts
Combined ratio *(%)*	100.8%	-4.5 ppts	+4.2 ppts	102.5%	-2.2 ppts
EBITDA	0.1	NMF	NMF	(0.4)	NMF
Profit/ (Loss) before tax	(0.3)	NMF	NMF	(2.3)	NMF

[1] Comparison on a normalised basis – 4Q and FY 2016 EPS is calculated on adjusted net profit, with 4Q16 and FY16 net profit normalised for the one-off non-recurring gain/loss due to deferred tax adjustments (in the amount of GEL 5.3 million loss in 4Q16 and GEL 24.0 million gain in the aggregate for FY16). The full year profit is also adjusted for a one-off currency translation loss in June (in the amount of GEL 2.1 million), which resulted from the settlement of the US Dollar denominated payable for the acquisition of GPC.
[2] Normalised ROAE is calculated as net profit for the period attributable to shareholders, net of non-recurring items, divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.
[3] Comparison on a normalised basis – 4Q16 and FY16 Return on equity (ROAE) is calculated on adjusted net profit (explained in footnote 1).
[4] We entered into the pharma business and started consolidating GPC's results from May 2016 and Pharmadepot's results from January 2017. Thus 4Q16 and FY16 pharma business results only includes GPC's figures from May only.

CHIEF EXECUTIVE OFFICER's STATEMENT

2017 was a significant year of transition and progress for Georgia Healthcare Group, as the Group continued its recent substantial investment and business roll-out in all key areas of the healthcare system of Georgia. In particular, this has involved the successful integration of our two recent pharma acquisitions and delivering key investment and growth priorities such as the Tbilisi Referral Hospital (previously called "Sunstone") and Deka hospital redevelopment projects. Tbilisi Referral Hospital was completed and fully launched in December, while the Deka hospital has just been commissioned and will be launched in the next few days. Together, they add over 600 high quality new hospital beds to the Tbilisi hospital infrastructure. We have remained focused on improving quality for patients and, in response to Government changes to Georgia's Universal Healthcare Programme ("**UHC**") in May 2017, diversifying our stream of revenues, the latter particularly by growing the pharma and polyclinic businesses.

The Group's 2017 results clearly reflect delivery on these recent initiatives. EBITDA of GEL 108.1 million represented a 39% increase year-on-year, and profit before tax increased by 15% over the same period. Excluding the impact of the one-off items that increased 2016 net profit (see page 4, footnote 1), the Group's net profit in 2017 increased by 16%.

In the fourth quarter of 2017, Group revenue growth was 45%, reflecting the benefits of our recent investments, the successful integration of businesses and continued good levels of organic growth. EBITDA totalled GEL 30.9 million, an increase of 27% year-on-year and 18% quarter-on-quarter, whilst profit before tax totalled GEL 12.1 million, a 23% increase quarter-on-quarter.

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

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

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

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

As we come out of our recent substantial capital investment and integration programme, the Group's focus in the hospital business will shift towards gaining efficiencies and improving cash flow generation. Our management team is well positioned for the development of fee business by taking some hospital assets under management to create an additional stream of income and further potential synergies for the Group. Our IT team will help us to move to the next level of development by getting to a fully integrated health information system that will help us to manage more efficiently and deliver better care to our customers. A clear demonstration of this was the recent introduction of e-prescriptions which have already become a mandatory tool for our doctors in Tbilisi, and which will drive more synergies across the Group.

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

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

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

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

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

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

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

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

Nikoloz Gamkrelidze,

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 (consisting of hospital business and outpatient business "polyclinics"), pharma business and medical insurance business.

***GHG is the single largest market participant in the healthcare services industry in Georgia**, accounting for 24.5% of total hospital bed capacity of the country, as of 31 December 2017. 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 polyclinics. In 4Q17 we operated with 37 hospitals with a total of 3,014 beds, including 16 referral hospitals with a total of 2,519 beds, which provide secondary or tertiary level healthcare services and 21 community hospitals with a total of 495 beds, which provide basic outpatient and inpatient healthcare services. We operated with 12 polyclinic clusters consisting of 16 district polyclinics and 24 express outpatient clinics, which provide outpatient diagnostic and treatment services. These clinics 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. We entered into the pharma business in 2016 and expanded in 2017, by purchasing the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia in May 2016 and January 2017, respectively. GHG's two pharmacy chains have now been merged, but continue to operate under their separate brand names, **Pharmadepot** and **GPC**. Our combined pharma business has 255 pharmacies, of which 24 also have express outpatient clinics. 21 of our pharmacies are located within our hospitals.*

***GHG is also the second largest provider of medical insurance in Georgia** with a 29.0% market share based on 9M17 net insurance premiums. Our medical insurance business consists of private medical insurance operations in Georgia, providing medical insurance products mainly to corporate clients. 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 155,000 persons insured as of January 2018. The medical insurance business plays an important role in our business model, as it is a significant feeder for our pharma 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	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Revenue, gross	**197,637**	**136,031**	**45.3%**	**179,065**	**10.4%**	**747,750**	**426,439**	**75.3%**
Corrections & rebates	(349)	(790)	-55.8%	(407)	-14.3%	(2,039)	(2,686)	-24.1%
Revenue, net	**197,288**	**135,241**	**45.9%**	**178,658**	**10.4%**	**745,711**	**423,753**	**76.0%**
Revenue from healthcare services	68,094	66,814	1.9%	63,598	7.1%	263,357	243,453	8.2%
Revenue from pharma	121,367	56,586	114.5%	106,607	13.8%	450,315	133,002	238.6%
Net insurance premiums earned	12,376	16,312	-24.1%	13,959	-11.3%	53,710	61,494	-12.7%
Eliminations	(4,549)	(4,471)	1.7%	(5,506)	-17.4%	(21,671)	(14,196)	52.7%
Costs of services	**(134,252)**	**(89,626)**	**49.8%**	**(123,467)**	**8.7%**	**(517,712)**	**(277,735)**	**86.4%**
Cost of healthcare services	(38,227)	(34,802)	9.8%	(36,916)	3.6%	(150,572)	(130,369)	15.5%
Cost of pharma	(90,743)	(44,498)	103.9%	(80,237)	13.1%	(340,210)	(105,472)	222.6%
Cost of insurance services	(11,163)	(14,997)	-25.6%	(11,968)	-6.7%	(48,583)	(55,772)	-12.9%
Eliminations	5,882	4,671	25.9%	5,653	4.1%	21,653	13,878	56.0%
Gross profit	**63,036**	**45,615**	**38.2%**	**55,191**	**14.2%**	**227,999**	**146,018**	**56.1%**
Salaries and other employee benefits	(20,519)	(12,757)	60.8%	(18,759)	9.4%	(75,430)	(39,750)	89.8%
General and administrative expenses	(12,266)	(8,340)	47.1%	(11,600)	5.7%	(48,618)	(26,149)	85.9%
Impairment of receivables	(1,133)	56	NMF	(918)	23.4%	(4,175)	(2,332)	79.0%
Other operating income	1,761	(285)	NMF	2,200	-20.0%	8,372	240	NMF
EBITDA	**30,879**	**24,289**	**27.1%**	**26,114**	**18.2%**	**108,148**	**78,027**	**38.6%**
Depreciation and amortisation	(6,967)	(5,316)	31.1%	(6,384)	9.1%	(25,704)	(19,577)	31.3%
Net interest expense	(8,303)	(4,773)	74.0%	(7,691)	8.0%	(30,941)	(13,736)	125.3%
Net gains/(losses) from foreign currencies	(2,825)	(3,170)	-10.9%	(1,336)	NMF	(397)	(5,657)	NMF
Net non-recurring income/(expense)	(638)	1,982	NMF	(872)	-26.8%	(4,780)	1,118	NMF
Profit before income tax expense	**12,146**	**13,012**	**-6.7%**	**9,831**	**23.5%**	**46,326**	**40,175**	**15.3%**
Income tax benefit/(expense)	(187)	(6,682)	-97.2%	(92)	103.3%	(386)	21,156	NMF
of which: Deferred tax adjustments	-	*(5,319)*	*NMF*	-	-	-	*23,992*	NMF
Profit for the period	**11,959**	**6,330**	**88.9%**	**9,739**	**22.8%**	**45,940**	**61,331**	**-25.1%**
Attributable to:								
- shareholders of the Company	7,785	5,401	44.1%	6,261	24.3%	29,050	50,203	-42.1%
- non-controlling interests	4,174	929	349.3%	3,478	20.0%	16,890	11,128	51.8%
of which: Deferred tax adjustments	-	*(516)*	*NMF*	-	-	-	*4,541*	*NMF*

Revenue. We delivered revenue of GEL 197.6 million in 4Q17 (up 45.3% y-o-y and up 10.4% q-o-q), and GEL 747.8 million in FY17 (up 75.3% y-o-y). The y-o-y revenue growth in 4Q17 and FY17 was mainly attributable to the pharma acquisitions, with GPC consolidated from May 2016 and Pharmadepot consolidated from January 2017. The primary driver of organic growth is our healthcare services business, up 7.8% in 2017 compared to 2016. The q-o-q revenue increase is attributable to pharma as well as healthcare services business results in the seasonally strong 4Q, up 13.8% and up 6.9% respectively.

Delivering on our strategy to diversify Group revenue. In the full year 2017, we achieved a well-diversified revenue mix at GHG, tapping all three segments of the Georgian healthcare ecosystem. 59% of our revenues came from the pharma business, 34% came from the healthcare services business, and the remaining 7% came from the medical insurance business. This translated into the Group's revenue being well-diversified by payment sources with total Group revenue from out-of-pocket payments now standing at 54%[5] in 2017, with only 24% from the Government (UHC) and 22% from other sources.

Gross Profit. We delivered gross profit of GEL 63.0 million in 4Q17 (up 38.2% y-o-y and up 14.2% q-o-q), and GEL 228.0 million in FY17 (up 56.1% y-o-y). The margins in the pharma business continue to improve. In 4Q17 as well as in FY17 the pharma business gross margin increased by 380 bps y-o-y. This was mainly as a result of realising previously announced procurement synergies as the largest purchaser of pharmaceuticals in Georgia. In FY17 the loss ratio of our medical insurance business remained almost at the same level as in FY16. In a seasonally heavy 4Q in terms of claims, the loss ratio improved compared to the same period last year, down 210 bps. The y-o-y improvement in the loss ratio was mainly due to the successful implementation of new initiatives our medical insurance business started from the second quarter of 2017, to adapt to changes in the Government's Universal Healthcare Programme by adjusting contract pricing with existing clients and terminating certain loss-making contracts. As expected, in 2017 our healthcare services business margins were affected, and temporarily subdued, by significant launches of healthcare facilities and services, which are currently in their initial roll-out phase. In 2018 our main goal will be the continued successful roll-out of newly launched hospitals and services while, at the same time, focusing on implementing efficiency measures across our healthcare facilities, as well as Group-wide.

EBITDA. We reported EBITDA of GEL 30.9 million in 4Q17 (up 27.1% y-o-y and up 18.2% q-o-q) and GEL 108.1 million in FY17 (up 38.6% y-o-y). The healthcare services business was the main contributor to the Group's 2017 EBITDA, contributing 65% in total, with a 26.4% EBITDA margin. In 4Q17 EBITDA margin stood at 26.8% (up 80 bps q-o-q). The next largest contributor was the pharma business with 36% contribution, while posting an 8.6% EBITDA margin, which exceeded our target of more than 8%. In 4Q17 the pharma business posted a 10.2% EBITDA margin, up 420 bps y-o-y. In 2017 our medical insurance business posted negative EBITDA of GEL 0.4 million, compared to the negative EBITDA posted in 2016, GEL 2.0 million. In its seasonally worst quarter, the medical insurance business has positively contributed to the Group's EBITDA, compared to the negative contribution to the same period last year.

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

Financing costs. The y-o-y increase in net interest expense relates to the lower borrowings base in 2016. In 2016, the Group used its IPO proceeds to repay expensive local banks' debt, subsequently realising significant savings in interest expense throughout 2016. From the second half of 2016 and in the first quarter of 2017 the Group sourced longer-term and less expensive funding to finance acquisitions and planned capital expenditure to launch new healthcare facilities. In 2017, we also recognised interest expense of GEL 0.5 million in 4Q17 and GEL 1.8 million in FY17 on the mark to market of the Pharmadepot put option, which is a non-cash expense. The q-o-q increase in net interest expense was in line with the increased balance of borrowed funds in 4Q17, to finance ongoing capital expenditure as well to pay the second tranche of the consideration payable for the Pharmadepot acquisition at the beginning of January 2018.

Foreign currency loss in 4Q17 is mainly attributable to the pharma business due to the GEL devaluation.

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

Profit. Our profit totalled GEL 12.0 million in 4Q17 (up 2.7% y-o-y on a normalised basis[6] and up 22.8% q-o-q) and GEL 45.9 million in FY17 (up 16.1% y-o-y on a normalised basis[6]). The healthcare services business was the main driver of the 4Q17 and FY17 Group profit, contributing GEL 6.4 million and GEL 27.4 million, followed by the pharma business contributing GEL 5.8 million and GEL 21.2 million, respectively.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**31-Dec-17**	**31-Dec-16**	**Change, Y-o-Y**	**30-Sep-17**	**Change, Q-o-Q**
Total assets, of which:	**1,167,800**	**915,357**	**27.6%**	**1,123,735**	**3.9%**
Cash and bank deposits	63,608	47,115	35.0%	42,790	48.7%
Receivables from healthcare services	100,944	81,927	23.2%	99,387	1.6%
Receivables from sale of pharmaceuticals	19,798	4,925	NMF	20,224	-2.1%
Insurance premiums receivable	20,233	24,207	-16.4%	26,085	-22.4%
Property and equipment	642,859	574,972	11.8%	637,328	0.9%
Goodwill and other intangible assets	143,674	73,028	96.7%	125,550	14.4%
Inventory	118,811	54,920	116.3%	117,111	1.5%
Prepayments	30,354	30,803	-1.5%	34,118	-11.0%
Other assets	27,519	23,460	17.3%	21,142	30.2%
Total liabilities, of which:	**619,400**	**373,325**	**65.9%**	**579,822**	**6.8%**
Borrowed funds	360,503	223,581	61.2%	329,199	9.5%
Accounts payable	92,925	64,367	44.4%	92,597	0.4%
Insurance contract liabilities	20,953	26,787	-21.8%	25,128	-16.6%
Other liabilities	145,019	58,590	147.5%	132,898	9.1%
Total shareholders' equity attributable to:	**548,400**	**542,032**	**1.2%**	**543,913**	**0.8%**
Shareholders of the Company	*483,684*	*485,888*	*-0.5%*	*479,854*	*0.8%*
Non-controlling interest	*64,716*	*56,144*	*15.3%*	*64,059*	*1.0%*

- The 27.6% y-o-y growth in total assets reflects the significant investments in hospital renovations, polyclinic roll-outs and the consolidation of the two pharma business acquisitions.
- The 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 decrease at year end. The decrease in both balances q-o-q as well as y-o-y is also attributable to the termination of certain loss-making contracts, explained above.
- The significant increase y-o-y in both inventory and goodwill is mainly attributable to the consolidation of the acquired pharma business, Pharmadepot. The pharma business makes up major part of inventory and goodwill - GEL 98.9 million and GEL 77.8 million of the respective totals in these assets at the end of 4Q17.
- Borrowed funds have increased y-o-y as well as q-o-q as a result of the drivers explained above.
- The y-o-y increase in accounts payable is also attributable to consolidating the pharma business. Out of the GEL 92.9 million accounts payable balance, GEL 63.4 million relates to the pharma business.
- Increase in other liabilities balance y-o-y is due the recognition of the put option liability of GEL 55.0 million (present value) for the remaining 33% of Pharmadepot shares. The recognition of the put option also resulted in reduction of equity by GEL 27.2 million.

[6] Normalised as explained in footnote 1 on page 4

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Main operating performance highlights and notable developments, healthcare services business

New Government initiatives

- Effective from May 2017, the Government introduced a revised reimbursement mechanism relating to the provision of intensive care, reducing the UHC reimbursement of these services. The revised level of reimbursement has slightly suppressed our hospitals margins and per our estimate reduced revenues by approximately GEL 4 million in 2017.
- At the same time, the Government also adopted a new regulation which bases UHC coverage eligibility on the income level of citizens and introduced deductible amounts for planned and certain urgent services:

  - Citizens with monthly income below GEL 1,000 (other than children under 5, students, pensioners, veterans and socially vulnerable groups), continue to receive the same coverage from UHC, with reimbursement of most of their healthcare service needs. The main change is for planned treatments and for certain urgent services, for which the state defined a deductible amount of GEL 500 per case or a minimum 30% co-pay whichever is greater;
  - Citizens with income of more than GEL 1,000 per month but below GEL 40,000 annually, are partially covered by UHC and the extent of the coverage is close to what they received under UHC prior to the new regulation. The main change is for planned treatments and for certain urgent services, for which State also defined a deductible amount of GEL 1,000 per case or a minimum 30% co-pay whichever is greater;
  - Citizens with more than GEL 40,000 annual income are now completely excluded from UHC coverage.

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

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

Hospital acquisitions

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

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

Continued investment in facilities and services

- During 2017, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 17.8 million in 4Q17 and GEL 89.3 million in FY17 on capital expenditures, primarily on the extensive renovations of

Deka and Tbilisi Referral Hospital (formerly Sunstone), as well as enhancing our service mix and introducing new services to cater to previously unmet patient needs. Of this, maintenance capex was GEL 2.1 million in 4Q17 and GEL 9.6 million in FY17.

- We have fully completed the renovation and opened the 332-bed Tbilisi Referral Hospital on schedule and within budget. In April 2017, we launched the hospital with 220 beds, which has already generated a 36.7% occupancy rate in 4Q17. The remaining part of the hospital was launched in December 2017, with an additional 112 renovated beds.
- The renovation of the 306-bed Deka hospital is now complete, within budget. The hospital has been already commissioned and will be launched in a next few days. It will serve as a flagship hospital, being the hospital of choice for high quality elective medical care countrywide. We had opened Deka's diagnostic centre - one of the largest in Tbilisi - in August of 2016 as the first step toward developing Deka into our flagship.
- We continued the process of launching new services at our referral hospitals. This includes services like paediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynaecology, cardio-surgery, traumatology, intensive care and reproductive services. More sophisticated services launched include: oncology, transplantation of bone marrow, angio vascular and neuro vascular surgeries. During 4Q17, we have launched 21 new services in 11 different referral hospitals. In total during 2017 we launched 54 new services. In 2018, we also plan to launch up to 50 new services.
- In June 2017 we launched our polyclinics campaign – rebranding our outpatient centres into polyclinics - to achieve better patient recognition and awareness. As part of this campaign, we also began actively recruiting doctors who previously worked at Soviet-era polyclinics and have recruited 67 to date.
- In 4Q17 we launched a district polyclinic in Marneuli and acquired two district polyclinics in Tbilisi, with total of c.50,000 registered patients. Polyclinic acquisitions and launches are consistent with the Group's strategy to grow its healthcare services business through rolling out a network of polyclinics across Tbilisi and in other major cities in Georgia. GHG now operates a total of 12 polyclinic clusters, of which eight are located in Tbilisi, and four in the regions. The 12 polyclinic clusters consisting of 16 district polyclinics and 24 express outpatient clinics (the latter are mostly integrated into our pharmacies and play a facilitating role for our pharma and district polyclinic patients). 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 to c.93,000. 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.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Healthcare service revenue, gross	**68,444**	**67,604**	**1.2%**	**64,004**	**6.9%**	**265,396**	**246,139**	**7.8%**
Corrections & rebates	(349)	(790)	-55.8%	(407)	-14.3%	(2,039)	(2,686)	-24.1%
Healthcare services revenue, net	**68,094**	**66,814**	**1.9%**	**63,598**	**7.1%**	**263,357**	**243,453**	**8.2%**
Costs of healthcare services	**(38,227)**	**(34,802)**	**9.8%**	**(36,916)**	**3.6%**	**(150,572)**	**(130,369)**	**15.5%**
Gross profit	**29,867**	**32,012**	**-6.7%**	**26,682**	**11.9%**	**112,785**	**113,084**	**-0.3%**
Salaries and other employee benefits	(7,942)	(6,676)	19.0%	(7,881)	0.8%	(30,998)	(24,048)	28.9%
General and administrative expenses	(4,085)	(3,368)	21.3%	(4,071)	0.3%	(16,392)	(12,617)	29.9%
Impairment of receivables	(1,115)	145	NMF	(979)	13.9%	(4,107)	(1,881)	118.3%
Other operating income	1,616	(575)	NMF	2,865	-43.6%	8,783	(218)	NMF
EBITDA	**18,341**	**21,538**	**-14.8%**	**16,616**	**10.4%**	**70,071**	**74,320**	**-5.7%**
EBITDA margin	***26.8%***	***31.9%***		***26.0%***		***26.4%***	***30.2%***	
Depreciation and amortisation	(6,295)	(5,292)	19.0%	(5,691)	10.6%	(22,699)	(18,287)	24.1%
Net interest income (expense)	(5,185)	(3,815)	35.9%	(4,474)	15.9%	(18,210)	(12,198)	49.3%
Net gains/(losses) from foreign currencies	30	(2,053)	NMF	(209)	NMF	1,634	(4,270)	NMF
Net non-recurring income/(expense)	(513)	2,704	NMF	(381)	34.6%	(3,425)	2,883	NMF
Profit before income tax expense	**6,378**	**13,082**	**-51.2%**	**5,861**	**8.8%**	**27,371**	**42,448**	**-35.5%**
Income tax benefit/(expense)	-	(5,439)	NMF	-	-	(11)	22,054	NMF
of which: Deferred tax adjustments	-	*(4,321)*	NMF	-	-	-	*24,990*	-
Profit for the period	**6,378**	**7,643**	**-16.6%**	**5,861**	**8.8%**	**27,360**	**64,502**	**-57.6%**
Attributable to:								
- shareholders of the Company	5,278	6,714	-21.4%	4,965	6.3%	21,643	53,374	-59.5%
- non-controlling interests	1,100	929	18.4%	896	22.8%	5,717	11,128	-48.6%
of which: Deferred tax adjustments	-	(516)	NMF	-	-	-	4,541	NMF

In the seasonally strong 4Q, our healthcare services business recorded quarterly revenue of GEL 68.4 million (up 1.2% y-o-y and up 6.9% q-o-q). In FY17, revenue totalled GEL 265.4 million (up 7.8% y-o-y). Despite the fact that this year revenue was affected by the Government's two new UHC initiatives, effective from May 2017, the business posted organic revenue growth of c.7% y-o-y.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Healthcare services revenue, net	**68,094**	**66,814**	**1.9%**	**63,598**	**7.1%**	**263,357**	**243,453**	**8.2%**
Referral hospitals	58,094	58,020	0.1%	53,604	8.4%	225,502	209,563	7.6%
Community hospitals	5,667	5,363	5.7%	5,943	-4.6%	22,147	22,273	-0.6%
Polyclinics	4,333	3,430	26.3%	4,051	7.0%	15,708	11,616	35.2%

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

Third quarter referral hospital revenue is seasonally weak and the 8.4% q-o-q revenue growth reflects that.

In 2017 community hospitals contributed 8% of the total revenue from healthcare services. The full year revenue was affected by Government's new initiatives and was slightly decreased. The decrease in revenue q-o-q, was mainly due to the seasonal shifting of some referral hospital revenues to community hospitals in the third quarter due to vacations. Community hospitals play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

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

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Healthcare services revenue, net	**68,094**	**66,814**	**1.9%**	**63,598**	**7.1%**	**263,357**	**243,453**	**8.2%**
Government-funded healthcare programmes	45,556	47,262	-3.6%	42,535	7.1%	177,449	176,668	0.4%
Out-of-pocket payments by patients	17,061	14,189	20.2%	16,461	3.6%	64,878	48,991	32.4%
Private medical insurance companies, *of which*	5,477	5,363	2.1%	4,602	19.0%	21,030	17,794	18.2%
GHG medical insurance	*1,939*	*3,614*	*-46.3%*	*2,133*	*-9.1%*	*9,475*	*10,453*	*-9.4%*

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

In 4Q17 the decrease of 3.6% Government-funded healthcare programmes on a y-o-y basis is due to Government initiatives described above, in “Main operating performance highlights and notable developments”.

The goal to diversify our earnings is also furthered by growing out-of-pocket payments by patients (up 20.2% in 4Q17 y-o-y and up 32.4% in FY17 y-o-y). This is driven by two main factors: 1) growth in the number of elective services we provide that are partially or fully funded out-of-pocket; 2) the enhanced footprint of our polyclinics, the revenue from which is primarily out-of-pocket, as the Government provides minimal coverage for outpatient services. The growth of revenue from private medical insurance in 2017, compared to the previous year, also continues to be supported by the roll-out of polyclinics as well as an enhanced relationship with other insurance companies who redirect their customers to our hospitals. The decrease in revenue from our medical insurance business is due to its recent initiatives to terminate loss-making contracts.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Cost of healthcare services	**(38,227)**	**(34,802)**	**9.8%**	**(36,916)**	**3.6%**	**(150,572)**	**(130,369)**	**15.5%**
Cost of salaries and other employee benefits	(24,440)	(21,042)	16.1%	(23,777)	2.8%	(95,655)	(80,397)	19.0%
Cost of materials and supplies	(10,363)	(10,616)	-2.4%	(9,817)	5.6%	(40,887)	(38,059)	7.4%
Cost of medical service providers	(463)	(550)	-15.8%	(651)	-28.9%	(1,920)	(1,842)	4.2%
Cost of utilities and other	(2,961)	(2,594)	14.1%	(2,671)	10.9%	(12,110)	(10,071)	20.2%
Gross profit	**29,867**	**32,012**	**-6.7%**	**26,682**	**11.9%**	**112,785**	113,084	**-0.3%**
Gross margin	**43.6%**	**47.4%**		**41.7%**		**42.5%**	**45.9%**	
Cost of healthcare services as % of revenue								
Direct salary rate	35.7%	31.1%		37.1%		36.0%	32.7%	
Materials rate	15.1%	15.7%		15.3%		15.4%	15.5%	

The y-o-y growth in the cost of salaries and other employee benefits was driven by the expansion of the hospital business, the roll-out of new healthcare facilities and the launch of new medical services, some of which are in the early roll-out phase resulting in revenue generation lagging behind the respective salary expense growth and a significant y-o-y increase in the direct salary rate. In the seasonally strong fourth quarter, q-o-q revenue growth favourably outpaced the growth in cost of salaries and other employee benefits in the same period. This resulted in an improved direct salary rate, down 140 bps q-o-q. We expect salary growth to stabilise and that the direct salary rate to improve with the completion of the ramp-up phase of the newly launched healthcare facilities and services.

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

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

As a result, the healthcare services business reported gross profit of GEL 29.9 million in 4Q17 (down 6.7% y-o-y and up 11.9% q-o-q), and GEL 112.8 million in FY17 (down 0.3% y-o-y). Our healthcare services gross margin remained under pressure due to the roll-out of new healthcare facilities and services, and was down on a y-o-y basis, however as a result of the increased utilisation of existing facilities, the gross margin improved by 190 bps q-o-q.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Operating expenses	**(11,526)**	**(10,474)**	**10.0%**	**(10,066)**	**14.5%**	**(42,714)**	**(38,764)**	**10.2%**
Salaries and other employee benefits	(7,942)	(6,676)	19.0%	(7,881)	0.8%	(30,998)	(24,048)	28.9%
General and administrative expenses	(4,085)	(3,368)	21.3%	(4,071)	0.3%	(16,392)	(12,617)	29.9%
Impairment of receivables	(1,115)	145	NMF	(979)	13.9%	(4,107)	(1,881)	118.3%
Other operating income	1,616	(575)	NMF	2,865	-43.6%	8,783	(218)	NMF
EBITDA	**18,341**	**21,538**	**-14.8%**	**16,616**	**10.4%**	**70,071**	**74,320**	**-5.7%**
EBITDA margin	***26.8%***	***31.9%***		***26.0%***		***26.4%***	***30.2%***	

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

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

Full year EBITDA was positively affected by other operating income of GEL 8.4 million (compared to GEL 0.2 million in 2016). This amount, which is mainly allocated to the healthcare segment, results from a netting of other operating income and other operating expense and is composed of a large number of items, some recurring and some more one-off in nature. Income items that we expect to recur include income from: the wholesale sale of medicines and sales of property and equipment that is no longer usable in the business (for which there are also related expense items); rental of facilities; and a share in the profits of a hospital in which we hold a minority stake. The revaluation of the call option we hold (exercisable in 2023) on the remaining 33% non-controlling interest in the pharma business is the largest income item in 2017 and has both a recurring component that relates to the to the gradual unwinding of the discount to present value of the option in our balance sheet, and a component that is less predictable and so more one-off, meaning that magnitude and direction of valuation adjustment depends on whether forecast performance of pharma business is outperformed or underperformed. The one-off income and expense items substantially offset one another. Expense items that we see as one-off include expenses for penalties and litigation and impairments of intangible assets, prepayments, properties and inventories. The detailed breakdown of other operating income and other operating expense will be included in the back section of Annual Report in the footnotes to financial statements.

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

We reported quarterly EBITDA of GEL 18.3 million (down 14.8% y-o-y and up 10.4% q-o-q) and full year EBITDA of GEL 70.1 million (down 5.7% y-o-y). The EBITDA margin, at 26.8% in 4Q17 and at 26.4% in FY17, is below last year's margin, as a result of the hospital and polyclinic roll-outs. The EBITDA margin improved on a q-o-q basis by 80 bps. Excluding the dilutive effects of roll-outs, the EBITDA margin was 29.3% in 4Q17 and 29.2% in FY17.

The EBITDA margin for our hospitals (both referral and community) in 2017 was 27.4% compared to 30.8% in 2016, primarily due to the roll-out of our two new flagship hospitals in Tbilisi and the effect of the Government's UHC initiatives which reduced our revenue from May 2017. Healthcare facilities and services still in roll-out phase, posted negative EBITDA of GEL 0.6 million in 4Q17 (GEL 0.9 million in 3Q17) and GEL 4.2 million in FY17.

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

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

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Depreciation and amortisation	(6,295)	(5,292)	19.0%	(5,691)	10.6%	(22,699)	(18,287)	24.1%
Net interest income (expense)	(5,185)	(3,815)	35.9%	(4,474)	15.9%	(18,210)	(12,198)	49.3%
Net gains/(losses) from foreign currencies	30	(2,053)	NMF	(209)	NMF	1,634	(4,270)	NMF
Net non-recurring income/(expense)	(513)	2,704	NMF	(381)	NMF	(3,425)	2,883	NMF
Profit before income tax expense	**6,378**	**13,082**	**-51.2%**	**5,861**	**8.8%**	**27,371**	**42,448**	**-35.5%**
Income tax benefit/(expense)	-	(5,439)	NMF	-	-	(11)	22,054	NMF
of which: Deferred tax adjustments	-	*(4,321)*		-		-	*24,990*	
Profit for the period	**6,378**	**7,643**	**-16.6%**	**5,861**	**8.8%**	**27,360**	**64,502**	**-57.6%**
Attributable to:								
- shareholders of the Company	5,278	6,714	-21.4%	4,965	6.3%	21,643	53,374	-59.5%
- non-controlling interests	1,100	929	18.4%	896	22.8%	5,717	11,128	-48.6%
of which: Deferred tax adjustments	-	*(516)*		-		-	*4,541*	

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

The increase in net interest expense reflects the increase in our total borrowing as explained earlier in this report, on page 8.

The healthcare services business reported profit before income tax expense of GEL 6.4 million in 4Q17 and GEL 27.4 million in FY17. Compared to last year, the trend continued to reflect the expected pressure on margins from the newly launched healthcare facilities and services as well as the increased interest and depreciation expenses.

Other performance highlights and notable developments, healthcare services business

- Our healthcare services market share by number of beds was 24.5% as of 31 December 2017.
- Our hospital bed occupancy rate[7] was 55.8% in 4Q17 (57.6% in 4Q16, 49.7% in 3Q17) and 55.7% in FY17 (55.7% in 2016). Our hospital bed occupancy rate adjusted to exclude the Tbilisi Referral Hospital 220 beds, opened in April 2017, was 57.7% and 57.6% in 4Q17 and FY17, respectively.
- Our referral hospital bed occupancy rate[7] was 60.4% in 4Q17 (65.3% in 4Q16, 55.4% in 3Q17) and 61.6% in FY17 (63.0% in 2016). Our referral hospital bed occupancy rate adjusted to exclude the Tbilisi Referral Hospital 220 beds, opened in April 2017, was 63.1% and 64.5% in 4Q17 and FY17 respectively.
- The average length of stay[8] was 5.3 days in 4Q17 (5.0 in 4Q16, 5.2 in 3Q17) and 5.3 in FY17 (5.0 in 2016)
- The average length of stay[8] at referral hospitals was 5.5 days in 4Q17 (5.2 days in 4Q16, 5.4 days in 3Q17) and 5.5 in FY17 (5.2 in 2016).

- We also continue to expand the number of specialties offered in our residency programme in line with our strategy to develop and train the next generation of doctors. In 2017 we obtained accreditation in an additional four specialties bringing the total number of specialties to 24 and total number of slots for admission to 265 residents. To incentivise and support the enrolment of the country's top talent, we offer grants, student loans and employment after graduation from our residency programme. Currently, we have 112 talented residents involved in 20 specialties, 12 of which have received a 100% grant, 22 received an 80% grant and 37 residents have obtained students loans. Successful residents have already started employment within GHG healthcare facilities as junior doctors.
- After significant reconstruction works in 2017, we have launched an onco-haematological department at Iashvili Paediatric Tertiary Referral Hospital with 30 renovated and 14 new beds. The department was equipped with the latest medical equipment and also enables us to receive paediatric patients with solid tumours. The new infrastructure at the hospital allows us to maximise the accuracy of first diagnoses and improve the quality for children suffering from cancer.
- We have commenced construction of the first largest laboratory in Georgia as well as in whole Caucasus region ("Mega Lab"), which we plan to finish and launch in mid-2018. The multi-profile laboratory will be equipped with the most up-to-date infrastructure and high-capacity automated systems. The laboratory will cover basic as well as sophisticated tests such as: clinical microbiology, immunology, bacteriology, pathology, molecular genetics, etc. We plan to get Joint Commission International accreditation for Mega Lab.

[7] This calculation excludes emergency beds and 112 beds of Tbilisi Referral Hospital, launched in December 2017
[8] This calculation excludes data for the emergency department and 112 beds of Tbilisi Referral Hospital, launched in December 2017

Discussion of Pharma Business Results

Our results of operations for the 4Q16 and FY16 include only GPC results, which we have been consolidating since May 2016. Starting from 1Q17 our results include GPC's and Pharmadepot's combined results (consolidation of Pharmadepot started from January 2017). Accordingly, only 4Q17 and 3Q17 figures are comparable.

Income Statement, pharma business

GEL thousands; unless otherwise noted	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	May- Dec 2016
Pharma revenue	**121,367**	**56,586**	**114.5%**	**106,607**	**13.8%**	**450,315**	**133,002**
Costs of pharma	**(90,743)**	**(44,498)**	**103.9%**	**(80,237)**	**13.1%**	**(340,210)**	**(105,472)**
Gross profit	**30,624**	**12,088**	**153.3%**	**26,370**	**16.1%**	**110,105**	**27,530**
Salaries and other employee benefits	(11,029)	(4,561)	141.8%	(10,350)	6.6%	(40,679)	(11,357)
General and administrative expenses	(7,997)	(4,564)	75.2%	(7,192)	11.2%	(31,180)	(11,104)
Impairment of receivables	(5)	-	NMF	92	NMF	(44)	-
Other operating income	837	431	94.2%	(103)	NMF	652	667
EBITDA	**12,430**	**3,394**	**266.2%**	**8,817**	**41.0%**	**38,854**	**5,736**
EBITDA margin	***10.2%***	***6.0%***		***8.3%***		***8.6%***	***4.3%***
Depreciation and amortisation	(459)	202	-327.2%	(475)	-3.4%	(2,110)	(447)
Net interest income (expense)	(2,941)	(548)	436.7%	(3,015)	-2.5%	(11,936)	(1,602)
Net gains/(losses) from foreign currencies	(2,871)	(928)	NMF	(1,109)	158.9%	(2,065)	(1,277)
Net non-recurring income/(expense)	(125)	(17)	NMF	(489)	-74.4%	(1,496)	(88)
Profit before income tax expense	**6,034**	**2,103**	**186.9%**	**3,729**	**61.8%**	**21,247**	**2,322**
Income tax benefit/(expense)	(187)	(398)	NMF	(92)	NMF	(65)	(398)
of which: Deferred tax adjustments	-	(200)	NMF	-	NMF	-	(200)
Profit for the period	**5,847**	**1,705**	**242.9%**	**3,637**	**60.8%**	**21,182**	**1,924**

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

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	May- Dec 2016
Pharma revenue	**121,367**	**56,586**	**114.5%**	**106,607**	**13.8%**	**450,315**	**133,002**
Pharma business revenue from Retail	90,654	39,200	131.3%	78,010	16.2%	336,366	96,107
Pharma business revenue from wholesale	30,713	17,386	76.7%	28,596	7.4%	113,949	36,895

Our pharma business performed well, posting quarterly revenue of GEL 121.4 million, with strong q-o-q growth at 13.8%, while full year revenue reached GEL 450.3 million. Apart from the strong business performance and marketing campaigns, the sequential q-o-q growth is attributable to the usual high season in winter. The same-store growth rate on a pro-forma consolidated basis[9] was 4.6% in 4Q17 compared to 4Q16, and 7.9% in 2017 compared to 2016. The share of para-pharmacy sales in retail revenue was 30.2% in 4Q17 and 29.3% in FY17. Apart from retail revenue growth, the revenue from wholesale was also up 7.4% q-o-q, due to increased activity in acquiring new corporate accounts.

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

As a result of the above, in 4Q17 the y-o-y and q-o-q increases in costs of pharma (up 103.9% and up 13.1% respectively), lagged behind the increase in respective revenues (up 114.5% y-o-y and up 13.8% q-o-q), which resulted in a further improved gross margin in 4Q17 up to 25.2%, up 390 bps y-o-y and up 50 bps q-o-q. Overall, in FY17 the gross margin stood at 24.5%, up 380 bps compared to last year.

[9] 4Q16 and FY16 same store revenue includes both pharma companies, GPC and Pharmadepot results

In 4Q17 and FY17 the pharma business gross profit reached GEL 30.6 million (up 16.1% q-o-q) and GEL 110.1 million, respectively.

The growth in salaries and other employee benefits as well as in general and administrative expenses, reflects the expansion of the business and the addition of new pharmacies. Another driver of increased general and administrative expenses in 4Q17, was an increase in active marketing campaigns.

Disciplined cost management resulted in positive operating leverage of 12.5% q-o-q.

Since the pharma businesses acquisitions, we have successfully integrated both pharmacy chains within the Group, extracted synergies and the process is still ongoing. We are on track to deliver the initially expected cost savings and revenue enhancement, all of which are positively reflected in the pharma business 2017 performance. The business reported EBITDA of GEL 12.4 million and GEL 38.9 million in 4Q17 and FY17 respectively. We delivered resilient quarterly and full year EBITDA margins of 10.2% and 8.6% respectively, both exceeding our "more than 8%" medium term target.

Depreciation and amortisation expense as well as net interest expense remained flat q-o-q, while the increase in foreign currency losses was due to the GEL devaluation in 4Q17.

Consequently, the pharma business reported a net profit of GEL 5.8 million in 4Q17 (up 60.8% q-o-q). Net profit reached GEL 21.2 million in FY17.

Other operating highlights and notable developments in the pharma business:

- The pharma business acquired the international private label brand - "**Attirance**" in October 2017. Attirance specialises in natural cosmetics and has developed more than 400 of its own unique products. The acquisition enables us to present private label personal care products in our pharmacies, further improving our margins and profitability. It also facilitates establishing our position as a market leader in this segment.
- After the acquisition of Pharmadepot we continued negotiations with manufacturers for additional discounts, as a result of the increased consolidated purchasing power of our healthcare services and pharma businesses. We have delivered GEL 8.9 million procurement synergies on an annualised basis out of an expected GEL 7.9 million on an annualised basis in 2017.
- After the acquisition of Pharmadepot we successfully continued to eliminate unnecessary costs. We have already eliminated GEL 2.3 million compared to initial guidance of GEL 3.9 million, on an annualised basis.
- We also accelerated the procurement of medical disposables for our healthcare services business through our pharma business. In 4Q17 and FY17, we had GEL 1.5 million and GEL 5.2 million in intercompany purchases, compared to GEL 1.3 million and GEL 3.8 million in 4Q16 and FY16.
- In total, we operate a country-wide distribution network of 255 pharmacies in major cities. We have 21 pharmacies located in our hospitals and clinics.
- In 4Q17, the pharma business had:
  - c.2.2 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.6
  - Total number of bills issued was 6.6 million
- In 2017, the pharma business had:
  - c.2.1 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.3
  - Total number of bills issued was 25.3 million
  - 30% market share measured by sales

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Net insurance premiums earned	**12,376**	**16,312**	**-24.1%**	**13,959**	**-11.3%**	**53,710**	**61,494**	**-12.7%**
Cost of insurance services	**(11,163)**	**(14,997)**	**-25.6%**	**(11,968)**	**-6.7%**	**(48,583)**	**(55,772)**	**-12.9%**
Gross profit	**1,213**	**1,315**	**-7.8%**	**1,991**	**-39.1%**	**5,127**	**5,722**	**-10.4%**
Salaries and other employee benefits	(747)	(1,320)	-43.4%	(834)	-10.4%	(3,601)	(4,663)	-22.8%
General and administrative expenses	(394)	(408)	-3.4%	(369)	6.8%	(1,636)	(2,428)	-32.6%
Impairment of receivables	(111)	(89)	24.7%	(138)	-19.6%	(479)	(451)	6.2%
Other operating income	147	(141)	-204.3%	31	NMF	153	(209)	NMF
EBITDA	**108**	**(643)**	**-116.8%**	**681**	**NMF**	**(436)**	**(2,029)**	**-78.5%**
EBITDA margin	***0.9%***	***-3.9%***		***4.9%***		***-0.8%***	***-3.3%***	
Depreciation and amortisation	(212)	(226)	-6.2%	(219)	-3.2%	(895)	(843)	6.2%
Net interest income (expense)	(177)	(242)	-26.9%	(202)	-12.4%	(795)	232	NMF
Net gains/(losses) from foreign currencies	16	(189)	NMF	(18)	NMF	34	(110)	NMF
Net non-recurring income/(expense)	-	(704)	NMF	(2)	NMF	(200)	(1,677)	NMF
Profit before income tax expense	**(265)**	**(2,004)**	**NMF**	**240**	**NMF**	**(2,292)**	**(4,427)**	**-48.2%**
Income tax benefit/(expense)	-	(845)	NMF	-	NMF	(310)	(500)	NMF
of which: Deferred tax adjustments	-	(798)	NMF	-	NMF	-	(798)	NMF
Profit / (Loss) for the period	**(265)**	**(2,849)**	**NMF**	**240**	**NMF**	**(2,602)**	**(4,927)**	**-47.2%**

On the back of the seasonally heavy fourth quarter in terms of claims, our medical insurance business has maintained positive EBITDA in 4Q17. The performance was a result of the new initiatives that the business started to implement from 2Q17. From 2Q17, the medical insurance business started to adjust the pricing of existing contracts that had become loss-making as a result of the Government's changes in UHC introduced in May 2017 (described in detail in the healthcare services section). This also resulted in the termination of certain loss-making contracts.

Our medical insurance business contributed GEL 12.4 million and GEL 53.7 million to the Group's revenue in 4Q17 and FY17 respectively. Apart from the termination of loss-making contracts from 2Q17, the y-o-y decrease in insurance premiums earned is due to the expiration of the Ministry of Defence (MOD) contract, which was allowed to expire in January 2017 due to its high loss ratio.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	4Q17	4Q16	Change, Y-o-Y	3Q17	Change, Q-o-Q	FY17	FY16	Change, Y-o-Y
Cost of insurance services	**(11,163)**	**(14,997)**	**-25.6%**	**(11,968)**	**-6.7%**	**(48,583)**	**(55,772)**	**-12.9%**
Net insurance claims incurred	(10,299)	(13,911)	-26.0%	(11,162)	-7.7%	(45,209)	(51,701)	-12.6%
Agents, brokers and employee commissions	(864)	(1,086)	-20.4%	(806)	7.2%	(3,374)	(4,071)	-17.1%
Gross profit	**1,213**	**1,315**	-7.8%	**1,991**	-39.1%	**5,127**	**5,722**	-10.4%
Loss ratio	**83.2%**	**85.3%**		**80.0%**		**84.2%**	**84.1%**	

As a result of new initiatives described above, we managed to decrease the loss ratio in the seasonally worst 4Q by 210 bps, compared to the same period of last year. Overall, despite the Government's changes in UHC implemented in 2017, the full year loss ratio was maintained at almost the same level as in 2016. Going forward we expect to see further stabilisation of medical insurance business earnings, with a targeted loss ratio of less than 80%.

Our insurance business plays a good feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. In 4Q17, our medical insurance claims expense was GEL 10.3 million, of which GEL 4.3 million (42.0% of total) was inpatient, GEL 3.6 million (34.9 % of total) was outpatient and GEL 2.4 million (23.1% of total) accounted for drugs. In 4Q17, GEL 3.3 million, or 32.5% (20.7% in 4Q16) of our total medical insurance claims were retained within the Group, of which GEL 1.9 million and GEL 1.4 million were retained in the healthcare services and pharma businesses respectively. The feeder role of our medical insurance business is particularly important for the Group's outpatient services. In FY17, GEL 5.9 million, or 37.2%, of our medical insurance claims on outpatient services were retained within the Group.

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

The business posted gross profit of GEL 1.2 million in 4Q17 and GEL 5.1 million in FY17.

Throughout the year our medical insurance business was concentrated to optimise its operating expenses. This is reflected in y-o-y and q-o-q decreases in salaries and other employee benefits, down 22.8% in FY17 compared to last year. The optimisation in general and administrative expenses is a result of savings in rent expenses, as well as decreasing administrative expenses due to the re-negotiation of terms and conditions with different service providers. In FY17 the general and administrative expenses was down 32.6% y-o-y.

The expense ratio of our medical insurance business was 17.6% in 4Q17 and was improved to 18.3% in FY17 from 20.6% in FY16. The combined ratio stood at 100.8% in 4Q17 and at 102.5% in FY17 (down from 104.7% in FY16).

The business contributed positively to EBITDA in last two consecutive quarters of 2017. Our medical insurance business recorded positive EBITDA of GEL 0.1 million in 4Q17, compared to negative EBITDA of GEL 0.6 in 4Q16. In FY17 the business posted negative EBITDA of GEL 0.4 million compared to GEL 2.0 million negative EBITDA posted in 2016.

Other operating highlights and notable developments, medical insurance business

- Our medical insurance business has acquired a significant new client, the Georgian Ministry of Internal Affairs, by winning a recent tender process. The Ministry of Internal Affairs is the country's largest insurance client by number of insured, c.65,000. We expect significant synergies to come from this contract in 2018, further improving retention rates within GHG.
- The number of persons insured is approximately 155,000 as of January 2018.
- Our medical insurance market share was 29.0% based on net insurance premium revenue, as at 30 September 2017.
- Our insurance renewal rate was 71.8% in 4Q17 and 76.9% in FY17.

SELECTED FINANCIAL INFORMATION

Income Statement, *full year*	**Healthcare services**			**Pharma**		**Medical insurance**			**Eliminations**		**GHG**		
GEL thousands; unless otherwise noted	**FY17**	**FY16**	**Change, Y-o-Y**	**FY17**	**(May-Dec) FY16[10]**	**FY17**	**FY16**	**Change, Y-o-Y**	**FY17**	**FY16**	**FY17**	**FY16**	**Change, Y-o-Y**
Revenue, gross	**265,396**	**246,139**	**7.8%**	**450,315**	**133,002**	**53,710**	**61,494**	**-12.7%**	**(21,671)**	**(14,196)**	**747,750**	**426,439**	**75.3%**
Corrections & rebates	(2,039)	(2,686)	-24.1%	-	-	-	-	-	-	-	(2,039)	(2,686)	-24.1%
Revenue, net	**263,357**	**243,453**	**8.2%**	**450,315**	**133,002**	**53,710**	**61,494**	**-12.7%**	**(21,671)**	**(14,196)**	**745,711**	**423,753**	**76.0%**
Costs of services	**(150,572)**	**(130,369)**	**15.5%**	**(340,210)**	**(105,472)**	**(48,583)**	**(55,772)**	**-12.9%**	**21,653**	**13,878**	**(517,712)**	**(277,735)**	**86.4%**
Cost of salaries and other employee benefits	(95,655)	(80,397)	19.0%	-	-	-	-	-	2,911	4,762	(92,744)	(75,635)	22.6%
Cost of materials and supplies	(40,887)	(38,059)	7.4%	-	-	-	-	-	6,872	2,254	(34,015)	(35,805)	-5.0%
Cost of medical service providers	(1,920)	(1,842)	4.2%	-	-	-	-	-	66	109	(1,854)	(1,733)	7.0%
Cost of utilities and other	(12,110)	(10,071)	20.2%	-	-	-	-	-	997	596	(11,113)	(9,475)	17.3%
Net insurance claims incurred	-	-	-	-	-	(45,209)	(51,701)	-12.6%	10,057	6,157	(35,152)	(45,544)	-22.8%
Agents, brokers and employee commissions	-	-	-	-	-	(3,374)	(4,071)	-17.1%	-		(3,374)	(4,071)	-17.1%
Cost of pharma - wholesale	-	-	-	(93,900)	(30,332)	-	-	-	750	-	(93,150)	(30,332)	207.1%
Cost of pharma - retail	-	-	-	(246,310)	(75,140)	-	-	-	-	-	(246,310)	(75,140)	227.8%
Gross profit	**112,785**	**113,084**	**-0.3%**	**110,105**	**27,530**	**5,127**	**5,722**	**-10.4%**	**(18)**	**(318)**	**227,999**	**146,018**	**56.1%**
Salaries and other employee benefits	(30,998)	(24,048)	28.9%	(40,679)	(11,357)	(3,601)	(4,663)	-22.8%	(152)	318	(75,430)	(39,750)	89.8%
General and administrative expenses	(16,392)	(12,617)	29.9%	(31,180)	(11,104)	(1,636)	(2,428)	-32.6%	590	-	(48,618)	(26,149)	85.9%
Impairment of receivables	(4,107)	(1,881)	118.3%	(44)	-	(479)	(451)	6.2%	455	-	(4,175)	(2,332)	79.0%
Other operating income	8,783	(218)	NMF	652	667	153	(209)	NMF	(1,216)	-	8,372	240	NMF
EBITDA	**70,071**	**74,320**	**-5.7%**	**38,854**	**5,736**	**(436)**	**(2,029)**	**-78.5%**	**(341)**	**-**	**108,148**	**78,027**	**38.6%**
EBITDA margin	***26.4%***	***30.2%***		***8.6%***	***4.3%***	***-0.8%***	***-3.3%***			-	***14.5%***	***18.3%***	
Depreciation and amortisation	(22,699)	(18,287)	24.1%	(2,110)	(447)	(895)	(843)	6.2%	-	-	(25,704)	(19,577)	31.3%
Net interest income (expense)	(18,210)	(12,198)	49.3%	(11,936)	(1,602)	(795)	232	NMF	-	(168)	(30,941)	(13,736)	125.3%
Net gains/(losses) from foreign currencies	1,634	(4,270)	NMF	(2,065)	(1,277)	34	(110)	NMF	-	-	(397)	(5,657)	-93.0%
Net non-recurring income/(expense)	(3,425)	2,883	NMF	(1,496)	(88)	(200)	(1,677)	-88.1%	341	-	(4,780)	1,118	NMF
Profit before income tax expense	**27,371**	**42,448**	**-35.5%**	**21,247**	**2,322**	**(2,292)**	**(4,427)**	**-48.2%**	**-**	**(168)**	**46,326**	**40,175**	**15.3%**
Income tax benefit/(expense)	(11)	22,054	NMF	(65)	(398)	(310)	(500)	-38.0%	-	-	(386)	21,156	NMF
of which: Deferred tax adjustments	-	*24,990*	NMF	-	(200)	-	(798)	*NMF*		-	-	*23,992*	NMF
Profit for the period	**27,360**	**64,502**	**-57.6%**	**21,182**	**1,924**	**(2,602)**	**(4,927)**	**-47.2%**	**-**	**(168)**	**45,940**	**61,331**	**-25.1%**
Attributable to:													
- shareholders of the Company	21,643	53,374	-59.5%	10,009	1,924	(2,602)	(4,927)	-47.2%	-	(168)	29,050	50,203	-42.1%
- non-controlling interests	5,717	11,128	-48.6%	11,173	-	-	-	-	-	-	16,890	11,128	51.8%
of which: Deferred tax adjustments	-	*4,541*	*NMF*	-	-	-	-	-	-	-	-	*4,541*	*NMF*

[10] FY16 includes only May-Dec GPC's results

Income Statement, ***Quarterly***	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**4Q17**	**4Q16**	**Change, Y-o-Y**	**3Q17**	**Change, Q-o-Q**	**4Q17**	**4Q16[11]**	**Change, Y-o-Y**	**3Q17**	**Change, Q-o-Q**	**4Q17**	**4Q16**	**Change, Y-o-Y**	**3Q17**	**Change, Q-o-Q**	**4Q17**	**4Q16**	**3Q17**	**4Q17**	**4Q16**	**Change, Y-o-Y**	**3Q17**	**Change, Q-o-Q**
Revenue, gross	**68,444**	**67,604**	**1.2%**	**64,004**	**6.9%**	**121,367**	**56,586**	**114.5%**	**106,607**	**13.8%**	**12,376**	**16,312**	**-24.1%**	**13,959**	**-11.3%**	**(4,549)**	**(4,471)**	**(5,506)**	**197,637**	**136,031**	**45.3%**	**179,065**	**10.4%**
Corrections & rebates	(349)	(790)	-55.8%	(407)	-14.3%	-	-	-	-	-	-	-	-	-	-	-	-	-	(349)	(790)	-55.8%	(407)	-14.3%
Revenue, net	**68,094**	**66,814**	**1.9%**	**63,598**	**7.1%**	**121,367**	**56,586**	**114.5%**	**106,607**	**13.8%**	**12,376**	**16,312**	**-24.1%**	**13,959**	**-11.3%**	**(4,549)**	**(4,471)**	**(5,506)**	**197,288**	**135,241**	**45.9%**	**178,658**	**10.4%**
Costs of services	**(38,227)**	**(34,802)**	**9.8%**	**(36,916)**	**3.6%**	**(90,743)**	**(44,498)**	**103.9%**	**(80,237)**	**13.1%**	**(11,163)**	**(14,997)**	**-25.6%**	**(11,968)**	**-6.7%**	**5,882**	**4,671**	**5,653**	**(134,252)**	**(89,626)**	**49.8%**	**(123,467)**	**8.7%**
Cost of salaries and other employee benefits	(24,440)	(21,042)	16.1%	(23,777)	2.8%	-	-	-	-	-	-	-	-	-	-	329	1,534	798	(24,111)	(19,508)	23.6%	(22,979)	4.9%
Cost of materials and supplies	(10,363)	(10,616)	-2.4%	(9,817)	5.6%	-	-	-	-	-	-	-	-	-	-	2,006	761	1,921	(8,357)	(9,855)	-15.2%	(7,896)	5.8%
Cost of medical service providers	(463)	(550)	-15.8%	(651)	-28.9%	-	-	-	-	-	-	-	-	-	-	13	39	22	(450)	(511)	-11.9%	(629)	-28.5%
Cost of utilities and other	(2,961)	(2,594)	14.1%	(2,671)	10.9%	-	-	-	-	-	-	-	-	-	-	665	189	88	(2,296)	(2,405)	-4.5%	(2,583)	-11.1%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(10,299)	(13,911)	-26.0%	(11,162)	-7.7%	2,119	2,148	2,824	(8,180)	(11,763)	-30.5%	(8,338)	-1.9%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(864)	(1,086)	-20.4%	(806)	7.2%	-	-	-	(864)	(1,086)	-20.4%	(806)	7.2%
Cost of pharma - wholesale	-	-	-	-	-	(25,244)	(13,700)	84.3%	(23,171)	8.9%	-	-	-	-	-	750	-	-	(24,494)	(13,700)	78.8%	(23,171)	5.7%
Cost of pharma - retail	-	-	-	-	-	(65,499)	(30,797)	112.7%	(57,066)	14.8%	-	-	-	-	-	-	-	-	(65,499)	(30,797)	112.7%	(57,066)	14.8%
Gross profit	**29,867**	**32,012**	**-6.7%**	**26,682**	**11.9%**	**30,624**	**12,088**	**153.3%**	**26,370**	**16.1%**	**1,213**	**1,315**	**-7.8%**	**1,991**	**-39.1%**	**1,333**	**200**	**147**	**63,036**	**45,615**	**38.2%**	**55,191**	**14.2%**
Salaries and other employee benefits	(7,942)	(6,676)	19.0%	(7,881)	0.8%	(11,029)	(4,561)	141.8%	(10,350)	6.6%	(747)	(1,320)	-43.4%	(834)	-10.4%	(801)	(200)	306	(20,519)	(12,757)	60.8%	(18,759)	9.4%
General and administrative expenses	(4,085)	(3,368)	21.3%	(4,071)	0.3%	(7,997)	(4,564)	75.2%	(7,192)	11.2%	(394)	(408)	-3.4%	(369)	6.8%	210	-	32	(12,266)	(8,340)	47.1%	(11,600)	5.7%
Impairment of other receivables	(1,115)	145	NMF	(979)	13.9%	(5)	-	NMF	92	NMF	(111)	(89)	24.7%	(138)	-19.6%	97	-	108	(1,133)	56	NMF	(918)	23.4%
Other operating income	1,616	(575)	NMF	2,865	-43.6%	837	431	94.2%	(103)	NMF	147	(141)	NMF	31	NMF	(839)	-	(593)	1,761	(285)	NMF	2,200	-20.0%
EBITDA	**18,341**	**21,538**	**-14.8%**	**16,616**	**10.4%**	**12,430**	**3,394**	**266.2%**	**8,817**	**41.0%**	**108**	**(643)**	**NMF**	**681**	**-84.1%**	-	-	-	**30,879**	**24,289**	**27.1%**	**26,114**	**18.2%**
EBITDA margin	***26.8%***	***31.9%***		***26.0%***		***10.2%***	***6.0%***		***8.3%***		***0.9%***	***-3.9%***		***4.9%***					***15.6%***	***17.9%***		***14.6%***	
Depreciation and amortisation	(6,295)	(5,292)	19.0%	(5,691)	10.6%	(459)	202	NMF	(475)	-3.4%	(212)	(226)	-6.2%	(219)	-3.2%	-	-	-	(6,967)	(5,316)	31.1%	(6,384)	9.1%
Net interest income (expense)	(5,185)	(3,815)	35.9%	(4,474)	15.9%	(2,941)	(548)	NMF	(3,015)	-2.5%	(177)	(242)	-26.9%	(202)	-12.4%	-	(168)	-	(8,303)	(4,773)	74.0%	(7,691)	8.0%
Net gains/(losses) from foreign currencies	30	(2,053)	NMF	(209)	NMF	(2,871)	(928)	209.4%	(1,109)	158.9%	16	(189)	NMF	(18)	NMF	-	-	-	(2,825)	(3,170)	-10.9%	(1,336)	111.5%
Net non-recurring income/(expense)	(513)	2,704	NMF	(381)	34.6%	(125)	(17)	NMF	(489)	-74.4%	-	(704)	NMF	(2)	NMF	-	-	-	(638)	1,982	NMF	(872)	-26.8%
Profit before income tax expense	**6,378**	**13,082**	**-51.2%**	**5,861**	**8.8%**	**6,034**	**2,103**	**186.9%**	**3,729**	**61.8%**	**(265)**	**(2,004)**	**-86.8%**	**240**	**NMF**	-	**(168)**	-	**12,146**	**13,012**	**-6.7%**	**9,831**	**23.5%**
Income tax benefit/(expense)	-	(5,439)	NMF	-	-	(187)	(398)	-53.0%	(92)	103.3%	-	(845)	NMF	-	-	-	-	-	(187)	(6,682)	-97.2%	(92)	103.3%
of which: Deferred tax adjustments	-	*(4,321)*	NMF	-	-	-	*(200)*	*NMF*	-	-	-	*(798)*	NMF	-	-	-	-	-	-	*(5,319)*	*NMF*	-	-
Profit for the period	**6,378**	**7,643**	**-16.6%**	**5,861**	**8.8%**	**5,847**	**1,705**	**242.9%**	**3,637**	**60.8%**	**(265)**	**(2,849)**	**-90.7%**	**240**	**NMF**	-	(168)	-	**11,959**	**6,330**	**88.9%**	**9,739**	**22.8%**
Attributable to:																							
- shareholders of the Company	5,278	6,714	-21.4%	4,965	6.3%	2,774	1,705	62.7%	1,054	163.2%	(265)	(2,849)	-90.7%	240	NMF	-	(168)	-	7,785	5,401	44.1%	6,261	24.3%
- non-controlling interests	1,100	929	18.4%	896	22.8%	3,073	-	NMF	2,583	19.0%	-	-	-	-	-	-	-	-	4,174	929	349.3%	3,478	20.0%
of which: Deferred tax adjustments	-	*(516)*	NMF	-	NMF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*(516)*	*NMF*	-	-

[11] 4Q16 includes only GPC's results

Selected Balance Sheet items	**Healthcare services**					**Pharma**					**Medical insurance**				
GEL thousands; unless otherwise noted	**31-Dec-17**	**31-Dec-16**	**Change, Y-o-Y**	**30-Sep-17**	**Change, Q-o-Q**	**31-Dec-17**	**31-Dec-16**	**Change, Y-o-Y**	**30-Sep-17**	**Change, Q-o-Q**	**31-Dec-17**	**31-Dec-16**	**Change, Y-o-Y**	**30-Sep-17**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	43,081	30,242	42.5%	25,894	66.4%	10,464	2,498	318.9%	7,423	41.0%	10,063	14,375	-30.0%	9,474	6.2%
Property and equipment	610,810	560,407	9.0%	606,492	0.7%	26,212	9,003	191.1%	24,955	5.0%	5,837	5,562	4.9%	5,881	-0.7%
Inventory	19,873	14,712	35.1%	19,119	3.9%	98,938	40,004	147.3%	97,754	1.2%	-	204	-100.0%	237	-100.0%
Liabilities:															
Borrowed Funds	262,772	192,145	36.8%	232,002	13.3%	88,145	19,613	349.4%	88,263	-0.1%	9,586	11,823	-18.9%	8,935	7.3%
Accounts payable	53,458	33,969	57.4%	33,407	60.0%	63,387	34,193	85.4%	64,497	-1.7%	-	-	-	-	-

Selected Balance Sheet items	**Consolidation and eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**31-Dec-17**	**31-Dec-16**	**30-Sep-17**	**31-Dec-17**	**31-Dec-16**	**Change, Y-o-Y**	**30-Sep-17**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	63,608	47,115	*35.0%*	42,790	48.7%
Property and equipment	-	-	-	642,859	574,972	*11.8%*	637,328	0.9%
Inventory	-	-	-	118,811	54,920	*116.3%*	117,111	1.5%
Liabilities:								
Borrowed Funds	-	-	-	360,503	223,581	*61.2%*	329,199	9.5%
Accounts payable	(23,920)	(3,795)	(5,308)	92,925	64,367	*44.4%*	92,597	0.4%

Selected ratios and KPIs

	4Q17	4Q16	3Q17	FY17	FY16
GHG					
EPS, GEL	0.06	0.08[12]	0.05	0.23	0.24[12]
ROAE	6.5%	6.6%	5.3%	6.0%	8.1%
ROAE, normalised[13]	11.8%	12.5%[14]	10.0%	11.6%	11.5%[14]
Group rent expenditure	4,302	3,530	4,564	18,613	9,382
of which, Pharma	*4,174*	*2,729*	*4,036*	*16,912*	*6,966*
Group capex (maintenance)	2,081	2,471	2,307	9,604	9,436
Group capex (growth)	15,679	27,036	25,104	79,720	101,599
Number of employees	15,078	12,811	15,151	15,078	12,811
Number of physicians	3,496	3,218	3,505	3,496	3,218
Number of nurses	3,205	2,869	3,224	3,205	2,869
Nurse to doctor ratio, referral hospitals	0.92	0.93	0.93	0.92	0.93
Total number of shares	131,681,820	131,681,820	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(3,379,629)	(3,727,835)	(3,379,629)	(3,379,629)	(3,727,835)
Shares outstanding	128,302,191	127,953,985	128,302,191	128,302,191	127,953,985
Of which:					
Total free float	53,183,688	42,322,165	53,183,688	53,183,688	42,322,165
Shares held by BGEO GROUP PLC	75,118,503	85,631,820	75,118,503	75,118,503	85,631,820
Healthcare services					
EBITDA margin of healthcare services	26.8%	31.9%	26.0%	26.4%	30.2%
Direct salary rate (direct salary as % of revenue)	35.7%	31.1%	37.1%	36.0%	32.7%
Materials rate (direct materials as % of revenue)	15.1%	15.7%	15.3%	15.4%	15.5%
Administrative salary rate (administrative salaries as % of revenue)	11.6%	9.9%	12.3%	11.7%	9.8%
SG&A rate (SG&A expenses as % of revenue)	6.0%	5.0%	6.4%	6.2%	5.1%
Number of hospitals	37	35	37	37	35
Number of polyclinics	16	13	14	16	13
Number of express outpatient clinics	24	28	24	24	28
Number of beds	3,014	2,557	2,893	3,014	2,557
Number of referral hospital beds	2,519	2,092	2,398	2,519	2,092
Bed occupancy rate	55.8%[15]	57.6%	49.7%	55.7%[15]	55.7%
Bed occupancy rate, referral hospitals	60.4%[16]	65.3%	55.4%	61.6%[16]	63.0%
Bed occupancy rate, community hospitals	33.2%	21.1%	21.3%	26.8%	22.9%
Average length of stay (days)	5.3[17]	5.0	5.2	5.3[17]	5.0
Average length of stay (days), referral hospitals	5.5[17]	5.2	5.4	5.5[17]	5.2
Average length of stay (days), community hospitals	3.8	3.3	3.5	3.8	3.4
Pharma					
EBITDA margin	10.2%	6.0%	8.3%	8.6%	4.3%
Number of bills issued	6.57mln	3.11mln	6.03mln	25.28mln	7.87mln
Average bill size	13.6	13.4	13.2	13.3	13.7
Revenue from wholesale as a percentage of total revenue from pharma	25.3%	30.7%	26.8%	25.3%	27.7%
Revenue from retail as a percentage of total revenue from pharma	74.7%	69.3%	73.2%	74.7%	72.3%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	30.2%	31.5%	32.8%	29.3%	33.1%
Number of pharmacies	255	118	251	255	112
Medical insurance					
Loss ratio	83.2%	85.3%	80.0%	84.2%	84.1%
Expense ratio, *of which*	17.6%	20.0%	16.7%	18.3%	20.6%
Commission ratio	*7.0%*	*6.7%*	*5.8%*	*6.3%*	*6.6%*
Combined ratio	100.8%	105.3%	96.7%	102.5%	104.7%
Renewal rate	71.8%	75.6%	71.8%	76.9%	73.4%

[12] Normalised as explained in footnote 1 on page 4
[13] Normalised as explained in footnote 2 on page 4
[14] Normalised as explained in footnote 4 on page 4
[15] Bed occupancy rate excludes 112 beds of Tbilisi Referral Hospital, launched in December 2017. Bed occupancy rate, excluding 220 beds of Tbilisi Referral Hospital, launched in April 2017, was 57.7% and 57.6% in 4Q17 and FY17 respectively
[16] Referral hospital bed occupancy rate excludes 112 beds of Tbilisi Referral Hospital launched in December 2017. Referral hospital bed occupancy rate, excluding 220 beds of Tbilisi Referral Hospital, launched in April 2017, was 63.1% and 64.5% in 4Q17 and FY17 respectively
[17] Excluding 112 beds of Tbilisi Referral Hospital launched in December 2017

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
- 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 pharma business, 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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