Fourth Quarter and Full Year 2018 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 2017 and in its Half Year 2018 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.

The information in this Announcement in respect of full year 2018 preliminary results, which was approved by the Board of Directors on 14 February 2019, does not constitute the Group's full financial statements. The financial statements for the year ended 31 December 2017 were filed with the Registrar of Companies, and the audit report was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The financial statements for the year ended 31 December 2018 will be included in the Annual Report and Accounts to be published in April 2019 and filed with the Registrar of Companies in due course.

An investor/analyst conference call, organised by GHG, will be held on Friday, 15 February 2019, 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.

Dial-in numbers:
Pass code for replays / conference ID: **3564179**
International Dial in: +44 (0) 2071 928000
UK: 08445718892
US: 16315107495
Austria: 019286559
Belgium: 024009874
Czech Republic: 228881424
Finland: 0942450806
France: 0176700794
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International Dial in: +44 (0) 3333 00 97 85
UK National Dial in: 08717000471
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US Free Call Dial in: 1 (917) 677 7532

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's fourth quarter and full year 2018 consolidated financial results. Unless otherwise mentioned, comparatives are for the fourth 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.

FINANCIAL PERFORMANCE HIGHLIGHTS

GHG announces today the Group's 4Q18 and FY18 consolidated results, reporting a full year profit of GEL 53.2 million (US$19.9 million/GBP 15.7 million) and earnings per share ("**EPS**") of GEL 0.27 (US$0.10 per share/GBP 0.08 per share).

GEL million; unless otherwise noted	**4Q18**	**4Q17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**
GHG *– the leading integrated player in the Georgian healthcare ecosystem*						
Revenue, gross	227.5	197.6	15.1%	849.9	747.8	13.7%
EBITDA	36.9	30.9	19.5%	132.3	108.1	22.3%
Net Profit	15.2	12.0	27.1%	53.2	45.9	15.9%
EPS, GEL	0.08	0.06	27.0%	0.27	0.23	18.0%
ROIC *(%)*	12.0%	11.0%	+1.0 ppts	11.0%	10.8%	+0.2 ppts
ROIC adjusted[1] *(%)*	14.3%	13.2%	+1.1 ppts	13.9%	12.8%	+1.1 ppts
Healthcare services business						
Revenue, gross	81.9	68.4	19.7%	305.6	265.4	15.1%
Gross profit	33.8	29.9	13.0%	127.9	112.8	13.4%
EBITDA	21.0	18.3	14.6%	76.0	70.1	8.5%
EBITDA margin *(%)*	25.7%	26.8%	-1.1 ppts	24.9%	26.4%	-1.5 ppts
Net Profit	5.1	6.4	-20.7%	16.1	27.4	-41.0%
Pharmacy and distribution business						
Revenue	141.0	121.4	16.2%	518.6	450.3	15.2%
Revenue from retail sales	104.7	90.7	15.5%	384.1	336.4	14.2%
Gross profit	37.3	30.6	21.7%	132.2	110.1	20.1%
Gross profit margin *(%)*	26.4%	25.2%	+1.2 ppts	25.5%	24.5%	+1.0 ppts
EBITDA	15.2	12.4	22.6%	52.2	38.9	34.4%
EBITDA margin *(%)*	10.8%	10.2%	+0.6 ppts	10.1%	8.6%	+1.5 ppts
Net Profit	9.6	5.8	65.0%	34.2	21.2	61.3%
Medical insurance business						
Net insurance premiums earned	13.9	12.4	12.1%	55.1	53.7	2.6%
Loss ratio *(%)*	78.2%	83.2%	-5.0 ppts	77.3%	84.2%	-6.9 ppts
Expense ratio *(%)*	18.5%	17.6%	+0.9 ppts	16.8%	18.3%	-1.5 ppts
Combined ratio *(%)*	96.6%	100.8%	-4.2 ppts	94.0%	102.5%	-8.5 ppts
EBITDA	0.6	0.1	NMF	4.1	(0.4)	NMF
Net Profit/ (Loss)	0.5	(0.3)	NMF	2.9	(2.6)	NMF

[1] Return on invested capital ("ROIC") adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase

CHIEF EXECUTIVE OFFICER'S STATEMENT

2018 was a significant year of investment and progress for Georgia Healthcare Group, as the Group has now completed its substantial three-year investment programme and business roll-out in all key areas of the healthcare system of Georgia. At the same time the Group delivered mid-teens revenue growth in both the healthcare services and the pharmacy and distribution businesses. The Group also completed its Mega Laboratory ("Mega Lab") project, an important new business and revenue opportunity for the Group, and recently introduced dental services into the polyclinic network to support the development of new and more diverse revenue streams.

Group performance. The Group's 2018 results reflect delivery on a number of these recent initiatives. EBITDA of GEL 132 million represented a 22% increase y-o-y, and net profit increased by 16% over the same period. It has been pleasing to see robust results in each of the businesses. Following the recent launch of our two new flagship hospitals, results in the healthcare services business are now showing consistent and sustained improvements as we continue to increase the utilisation of our new state-of-the-art hospital facilities. The pharmacy and distribution business has exceeded expectations, with strong revenue growth, further expansion of its nationwide network, and an EBITDA margin in excess of 10% for the year, comfortably ahead of our initially targeted "more than 8%". The medical insurance business has continued its expansion and successful turnaround from being loss-making to being a contributor to the Group profit.

Healthcare services. In 2018, healthcare services revenue grew 15% to GEL 306 million. EBITDA increased 9% y-o-y to GEL 76 million, and the EBITDA margin was 24.9% (the EBITDA margin for referral hospitals and community clinics stood at 28.7% excluding the roll-out impact, and at 29.9% in the 4th quarter of 2018). In the two new showcase facilities of our healthcare services business, Regional Hospital and Tbilisi Referral Hospital, we are seeing strong improvements in utilisation as the facilities are now both fully launched. Despite having only opened in March 2018, occupancy at our 306-bed Regional Hospital increased to 32.7% and the hospital started to generate a double-digit EBITDA margin in the 4th quarter of 2018 – a substantial achievement for a newly launched hospital. The occupancy rate at Tbilisi Referral Hospital (fully opened in December 2017) was in excess of 46% in the 4th quarter.

To support the further diversification of revenues 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. In 2018, we continued launching new medical services in our referral hospitals, with 26 new services introduced during the year, including a home care service. This also includes opening the country's strongest ophthalmology and cardiology departments by contracting the best team of doctors in their respective fields. Within six months of the new ophthalmology department launch, we gained approximately 15% market share in these services, compared to the previously held share of less than 3%.

We see medical tourism as a significant opportunity for growth over the next few years. Until recently, Georgia has been mainly a source of medical tourism outflow, but the significant recent investments in upgrading our hospital infrastructure and building our clinical and customer service quality have enabled the Group to make progress in recapturing the business of domestic patients that would historically have travelled abroad for treatment. We are now focused on developing medical tourism into Georgia. Our initial priority will be post-Soviet neighbouring countries and we have already started to raise awareness of our medical facilities throughout the region. We captured GEL 3.4 million of revenues from international visitors during 2018 and will continue to invest in an area that we are confident will become an important source of growth for the healthcare services business.

Polyclinic network. Our polyclinic network has continued to expand (revenue up 33% y-o-y). 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 registered patients in GHG's Tbilisi polyclinics has now reached c.150,000, compared to c.93,000 at the end of 2017.

In December 2018, we also entered into the Georgian dental services market by launching dental clinics within a number of our key polyclinics. Five polyclinics have already been equipped with modern dental equipment and cover a wide range of dental services. We plan to add several dental clinics in existing polyclinics in coming months and expect this to be another strong area of revenue growth over the next few years.

Mega Laboratory. The construction of our Mega Lab - the largest laboratory in Georgia and the entire Caucasus region - was one of the key projects remaining in our investment programme. It was very pleasing to complete construction and open the lab in December 2018, and GHG now provides a full set of clinical and pathology tests, some of which are being introduced in the region for the first time. The project is supported by our colleagues from Jordan, "Biolab", a subsidiary of IDH Group, who have many years of experience in this field. Biolab will support Mega Lab in obtaining the highest international healthcare accreditation over the next few years. In addition to providing significant synergies, this is an important new business that will be the clear leader in Georgia and the Caucasus region. Mega Lab plans to develop a retail network, with around 50 blood collection points across major regional cities in coming years, and to work on additional external contracts, contracting and serving healthcare facilities outside the Group, further diversifying the Group's revenue streams.

Pharmacy and distribution. Our pharmacy and distribution business posted record revenues of GEL 519 million, with over 15% y-o-y revenue growth supported by active marketing campaigns and sales initiatives implemented across our two combined pharmacy chains that has delivered 8.5% same-store growth during 2018. We have expanded the number of pharmacies to 270 in major cities, compared to 255 a year ago, and plan to further expand to over 300 pharmacies over the next couple of years. Our wholesale distribution business also delivered strong 2018 revenue growth of 18%.

The pharmacy and distribution business EBITDA increased 34% y-o-y to GEL 52 million. The business full year EBITDA margin increased 150 basis points, reaching 10.1% in 2018 and 10.8% in 4Q18 – both substantially above our targeted "more than 8%" margin. By seeking additional discounts from manufacturers and constantly working to improve our product mix at our pharmacies, including an increased range of private labelled medicines and para-pharmacy products, we expect to continue to deliver strong EBITDA going forward. The synergies we have been able to extract by combining our two pharma chains have enabled the business to provide Georgians affordable pricing on key products, while keeping our margin at an attractive level.

The business achieved net profit totalling GEL 34 million for the year - growth of over 60% - reflecting the combination of strong revenue growth and improved margins, together with focused cost management.

Medical insurance. Our medical insurance business had an extremely successful year in 2018, delivering all its strategic priorities and KPIs. The business turned around its earnings profile and at the same time continued to develop its role as an important feeder network in the origination and directing of patients towards our polyclinics and pharmacies in particular. The Group's claims retention rates improved significantly, reaching c.40% in 2018. The combined ratio improved to 94.0% for 2018, compared to 102.5% last year. As a result, the business delivered positive EBITDA of GEL 4 million in 2018, and a net profit of GEL 3 million, compared to a similar net loss in 2017.

The business has also started 2019 successfully. By winning recent tenders, the business retained one and added another of the country's largest insurance clients for 2019. As a result, the total number of insured clients now totals c.230,000. With the increased client base, GHG's insurance business has become the largest private payer in the healthcare sector, further ensuring profitable growth and significant synergies across the Group.

Investing in people development. We continue various training programmes for our employees to help them contribute to better business performance through personal and professional development. A key objective of the Group is to invest in the next generation of doctors and position ourselves as the employer of choice. In 2018 we spent a total of GEL 3 million on talent development. Our "GHG leadership programme" continuous to be one of the most popular leadership courses among our employees and currently over 50 middle level managers are engaged in the programme to improve their leadership and managerial skills. Over 200 talented people are currently involved in our medical residency programme, which improves the quality of postgraduate preparation and facilitates an increase in the number of qualified doctors in the country. Successful participants from the programme have already started employment as junior doctors within our healthcare facilities. We are pleased that this year we will also have the first 44 graduates from the programme.

Consistently improving clinical standards. We remain focused on developing quality management measures and harmonising them across our integrated network through consistent protocols, procedures and our recently implemented clinical key performance indicator monitoring system. In 2018 our clinical team, headed by the Group's Chief Clinical Officer, was actively engaged in developing and implementing these quality management measures, based on best practice principles, in our recently launched flagship hospitals - Regional Hospital and Tbilisi Referral Hospital. In 2018, several additional projects were initiated, addressing clinical quality issues including clinical pathway improvement projects related to sepsis, pneumonia and rational antibiotic therapy, standards of personnel safety and occupational safety.

The Georgian macroeconomic environment. The Georgian economy continues to perform well with GDP growth in 2018 estimated at 4.8%. Strong external demand and double-digit growth of foreign exchange inflows reduced the current account deficit in 2018 and, in 3Q18 for the first time in the country's history, Georgia had a current account surplus (0.3% of GDP). On the back of country's strong economic growth, the government's healthcare budget continues to increase. According to its recently approved 2019 budget, total government expenditure will increase by c.5%, with the health care (UHC) budget up c.7%. We expect further macroeconomic growth to continue these trends and support domestic economic growth, including the Georgian healthcare services market, over the next few years.

Apart from market growth over the next few years, we expect to benefit from our recent investments, and that increased utilisation of our new and existing hospitals will translate into further growth and improved margins. The Group will continue to focus on its key priorities such as developing medical tourism and laboratory diagnostic services, expanding the outpatient network and dental clinics, adding new pharmacies, upgrading product mix and developing new opportunities. The Group's strong balance sheet and increasing operating cash flows (an increase over 70% in 2018), together with improved earnings and lower investment capital expenditure requirements, will enable us to gradually reduce the business leverage and further improve our returns on invested capital.

Nikoloz Gamkrelidze,
CEO of Georgia Healthcare Group PLC

OPERATING HIGHLIGHTS & DEVELOPMENTS

New Mega Lab Completed

- The construction of the largest laboratory in Georgia, as well as in the entire Caucasus region, was completed and we opened Mega Lab in December 2018. High-capacity automated systems now enable GHG to provide accurate, high quality results for the country's entire population. The laboratory covers a full set of clinical and pathology tests, some of which are being introduced in the region for the first time.

Healthcare services business

- In December 2018 we entered into the Georgian dental market by launching dental clinics in the Group's polyclinics. Dental clinics have been set up and equipped with modern infrastructure in five polyclinics in Tbilisi, covering almost all types of dental services. Over the next months, we plan to increase the number of our polyclinics that house dental clinics and include locations in larger cities other than Tbilisi.
- The number of registered patients in Tbilisi polyclinics has now reached c.150,000 (compared to c.93,000 in December 2017). We aim to further grow our polyclinic business both organically and through further acquisitions and reach c.200,000 registered patients over the next few months.
- We continue to launch new services at our referral hospitals to fill medical service gaps in Georgia. During 4Q18, we launched eight new services such as acute dialysis, chemotherapy, ophthalmology and cardio surgery, in seven different referral hospitals. In total, we launched 26 new services in 2018 in 15 different hospitals.
- In January 2019 GHG's healthcare services business attained a premium membership of International Hospital Federation ("IHF"), which is the global association of healthcare organisations, including hospital associations and representative bodies as well as their members and other healthcare related organisations. Through this, we have gained access to a global healthcare management community, which provides us with an opportunity to collectively increase our healthcare services business performance through the supporting initiatives provided by IHF.

Pharmacy and distribution business

- We opened 15 pharmacies during 2018, bringing the country-wide network to 270 pharmacies. We have 21 pharmacies located in our hospitals and clinics.

Medical insurance business

- Towards the end of 2018, the Group's medical insurance business won two large tenders, retaining the country's largest insurance client - the Ministry of Internal Affairs ("MIA") with c.75,000 insured and acquiring a significant new client – the Ministry of Defence ("MOD") with c.60,000 insured (effective from February 2019). As a result, the number of persons insured increased and reached c.230,000 in February 2019 (c.158,000 in December 2018).

People development

- We continue to invest in the next generation of doctors and position ourselves as an employer of choice. In total in 2018, we invested GEL 3 million in training and development courses mostly designed for our executive and middle level managers, nurses, physicians and pharmacists.

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 comprises 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 24.9% of the country's total hospital bed capacity, as of 31 December 2018. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting virtually all segments of the Georgian market, through its vertically integrated network of hospitals and clinics. In 2018 we operated:*

- *16 referral hospitals with a total of 2,825 beds, which provide secondary or tertiary level healthcare services*
- *21 community clinics with a total of 495 beds, which provide outpatient and basic inpatient healthcare services*
- *16 district polyclinics, 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 c.30% market share by revenue. Our pharmacy and distribution business consists of a retail pharmacy chain and a wholesale business selling pharmaceuticals and medical supplies to hospitals and other pharmacies. The pharmacy chain operates under two separate brand names,* ***Pharmadepot*** *and* ***GPC****, with a total of 270 pharmacies, of which 21 are located within our healthcare facilities. The pharmacy and distribution business is the country's largest retailer in terms of both revenue and number of bills issued.*

GHG is also the second largest provider of medical insurance in Georgia *with a 26.7% market share based on 3Q18 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 230,000 persons insured as at February 2019. The medical insurance business plays an important role in our business model, as it is a significant feeder for our polyclinics, pharmacies and hospitals.*

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	**4Q18**	**4Q17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**
Revenue, gross	**227,511**	**197,637**	**15.1%**	**849,917**	**747,750**	**13.7%**
Corrections & rebates	(1,159)	(349)	232.1%	(3,611)	(2,039)	77.1%
Revenue, net	**226,352**	**197,288**	**14.7%**	**846,306**	**745,711**	**13.5%**
Revenue from healthcare services	80,739	68,094	18.6%	301,987	263,357	14.7%
Revenue from pharmacy and distribution	141,046	121,367	16.2%	518,578	450,315	15.2%
Net insurance premiums earned	13,870	12,376	12.1%	55,112	53,710	2.6%
Eliminations	(9,303)	(4,549)	104.5%	(29,371)	(21,671)	35.5%
Costs of services	**(152,974)**	**(134,252)**	**13.9%**	**(577,705)**	**(517,712)**	**11.6%**
Cost of healthcare services	(46,975)	(38,227)	22.9%	(174,073)	(150,572)	15.6%
Cost of pharmacy and distribution	(103,786)	(90,743)	14.4%	(386,372)	(340,210)	13.6%
Cost of insurance services	(11,628)	(11,163)	4.2%	(45,427)	(48,583)	-6.5%
Eliminations	9,413	5,882	60.0%	28,167	21,653	30.1%
Gross profit	**73,378**	**63,036**	**16.4%**	**268,601**	**227,999**	**17.8%**
Salaries and other employee benefits	(22,221)	(20,519)	8.3%	(84,509)	(75,430)	12.0%
General and administrative expenses	(15,001)	(12,266)	22.3%	(54,436)	(48,618)	12.0%
Impairment of receivables	(1,013)	(1,133)	-10.6%	(4,448)	(4,175)	6.5%
Other operating income	1,762	1,761	0.1%	7,066	8,372	-15.6%
EBITDA	**36,905**	**30,879**	**19.5%**	**132,274**	**108,148**	**22.3%**
Depreciation and amortisation	(8,634)	(6,967)	23.9%	(33,883)	(25,704)	31.8%
Net interest expense	(10,943)	(8,303)	31.8%	(39,470)	(30,941)	27.6%
Net gains/(losses) from foreign currencies	(1,550)	(2,825)	-45.1%	(2,879)	(397)	NMF
Net non-recurring income/(expense)	(473)	(638)	-25.9%	(2,187)	(4,780)	-54.2%
Profit before income tax expense	**15,305**	**12,146**	**26.0%**	**53,855**	**46,326**	**16.3%**
Income tax benefit/(expense)	(111)	(187)	-40.6%	(616)	(386)	59.6%
Profit for the period	**15,194**	**11,959**	**27.1%**	**53,239**	**45,940**	**15.9%**
Attributable to:						
- shareholders of the Company	9,925	7,785	27.5%	34,434	29,050	18.5%
- non-controlling interests	5,269	4,174	26.2%	18,805	16,890	11.3%

Gross Revenue. Quarterly and full year revenue were both up double digits y-o-y. In both periods, revenue growth was driven by double-digit growth in both the pharmacy and distribution and healthcare services businesses.

In FY18, 59% of our revenues came from the pharmacy and distribution business, 34% from the healthcare services business, and the remaining 7% from the medical insurance business. By payor mix, 54% of the Group's total revenue was from out-of-pocket payments[2]; 24% from UHC payments; and 22% from other sources.

Gross Profit. We delivered increasing gross profit in 4Q18 and in FY18. The Group's gross margin improved y-o-y in 4Q18 to 32.3% (31.9% in 4Q17) and in FY18 to 31.6% (30.5% in FY17). The pharmacy and distribution business contributed to both periods' growth, partly as a result of successful ongoing negotiations with manufacturers for price discounts. The next biggest contributor to the Group's margin enhancement was our medical insurance business, which considerably reduced its loss ratio during 2018, as a result of improvement measures implemented since 2Q17. In 2018, our newly launched healthcare facilities and services remained in their initial roll-out phase, affecting healthcare services business margins, which were slightly subdued. Excluding the impact of hospitals' roll-outs, the existing business' gross margin improved by 30 bps in 2018 – mainly as a result of focused efficiency measures, but remained almost flat in 4Q18.

EBITDA. EBITDA was up y-o-y 19.5% in 4Q18 and 22.3% in FY18. The healthcare services business was the main contributor to the Group's 2018 EBITDA, contributing 57% in total, with a 24.9% EBITDA margin. Its quarterly EBITDA margin stood at 25.7%. The next largest contributor was the pharmacy and distribution business with a 39% share, while posting strong EBITDA margins –10.1% in FY18 and 10.8% in 4Q18. Our medical insurance business contributed 4% to the Group's full year EBITDA, compared to negative contribution in prior year.

Depreciation and amortisation. This year's increased depreciation and amortisation expense now fully reflects the Group's recent investment in sizeable development projects in our healthcare business, launching new healthcare facilities and number of new services. Depreciation expense remained broadly flat q-o-q, down 0.6%.

Net interest 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. The slight q-o-q increase in net interest expense, up 5.5%, is a result of pharmacy and distribution business sourcing local currency denominated borrowing by the end of third quarter to repay part of its foreign currency denominated payables, due to the expected GEL devaluation. Starting from 2019 we expect the Group's leverage to decrease gradually in line with the debt principal repayment schedule, reducing interest expense.

Loss from foreign currencies: About 70% of inventory purchases in the pharmacy and distribution business are denominated in foreign currency: c.40% in EUR and c.30% in USD. In 4Q18 the GEL devalued against USD by 2.4% and against EUR by 1.3%, resulted in a quarterly FX loss from revaluation of accounts payable balances.

Profit. The pharmacy and distribution business was the main driver of the 4Q18 and FY18 Group profit, up 27.1%y-o-y in 4Q18 and up 15.9% y-o-y in FY18, contributing GEL 9.6 million and GEL 34.2 million, followed by the healthcare services contributing GEL 5.1 million and GEL 16.1 million, respectively. The medical insurance businesses also contributed positively into the Group quarterly and full year profit – GEL 0.5 million and GEL 2.9 million respectively, compared to negative contributions of GEL 0.3 million in 4Q17 and GEL 2.6 million in FY17.

[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-Dec-18**	**30-Sep-18**	**Change, Q-o-Q**
Total assets, of which:	**1,240,506**	**1,201,050**	**3.3%**
Cash and bank deposits	47,961	31,900	50.3%
Receivables from healthcare services	106,841	112,438	-5.0%
Receivables from sale of pharmaceuticals	20,440	20,737	-1.4%
Insurance premiums receivable	23,643	30,061	-21.3%
Property and equipment	698,037	685,750	1.8%
Goodwill and other intangible assets	152,298	150,362	1.3%
Inventory	146,164	115,664	26.4%
Prepayments	13,064	21,162	-38.3%
Other assets	32,058	32,976	-2.8%
Total liabilities, of which:	**665,475**	**637,087**	**4.5%**
Borrowed funds	390,390	384,684	1.5%
Accounts payable	105,092	76,809	36.8%
Insurance contract liabilities	22,544	31,276	-27.9%
Other liabilities	147,449	144,318	2.2%
Total shareholders' equity attributable to:	**575,031**	**563,963**	**2.0%**
Shareholders of the Company	*508,194*	*498,704*	*1.9%*
Non-controlling interest	*66,837*	*65,258*	*2.4%*

Our asset base has grown substantially over the last few years, reflecting investment in the renovation of hospitals, elective care services and new polyclinic roll-outs.

- The decrease in our prepayments balance is partially due to the completion of construction of Mega Laboratory, opened in December 2018.
- 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 increase in inventory and accounts payables balances is mainly due to the pharmacy and distribution business, increasing its stock to support the seasonally strong fourth quarter.

IFRS 16

The Group will adopt IFRS 16 “Leases” from 1 January 2019. A key change arising from IFRS 16 is that rent expense will be reclassified to interest and depreciation expense. According to the Group’s preliminary calculation, IFRS 16 annual positive impact on the Group’s EBITDA will be around GEL 19 million, of which the pharmacy and distribution business will account for GEL 17 million. The negative impact on the Group’s net profit is estimated around GEL 2.4 million, however negative impact on net profit is just a timing difference that decreases over time and eventually becomes positive with net effect of zero. Assets and liabilities will also increase by the amount of discounted cash flows of future rent payments. In 2019 we are going to disclose the numbers with and without IFRS 16 for the comparison purposes.

Statements of cash flow, GHG consolidated

GEL thousands; unless otherwise noted	**FY18**	**FY17**	**Change, Y-o-Y**
EBITDA	132,274	108,148	22.3%
Net cash flows from operating activities	**99,580**	**58,239**	**71.0%**
EBITDA to Cash Conversion	**75%**	**54%**	
Net cash used in investing activities, *of which*:	**(85,347)**	**(128,748)**	**-33.7%**
Purchase of PPE and intangibles	*(70,123)*	*(93,808)*	-25.2%
Net cash flows from financing activities	**(26,917)**	**96,647**	**-127.9%**
Effect of exchange rate changes	(2)	(537)	-99.6%
Net increase (decrease) in cash and cash equivalents	**(12,686)**	**25,601**	NMF
Cash at period, beginning	48,840	23,239	110.2%
Cash at period, ending	36,154	48,840	-26.0%
Bank deposits, beginning	14,768	23,876	-38.1%
Bank deposits, ending	11,807	14,768	-20.1%
Cash and bank deposits, beginning	**63,608**	**47,115**	**35.0%**
Cash and cash deposits, ending	**47,961**	**63,608**	**-24.6%**

Cash flows from operating activities. Net cash flows from operating activities increased substantially in 2018 to GEL 99.6 million partly on the back of stronger EBITDA, but also partly on the back of a substantially improved EBITDA to cash conversion ratio. In 2017 the Group's heavy investment phase and preparation to open the new healthcare facilities and services increased our working capital needs, which was then reflected in the Group's EBITDA to cash conversion ratio. The benefits of the different openings of our new facilities started to materialise in 2018 and to contribute in the Group's results, which together with reduced working capital needs, enabled us to improve our EBITDA to cash conversion ratio considerably to 75.3%. Going forward we expect further improvement of this ratio.

Cash flows from investing activities. Net cash used in investing activities declined substantially to GEL 85.3 million. 2018 was the final year of our major investment programme and investment volume slowed (outflow for purchase of PPE and intangibles down 25.2% y-o-y) as the projects completed. In 2018, net cash used in investing activities also includes GEL 12.9 million payment of holdback for the pharmacy and distribution business acquisition.

Cash flows from financing activities. With our improved operational cash flow and declining investment volume, the Group has stabilised the needs for new borrowings. Net outflow from financing activities totalled GEL 26.9 million, which reflects only marginal excess of new funding over the repaid borrowings during the year and interest payments.

The overall effect resulted in cash and bank deposits at year-end of GEL 48.0 million, down by GEL 15.6 million.

For 2019, we expect substantially a reduced investment programme. Together with a continuing increase in operating cash flow, this should allow both a further reduction of debt and an increase in cash year on year.

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

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Healthcare service revenue, gross	**81,898**	**68,444**	**19.7%**	**305,598**	**265,396**	**15.1%**
Corrections & rebates	(1,159)	(349)	232.1%	(3,611)	(2,039)	77.1%
Healthcare services revenue, net	**80,739**	**68,094**	**18.6%**	**301,987**	**263,357**	**14.7%**
Costs of healthcare services	**(46,975)**	**(38,227)**	**22.9%**	**(174,073)**	**(150,572)**	**15.6%**
Gross profit	**33,764**	**29,867**	**13.0%**	**127,914**	**112,785**	**13.4%**
Salaries and other employee benefits	(8,925)	(7,942)	12.4%	(35,178)	(30,998)	13.5%
General and administrative expenses	(4,652)	(4,085)	13.9%	(18,079)	(16,392)	10.3%
Impairment of receivables	(1,079)	(1,115)	-3.2%	(4,632)	(4,107)	12.8%
Other operating income	1,911	1,616	18.3%	5,983	8,783	-31.9%
EBITDA	**21,019**	**18,341**	**14.6%**	**76,008**	**70,071**	**8.5%**
EBITDA margin	***25.7%***	***26.8%***		***24.9%***	***26.4%***	
Depreciation and amortisation	(7,822)	(6,295)	24.3%	(30,772)	(22,699)	35.6%
Net interest income (expense)	(7,675)	(5,185)	48.0%	(27,567)	(18,210)	51.4%
Net gains/(losses) from foreign currencies	(50)	30	NMF	(171)	1,634	NMF
Net non-recurring income/(expense)	(451)	(513)	-12.1%	(1,328)	(3,425)	-61.2%
Profit before income tax expense	**5,021**	**6,378**	**-21.3%**	**16,170**	**27,371**	**-40.9%**
Income tax benefit/(expense)	37	-	NMF	(37)	(11)	236.4%
Profit for the period	**5,058**	**6,378**	**-20.7%**	**16,133**	**27,360**	**-41.0%**
Attributable to:						
- shareholders of the Company	3,992	5,278	-24.4%	12,306	21,643	-43.1%
- non-controlling interests	1,066	1,100	-3.1%	3,827	5,717	-33.1%

Revenue, healthcare services business

We enjoyed double digit growth in y-o-y both for the full year and for Q4. The following discussion analyses revenue growth by type of healthcare facility and source of payment.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Healthcare services revenue, net	**80,739**	**68,094**	**18.6%**	**301,987**	**263,357**	**14.7%**
Referral hospitals	68,974	58,094	18.7%	256,774	225,502	13.9%
Clinics:	11,765	10,000	17.7%	45,213	37,855	19.4%
Community	6,047	*5,667*	*6.7%*	*24,283*	*22,147*	*9.6%*
Polyclinics	5,718	*4,333*	*32.0%*	*20,930*	*15,708*	*33.2%*

In 4Q18 and FY18, **referral hospitals** contributed 85% of the total revenue from our healthcare services. The y-o-y revenue growth in referral hospitals is mainly a result of a successful ramp-up of the newly launched hospitals. Apart from the contribution from our newly-opened hospitals, the y-o-y revenue increase is attributable to the demand for current services at our existing facilities where we are continuously adding new services and where occupancy rate stood at 63.2% in 4Q18.

We continue to focus on the successful roll out of the newly launched Regional Hospital and Tbilisi Referral Hospital.

Tbilisi Referral Hospital **–** opened in April 2017 with newly renovated 220 beds. In December 2017 additional capacity – 112 beds - was added and the hospital was fully launched. The hospital has been generating positive EBITDA since 1Q18.

Revenue dynamics of Tbilisi Referral Hospital

GEL millions	**4Q18**	**3Q18**	**2Q18**	**1Q18**
Gross Revenue	5.9	4.1	4.1	3.7
Change Q-o-Q	*44.0%*	*-0.6%*	*10.6%*	

Apart from a seasonally strong Q4, the hospital's quarterly revenue growth is primarily attributable to launching new services that further increased hospital's occupancy rate up to 46.5% in 4Q18, from c.40% in 3Q18.

Regional Hospital **–** the diagnostic part opened in 3Q16 and inpatient part in March 2018. The hospital operates with 306 beds. The hospital has been generating positive EBITDA since 3Q18.

Revenue dynamics of Regional Hospital

GEL millions	**4Q18**	**3Q18**	**2Q18**	**1Q18**
Gross Revenue	8.3	6.1	5.3	1.2
Q-o-Q change%	*36.1%*	*15.6%*	*340.9%*	

The hospital continues its successful ramp up phase, fully in line with our expectations. Gradual ramp-up and launch of new services such as cardiology increased the hospital's occupancy rate from 22% in 3Q18 to 32.7% in 4Q18. In line with our plan, more than 60% of its revenue comes from elective care services and more than 40% of revenue is paid out-of-pocket.

In 4Q18 and FY18, **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 revenue from polyclinics in 4Q18 (up 32.0% y-o-y) as well as in FY18 (up 33.2% y-o-y) was driven by our expansion strategy and increased number of registered patients. We added two polyclinics at the end of 2017 and one in 2018, to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia. The number of registered patients has increased and reached c.150,000 as of now (up from c.126,000 in 3Q18 and c.93,000 in 4Q17), further supporting polyclinics revenue growth.

The y-o-y increase in revenue from community clinics was mainly organic. 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)	**4Q18**	**4Q17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**
Healthcare services revenue, net	**80,739**	**68,094**	**18.6%**	**301,987**	**263,357**	**14.7%**
Government-funded healthcare programmes	54,105	45,556	18.8%	201,163	177,449	13.4%
Out-of-pocket payments by patients	20,666	17,061	21.1%	78,492	64,878	21.0%
Private medical insurance companies, *of which*	5,968	5,477	9.0%	22,332	21,030	6.2%
GHG medical insurance	2,863	*1,939*	*47.7%*	*10,727*	*9,475*	*13.2%*

All payment sources contributed to our revenue growth. Notwithstanding that Government-funded healthcare programmes remained the main contributor to our healthcare services revenues, we continue to make strong progress towards our goal to diversify our earnings. The share of Government financing in the healthcare services business revenue decreased by 80 bps in 2018 (from 67.4% in 2017 to 66.6% in 2018), while the share of out-of-pocket payment increased by 140 bps (from 24.6% in 2017 to 26.0% in 2018).

This is driven by growth in the number of elective services we provide in our hospitals, by the launch of Regional Hospital (the main focus of which is on providing a higher level of elective care services) as well as by the enhanced footprint of our polyclinics, which are partially or fully funded out of pocket. The further ramp-up of Regional Hospital and the continued expansion of our polyclinics business are expected to further support increasing trend of out-of-pocket revenue share in the overall mix.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Cost of healthcare services	**(46,975)**	**(38,227)**	**22.9%**	**(174,073)**	**(150,572)**	**15.6%**
Cost of salaries and other employee benefits	(29,185)	(24,440)	19.4%	(109,478)	(95,655)	14.5%
Cost of materials and supplies	(13,136)	(10,363)	26.8%	(47,504)	(40,887)	16.2%
Cost of medical service providers	(912)	(463)	97.0%	(3,347)	(1,920)	74.3%
Cost of utilities and other	(3,742)	(2,961)	26.4%	(13,744)	(12,110)	13.5%
Gross profit	**33,764**	**29,867**	**13.0%**	**127,914**	**112,785**	**13.4%**
Gross margin	**41.2%**	**43.6%**		**41.9%**	**42.5%**	
Cost of healthcare services as % of revenue						
Direct salary rate	35.6%	35.7%		35.8%	36.0%	
Materials rate	16.0%	15.1%		15.5%	15.4%	

The recent launches of hospitals naturally increased our cost base, mainly cost of materials and cost of utilities. The materials rate excluding the effect of newly launched hospitals remained well-controlled and stood at 15.1% in 2018. Despite the fact that some healthcare facilities are in their early roll-out phase, as a result of focused efficiency initiatives, we managed to slightly decrease the direct salary rate in both periods. Engaging in state oncology programme increased the cost of service providers in the regions, where we have no presence.

We expect the direct salary rate and materials rate to improve further as we complete the ramp-up phase of the newly launched hospitals and services and continue our focus to drive efficiencies across our healthcare facilities and improve our margins.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Operating expenses	**(12,745)**	**(11,526)**	**10.6%**	**(51,906)**	**(42,714)**	**21.5%**
Salaries and other employee benefits	(8,925)	(7,942)	12.4%	(35,178)	(30,998)	13.5%
General and administrative expenses	(4,652)	(4,085)	13.9%	(18,079)	(16,392)	10.3%
Impairment of receivables	(1,079)	(1,115)	-3.2%	(4,632)	(4,107)	12.8%
Other operating income	1,911	1,616	18.3%	5,983	8,783	-31.9%
EBITDA	**21,019**	**18,341**	**14.6%**	**76,008**	**70,071**	**8.5%**
EBITDA margin	***25.7%***	***26.8%***		***24.9%***	***26.4%***	

The increase in operating expenses on a y-o-y basis is primarily driven by the expansion of the business as well as the new openings. The increasing revenues and cost control measures introduced in 2018 nonetheless resulted in the healthcare services business posting positive y-o-y operating leverage[3] in 4Q18. Going forward we expect further optimisation of our expenses.

The decrease in other operating income reflects the accounting impact of the call option (exercisable in 2023) on the remaining 33% non-controlling minority interest in Pharmadepot (the pharmacy and distribution brand acquired in 2017).

As noted above, the healthy increases in quarterly and full year EBITDA reflects the EBITDA contributions of our two new flagship hospitals and polyclinics, increased demand for current services at our existing facilities and efficiency initiatives implemented. EBITDA margins, however, were down somewhat mainly due to three factors: (1) the roll-out phase of the newly opened facilities; (2) the Government's UHC changes which reduced our revenue from May 2017 and that have full effect in 2018; and (3) the accounting effect of the call option mentioned above.

[3] Operating leverage - the difference between percentage increase in gross profit and percentage increase in total operating costs and other operating incomes

The EBITDA margin for referral hospitals and community clinics was 26.4% in 4Q18 (27.7% in 4Q17) and 25.7% in FY18 (27.2% in FY17). Excluding the dilutive effect of roll-outs, the EBITDA margin was towards our targeted level, 29.9% in 4Q18 and 28.7% in FY18.

Polyclinics EBITDA margin began to rebound gradually as a number of the polyclinics made progress towards their running rate potential and the base of registered patients increased. The polyclinics' EBITDA margin rose to 15.3% in 4Q18 from 12.9% in 4Q17 and stood at 13.0% for the full year 2018.

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

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	**4Q18**	**4Q17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**
Depreciation and amortisation	(7,822)	(6,295)	24.3%	(30,772)	(22,699)	35.6%
Net interest income (expense)	(7,675)	(5,185)	48.0%	(27,567)	(18,210)	51.4%
Net gains/(losses) from foreign currencies	(50)	30	NMF	(171)	1,634	NMF
Net non-recurring income/(expense)	(451)	(513)	-12.1%	(1,328)	(3,425)	-61.2%
Profit before income tax expense	**5,021**	**6,378**	**-21.3%**	**16,170**	**27,371**	**-40.9%**
Income tax benefit/(expense)	37	-	NMF	(37)	(11)	236.4%
Profit for the period	**5,058**	**6,378**	**-20.7%**	**16,133**	**27,360**	**-41.0%**

Since the launch of Regional Hospital (March 2018), the accounting impact of the Group's investments in new hospitals on depreciation and amortisation expense is now fully reflected in our results. Going forward we expect only modest increases in depreciation and amortisation reflecting the completion of our Mega Lab (launched in December 2018) and smaller investments in new equipment mainly in connection with the roll-out of new services.

The increase in net interest expense reflects the increase in our total borrowing balance to finance planned capital expenditure. Interest expense is expected to decline over the next few years, as we reduce our debt balance.

Operating highlights:

- Our adjusted referral hospital bed occupancy rate[4] was at 63.2% in 4Q18 (63.1% in 4Q17). In 2018, the adjusted referral hospital bed occupancy rate stood at 63.3% (64.5% in 2017).
- The average length of stay at referral hospitals[5] was 5.3 days in 4Q18 (5.5 days in 4Q17). In 2018, the average length of stay at referral hospitals was 5.4 days (5.5 days in 2017).
- Excluding newly launched hospitals, the average revenue per referral hospital bed was KGEL 107.9 (KUS$ 40.3) in 2018, compared to KGEL 103.2 (KUS$ 39.8) in 2017

[4] Adjusted to exclude the Tbilisi Referral Hospital and Regional Hospital; the calculation also excludes emergency beds
[5] The calculation also excludes emergency beds

Discussion of Pharmacy and Distribution Business Results

Income Statement, pharmacy and distribution business

GEL thousands; unless otherwise noted	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Pharma revenue	**141,046**	**121,367**	**16.2%**	**518,578**	**450,315**	**15.2%**
Costs of pharma	**(103,786)**	**(90,743)**	**14.4%**	**(386,372)**	**(340,210)**	**13.6%**
Gross profit	**37,260**	**30,624**	**21.7%**	**132,206**	**110,105**	**20.1%**
Salaries and other employee benefits	(12,198)	(11,029)	10.6%	(45,925)	(40,679)	12.9%
General and administrative expenses	(9,765)	(7,997)	22.1%	(35,169)	(31,180)	12.8%
Impairment of receivables	27	(5)	NMF	-	(44)	NMF
Other operating income	(88)	837	NMF	1,103	652	69.2%
EBITDA	**15,236**	**12,430**	**22.6%**	**52,215**	**38,854**	**34.4%**
EBITDA margin	***10.8%***	***10.2%***		***10.1%***	***8.6%***	
Depreciation and amortisation	(628)	(459)	36.8%	(2,352)	(2,110)	11.5%
Net interest income (expense)	(3,373)	(2,941)	14.7%	(11,924)	(11,936)	-0.1%
Net gains/(losses) from foreign currencies	(1,565)	(2,871)	-45.5%	(2,923)	(2,065)	41.5%
Net non-recurring income/(expense)	(22)	(125)	-82.4%	(859)	(1,496)	-42.6%
Profit before income tax expense	**9,648**	**6,034**	**59.9%**	**34,157**	**21,247**	**60.8%**
Income tax benefit/(expense)	-	(187)	NMF	-	(65)	NMF
Profit for the period	**9,648**	**5,847**	**65.0%**	**34,157**	**21,182**	**61.3%**

Revenue and gross profit, pharmacy and distribution business

We enjoyed strong, double digit revenue growth in both our retail and distribution businesses as shown in the table below.

Revenue by types at Pharma

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY 17	Change, Y-o-Y
Pharmacy and distribution revenue	**141,046**	**121,367**	**16.2%**	**518,578**	**450,315**	**15.2%**
Revenue from Retail	104,718	90,654	15.5%	384,109	336,366	14.2%
Revenue from Distribution	36,328	30,713	18.3%	134,469	113,949	18.0%
Pharma business revenue from Retail % of total revenue	74.2%	74.7%		74.1%	74.7%	
Gross profit Margin	**26.4%**	**25.2%**		**25.5%**	**24.5%**	

The increase in y-o-y revenues from retail is attributable to the expansion and organic sales growth of the business. In 2018 we have added 15 new pharmacies in our chain and by the end of the year number of pharmacies reached 270. We are heading towards a total of 300 pharmacies over next few years. Due to active marketing campaigns, promotions and other sales initiatives, the business continues to post strong y-o-y same-store growth, 9.8% in 4Q18 and 8.5% in FY18. As a result, the number of number of bills issued in our pharmacies increased by 8.8% in 4Q18 and by 7.2% in FY18, y-o-y. Average bill size also increased and reached GEL 13.9 in 4Q18 and GEL 13.4 in FY18. The share of para-pharmacy sales in retail revenue was in the range of c.30% in 4Q18 and 29.6% for FY18.

In 2018, the pharmacy and distribution business made a strong progress in growing wholesale revenue in hospitals and pharmacies by signing new corporate accounts - a strategic priority. Acquiring new corporate accounts and actively engaging in state programmes have resulted in the double-digit growth of revenue from distribution.

Gross profit margin in the pharmacy and distribution business improved dramatically, up 120 bps in 4Q18 and 100 bps y-o-y. The business continued to extract procurement synergies throughout the year, and increased purchases in 4Q18 to support sales in the seasonally strong quarter enabled us to negotiate further discounts from suppliers.

Our gross profit margins also benefit from the increased sales of private label products. Currently, 37 private label medicines are presented in our pharmacies, with revenue contribution of GEL 4.8 million in 2018, up 21.8% y-o-y. In the first half of 2019, private label personal care products will also be introduced in our pharmacies under the brand name “Attirance”. We will offer a wide range of personal care products and significantly enhance our position as market leader in this segment.

EBITDA, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Operating expenses	**(22,024)**	**(18,194)**	**21.1%**	**(79,991)**	**(71,251)**	**12.3%**
Salaries and other employee benefits	(12,198)	(11,029)	10.6%	(45,925)	(40,679)	12.9%
General and administrative expenses	(9,765)	(7,997)	22.1%	(35,169)	(31,180)	12.8%
Impairment of receivables	27	(5)	NMF	-	(44)	NMF
Other operating income	(88)	837	NMF	1,103	652	69.2%
EBITDA	**15,236**	**12,430**	**22.6%**	**52,215**	**38,854**	**34.4%**
EBITDA margin	***10.8%***	***10.2%***		***10.1%***	***8.6%***	

The business posted y-o-y positive operating leverage of 0.6 ppts and 7.8 ppts in 4Q18 and in 2018, respectively.

Salaries and other employee benefits favourably lagged behind revenue growth. Apart from business expansion, the increase in general and administrative expenses in 4Q18 is attributable to marketing activities to support revenue growth, and increased rent expense due to the GEL devaluation.

Our quarterly and full year EBITDA margins, both substantially exceeded our 2018 “more than 8%” medium term target.

Profit for the period, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Depreciation and amortisation	(628)	(459)	36.8%	(2,352)	(2,110)	11.5%
Net interest income (expense)	(3,373)	(2,941)	14.7%	(11,924)	(11,936)	-0.1%
Net gains/(losses) from foreign currencies	(1,565)	(2,871)	-45.5%	(2,923)	(2,065)	41.5%
Net non-recurring income/(expense)	(22)	(125)	-82.4%	(859)	(1,496)	-42.6%
Profit before income tax expense	**9,648**	**6,034**	**59.9%**	**34,157**	**21,247**	**60.8%**
Income tax benefit/(expense)	-	(187)	NMF	-	(65)	NMF
Profit for the period	**9,648**	**5,847**	**65.0%**	**34,157**	**21,182**	**61.3%**

In 2018 interest expense included GEL 1.1 million on the mark to market of the Pharmadepot (the pharmacy and distribution brand acquired in 2017) put option, compared to GEL 1.8 million in 2017, which is a non-cash expense. The q-o-q increase in interest expense is due to obtaining a new loan, explained in more detail on page 10.

The foreign currency loss reflects the increase in the GEL value of US Dollar and EUR denominated payables to suppliers due to the depreciation of GEL in 4Q18, also explained in more details on page 10.

Operating highlights:

- Retail customer interactions per month was c.2.4 million in 4Q18 and c.2.3 million in FY18
- Average bill size was GEL 13.9 in 4Q18 and GEL 13.4 in FY18
- c.0.5 million loyalty card members as at 31 December 2018

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Net insurance premiums earned	**13,870**	**12,376**	**12.1%**	**55,112**	**53,710**	**2.6%**
Cost of insurance services	**(11,628)**	**(11,163)**	**4.2%**	**(45,427)**	**(48,583)**	**-6.5%**
Gross profit	**2,242**	**1,213**	**84.8%**	**9,685**	**5,127**	**88.9%**
Salaries and other employee benefits	(1,213)	(747)	62.4%	(4,434)	(3,601)	23.1%
General and administrative expenses	(435)	(394)	10.4%	(1,459)	(1,636)	-10.8%
Impairment of receivables	(103)	(111)	-7.2%	(362)	(479)	-24.4%
Other operating income	158	147	7.5%	621	153	NMF
EBITDA	**649**	**108**	**NMF**	**4,051**	**(436)**	**NMF**
EBITDA margin	***4.7%***	***0.9%***		***7.4%***	***-0.8%***	
Depreciation and amortisation	(184)	(212)	-13.2%	(759)	(895)	-15.2%
Net interest income/ (expense)	105	(177)	NMF	21	(795)	NMF
Net gains/(losses) from foreign currencies	65	16	NMF	215	34	NMF
Net non-recurring income/(expense)	-	-	-	-	(200)	NMF
Profit before income tax expense	**635**	**(265)**	**NMF**	**3,528**	**(2,292)**	**NMF**
Income tax benefit/(expense)	(148)	-	NMF	(579)	(310)	86.8%
Profit / (Loss) for the period	**487**	**(265)**	**NMF**	**2,949**	**(2,602)**	**NMF**

Our medical insurance business has implemented significant initiatives and changes during the last 18 months. Better terms negotiated with healthcare services providers and pharmacies and a repriced portfolio have resulted in a solid contribution to the Group's EBITDA and profit in 2018.

Revenue, Medical insurance business

After changes implemented since 2Q17 to adjust prices or terminate loss-making contracts, the business started to attract new clients with adjusted pricing, that resulted in quarterly y-o-y and q-o-q revenue growth. We won two important tenders at the end of 2018 - retaining the country's largest insurance client (the Ministry of Internal Affairs) and acquiring a significant new government client (the Ministry of Defences), the business is expected to continue its profitable growth in 2019 and to further increase its claims retention rate within the Group.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	4Q18	4Q17	Change, Y-o-Y	FY18	FY17	Change, Y-o-Y
Cost of insurance services	**(11,628)**	**(11,163)**	**4.2%**	**(45,427)**	**(48,583)**	**-6.5%**
Net insurance claims incurred	(10,843)	(10,299)	5.3%	(42,584)	(45,209)	-5.8%
Agents, brokers and employee commissions	(785)	(864)	-9.1%	(2,843)	(3,374)	-15.7%
Gross profit	**2,242**	**1,213**	84.8%	**9,685**	**5,127**	88.9%
Loss ratio	**78.2%**	**83.2%**		**77.3%**	**84.2%**	

In 4Q18 and FY18 the loss ratio was maintained below our targeted level (c.80%), down 5.0 ppts and 6.9 ppts y-o-y, respectively.

Our insurance business expansion has significantly improved claims retention rates within the Group, as business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. In 4Q18, our medical insurance claims expense was GEL 10.8 million, of which GEL 3.9 million (35.9% of total) was inpatient, GEL 4.5 million (42.2% of total) was outpatient and GEL 2.4 million (21.9% of total) accounted for drugs. The claims retention rate was improved for the full year as well as for the quarter.

Claims retention rates

	4Q18	4Q17	Change, Y-o-Y	YE18	YE17	Change, Y-o-Y
Total claims retained within the Group	41.7%	32.5%	+9.2 ppts	39.4%	34.7%	+4.7 ppts
Total claims retained in Polyclinics	38.2%	32.6%	+5.6 ppts	38.7%	34.4%	+4.3 ppts

Due to the medical insurance business' increased client base (reaching c.230,000 insured in February 2019) and 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 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.

EBITDA and profit, medical insurance business

(GEL thousands, unless otherwise noted)	**4Q18**	**4Q17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**
Operating expenses	**(1,593)**	**(1,105)**	**44.2%**	**(5,634)**	**(5,563)**	**1.3%**
Salaries and other employee benefits	(1,213)	(747)	62.4%	(4,434)	(3,601)	23.1%
General and administrative expenses	(435)	(394)	10.4%	(1,459)	(1,636)	-10.8%
Impairment of receivables	(103)	(111)	-7.2%	(362)	(479)	-24.4%
Other operating income	158	147	7.5%	621	153	NMF
EBITDA	**649**	**108**	**NMF**	**4,051**	**(436)**	**NMF**
Expense ratio	**18.5%**	**17.6%**		**16.8%**	**18.3%**	
Combined ratio	**96.6%**	**100.8%**		**94.0%**	**102.5%**	

The increase in salaries and other employee benefits is related to staff bonuses for delivering business strategic priorities and outstanding performance.

Optimisation of operating expenses drove general and administrative expenses down y-o-y in 2018.

In line with our strategy to create new revenue sources, the medical insurance business began participating in the Compulsory Motor Third Party Liability Insurance Programme, effective in the country from 1 March 2018. The profit from this is shown in other operating income.

As a result, the expense ratio was up 90 bps in 4Q18 y-o-y, while it improved in FY18 by 150 bps y-o-y. Consequently, the y-o-y combined ratio was down 4.2 ppts in 4Q18 and 8.5 ppts in 2018.

After refinancing a foreign currency denominated loan by sourcing less expensive funding from a local commercial bank, and due to efficient allocation of cash resources, our medical insurance business posted net interest income in 4Q18 and in FY18.

Operating highlights:

- As at 30 September 2018, business market share based on net insurance premium revenue was 26.7%.
- Our insurance renewal rate was 65.8% in 4Q18 (71.8% in 4Q17) and 69.7% in FY18 (76.9% in FY17).

SELECTED FINANCIAL INFORMATION

Income Statement, *YTD*	**Healthcare services**			**Pharma**			**Medical insurance**			**Eliminations**		**GHG**		
GEL thousands; unless otherwise noted	**FY18**	**FY17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**	**FY18**	**FY17**	**Change, Y-o-Y**	**FY18**	**FY18**	**FY18**	**FY17**	**Change, Y-o-Y**
Revenue, gross	**305,598**	**265,396**	**15.1%**	**518,578**	**450,315**	**15.2%**	**55,112**	**53,710**	**2.6%**	**(29,371)**	**(21,671)**	**849,917**	**747,750**	**13.7%**
Corrections & rebates	(3,611)	(2,039)	77.1%	-	-	-	-	-	-	-	-	(3,611)	(2,039)	77.1%
Revenue, net	**301,987**	**263,357**	**14.7%**	**518,578**	**450,315**	**15.2%**	**55,112**	**53,710**	**2.6%**	**(29,371)**	**(21,671)**	**846,306**	**745,711**	**13.5%**
Costs of services	**(174,073)**	**(150,572)**	**15.6%**	**(386,372)**	**(340,210)**	**13.6%**	**(45,427)**	**(48,583)**	**-6.5%**	**28,167**	**21,653**	**(577,705)**	**(517,712)**	**11.6%**
Cost of salaries and other employee benefits	(109,478)	(95,655)	14.5%	-	-	-	-	-	-	4,039	2,911	(105,439)	(92,744)	13.7%
Cost of materials and supplies	(47,504)	(40,887)	16.2%	-	-	-	-	-	-	13,492	6,872	(34,012)	(34,015)	0.0%
Cost of medical service providers	(3,347)	(1,920)	74.3%	-	-	-	-	-	-	121	66	(3,226)	(1,854)	74.0%
Cost of utilities and other	(13,744)	(12,110)	13.5%	-	-	-	-	-	-	496	997	(13,248)	(11,113)	19.2%
Net insurance claims incurred	-	-	-	-	-	-	(42,584)	(45,209)	-5.8%	9,799	10,057	(32,785)	(35,152)	-6.7%
Agents, brokers and employee commissions	-	-	-	-	-	-	(2,843)	(3,374)	-15.7%	-	-	(2,843)	(3,374)	-15.7%
Cost of pharma - wholesale	-	-	-	(110,485)	(93,900)	17.7%	-	-	-	220	750	(110,265)	(93,150)	18.4%
Cost of pharma - retail	-	-	-	(275,887)	(246,310)	12.0%	-	-	-	-	-	(275,887)	(246,310)	12.0%
Gross profit	**127,914**	**112,785**	**13.4%**	**132,206**	**110,105**	**20.1%**	**9,685**	**5,127**	**88.9%**	**(1,204)**	**(18)**	**268,601**	**227,999**	**17.8%**
Salaries and other employee benefits	(35,178)	(30,998)	13.5%	(45,925)	(40,679)	12.9%	(4,434)	(3,601)	23.1%	1,028	(152)	(84,509)	(75,430)	12.0%
General and administrative expenses	(18,079)	(16,392)	10.3%	(35,169)	(31,180)	12.8%	(1,459)	(1,636)	-10.8%	271	590	(54,436)	(48,618)	12.0%
Impairment of receivables	(4,632)	(4,107)	12.8%	-	(44)	NMF	(362)	(479)	-24.4%	546	455	(4,448)	(4,175)	6.5%
Other operating income	5,983	8,783	-31.9%	1,103	652	69.2%	621	153	NMF	(641)	(1,216)	7,066	8,372	-15.6%
EBITDA	**76,008**	**70,071**	**8.5%**	**52,215**	**38,854**	**34.4%**	**4,051**	**(436)**	**NMF**	**-**	**(341)**	**132,274**	**108,148**	**22.3%**
EBITDA margin	***24.9%***	***26.4%***		***10.1%***	***8.6%***		***7.4%***	***-0.8%***				***15.6%***	***14.5%***	
Depreciation and amortisation	(30,772)	(22,699)	35.6%	(2,352)	(2,110)	11.5%	(759)	(895)	-15.2%	-	-	(33,883)	(25,704)	31.8%
Net interest income (expense)	(27,567)	(18,210)	51.4%	(11,924)	(11,936)	-0.1%	21	(795)	NMF	-	-	(39,470)	(30,941)	27.6%
Net gains/(losses) from foreign currencies	(171)	1,634	NMF	(2,923)	(2,065)	41.5%	215	34	NMF	-	-	(2,879)	(397)	NMF
Net non-recurring income/(expense)	(1,328)	(3,425)	-61.2%	(859)	(1,496)	-42.6%	-	(200)	NMF	-	341	(2,187)	(4,780)	-54.2%
Profit before income tax expense	**16,170**	**27,371**	**-40.9%**	**34,157**	**21,247**	**60.8%**	**3,528**	**(2,292)**	**NMF**	**-**	**-**	**53,855**	**46,326**	**16.3%**
Income tax benefit/(expense)	(37)	(11)	-236.4%	-	(65)	NMF	(579)	(310)	86.8%	-	-	(616)	(386)	59.6%
Profit for the period	**16,133**	**27,360**	**-41.0%**	**34,157**	**21,182**	**61.3%**	**2,949**	**(2,602)**	**NMF**	**-**	**-**	**53,239**	**45,940**	**15.9%**
Attributable to:														
- shareholders of the Company	12,306	21,643	-43.1%	19,179	10,009	91.6%	2,949	(2,602)	NMF	-	-	34,434	29,050	18.5%
- non-controlling interests	3,827	5,717	-33.1%	14,978	11,173	34.1%	-	-	-	-	-	18,805	16,890	11.3%

Income Statement, ***Quarterly***	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**4Q18**	**4Q17**	**Change Y-o-Y**	**3Q18**	**Change Q-o-Q**	**4Q18**	**4Q17**	**Change Y-o-Y**	**3Q18**	**Change Q-o-Q**	**4Q18**	**4Q17**	**Change Y-o-Y**	**3Q18**	**Change Q-o-Q**	**4Q18**	**4Q17**	**3Q18**	**4Q18**	**4Q17**	**Change Y-o-Y**	**3Q18**	**Chang Q-o-Q**
Revenue, gross	**81,898**	**68,444**	**19.7%**	**72,676**	**12.7%**	**141,046**	**121,367**	**16.2%**	**123,341**	**14.4%**	**13,870**	**12,376**	**12.1%**	**14,237**	**-2.6%**	**(9,303)**	**(4,549)**	**(7,328)**	**227,511**	**197,637**	**15.1%**	**202,926**	**12.1%**
Corrections & rebates	(1,159)	(349)	232.1%	(672)	72.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,159)	(349)	232.1%	(672)	72.5%
Revenue, net	**80,739**	**68,094**	**18.6%**	**72,004**	**12.1%**	**141,046**	**121,367**	**16.2%**	**123,341**	**14.4%**	**13,870**	**12,376**	**12.1%**	**14,237**	**-2.6%**	**(9,303)**	**(4,549)**	**(7,328)**	**226,352**	**197,288**	**14.7%**	**202,254**	**11.9%**
Costs of services	**(46,975)**	**(38,227)**	**22.9%**	**(41,549)**	**13.1%**	**(103,786)**	**(90,743)**	**14.4%**	**(91,174)**	**13.8%**	**(11,628)**	**(11,163)**	**4.2%**	**(10,007)**	**16.2%**	**9,413**	**5,882**	**6,846**	**(152,974)**	**(134,252)**	**13.9%**	**(135,884)**	**12.6%**
Cost of salaries and other employee benefits	(29,185)	(24,440)	19.4%	(26,734)	9.2%	-	-	-	-	-	-	-	-	-	-	1,140	329	883	(28,044)	(24,111)	16.3%	(25,851)	8.5%
Cost of materials and supplies	(13,136)	(10,363)	26.8%	(10,819)	21.4%	-	-	-	-	-	-	-	-	-	-	5,318	2,006	3,448	(7,818)	(8,357)	-6.4%	(7,371)	6.1%
Cost of medical service providers	(912)	(463)	97.0%	(894)	2.0%	-	-	-	-	-	-	-	-	-	-	33	13	30	(879)	(450)	95.3%	(864)	1.7%
Cost of utilities and other	(3,742)	(2,961)	26.4%	(3,102)	20.6%	-	-	-	-	-	-	-	-	-	-	134	665	101	(3,607)	(2,296)	57.1%	(3,001)	20.2%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(10,843)	(10,299)	5.3%	(9,229)	17.5%	2,568	2,119	2,384	(8,275)	(8,180)	1.2%	(6,845)	20.9%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(785)	(864)	-9.1%	(778)	0.9%	-	-	-	(785)	(864)	-9.1%	(778)	0.9%
Cost of pharma - wholesale	-	-	-	-	-	(30,382)	(25,244)	20.4%	(26,800)	13.4%	-	-	-	-	-	220	750	-	(30,162)	(24,494)	23.1%	(26,800)	12.5%
Cost of pharma - retail	-	-	-	-	-	(73,404)	(65,499)	12.1%	(64,374)	14.0%	-	-	-	-	-	-	-	-	(73,404)	(65,499)	12.1%	(64,374)	14.0%
Gross profit	**33,764**	**29,867**	**13.0%**	**30,455**	**10.9%**	**37,260**	**30,624**	**21.7%**	**32,167**	**15.8%**	**2,242**	**1,213**	**84.8%**	**4,230**	**-47.0%**	**110**	**1,333**	**(482)**	**73,378**	**63,036**	**16.4%**	**66,370**	**10.6%**
Salaries and other employee benefits	(8,925)	(7,942)	12.4%	(8,807)	1.3%	(12,198)	(11,029)	10.6%	(11,234)	8.6%	(1,213)	(747)	62.4%	(1,375)	-11.8%	115	(801)	360	(22,221)	(20,519)	8.3%	(21,056)	5.5%
General and administrative expenses	(4,652)	(4,085)	13.9%	(4,252)	9.4%	(9,765)	(7,997)	22.1%	(8,681)	12.5%	(435)	(394)	10.4%	(342)	27.2%	(149)	210	42	(15,001)	(12,266)	22.3%	(13,233)	13.4%
Impairment of other receivables	(1,079)	(1,115)	-3.2%	(1,052)	2.6%	27	(5)	NMF	(2)	NMF	(103)	(111)	-7.2%	(100)	3.0%	142	97	120	(1,013)	(1,133)	-10.6%	(1,034)	-2.0%
Other operating income	1,911	1,616	18.3%	1,290	48.1%	(88)	837	NMF	168	NMF	158	147	7.5%	273	-42.1%	(219)	(839)	(40)	1,762	1,761	0.1%	1,691	4.2%
EBITDA	**21,019**	**18,341**	**14.6%**	**17,634**	**19.2%**	**15,236**	**12,430**	**22.6%**	**12,418**	**22.7%**	**649**	**108**	**NMF**	**2,686**	**-75.8%**	-	-	-	**36,905**	**30,879**	**19.5%**	**32,738**	**12.7%**
EBITDA margin	***25.7%***	***26.8%***		***24.3%***		***10.8%***	***10.2%***		***10.1%***		***4.7%***	***0.9%***		***18.9%***					***16.2%***	***15.6%***		***16.1%***	
Depreciation and amortisation	(7,822)	(6,295)	24.3%	(7,903)	-1.0%	(628)	(459)	36.8%	(600)	4.7%	(184)	(212)	-13.2%	(184)	0.0%	-	-	-	(8,634)	(6,967)	23.9%	(8,687)	-0.6%
Net interest income (expense)	(7,675)	(5,185)	48.0%	(7,382)	4.0%	(3,373)	(2,941)	14.7%	(3,036)	11.1%	105	(177)	NMF	41	156.1%	-	-	-	(10,943)	(8,303)	31.8%	(10,377)	5.5%
Net gains/(losses) from foreign currencies	(50)	30	NMF	(154)	-67.5%	(1,565)	(2,871)	-45.5%	(3,487)	-55.1%	65	16	NMF	62	4.8%	-	-	-	(1,550)	(2,825)	-45.1%	(3,579)	-56.7%
Net non-recurring income/(expense)	(451)	(513)	-12.1%	-	NMF	(22)	(125)	-82.4%	(52)	-57.7%	-	-	-	-	-	-	-	-	(473)	(638)	-25.9%	(52)	NMF
Profit before income tax expense	**5,021**	**6,378**	**-21.3%**	**2,195**	**128.7%**	**9,648**	**6,034**	**59.9%**	**5,243**	**84.0%**	**635**	**(265)**	**NMF**	**2,605**	**-75.6%**	-	-	-	**15,305**	**12,146**	**26.0%**	**10,043**	**52.4%**
Income tax benefit/(expense)	37	-	-	-	-	-	(187)	NMF	-	-	(148)	-	NMF	(388)	-61.9%	-	-	-	(111)	(187)	-40.6%	(388)	-71.4%
Profit for the period	**5,058**	**6,378**	**-20.7%**	**2,195**	**130.4%**	**9,648**	**5,847**	**65.0%**	**5,243**	**84.0%**	**487**	**(265)**	**NMF**	**2,217**	**-78.0%**	-	-	-	**15,194**	**11,959**	**27.1%**	**9,655**	**57.4%**
Attributable to:																							
- shareholders of the Company	3,992	5,278	-24.4%	1,603	149.0%	5,445	2,774	96.3%	2,500	117.8%	487	(265)	NMF	2,217	-78.0%	-	-	-	9,925	7,785	27.5%	6,320	57.0%
- non-controlling interests	1,066	1,100	-3.1%	592	80.1%	4,203	3,073	36.8%	2,743	53.2%	-	-	-	-	-	-	-	-	5,269	4,174	26.2%	3,335	58.0%

Direct Cash flow, *YTD*

GEL thousands; unless otherwise noted	FY18	FY17	Change, Y-o-Y
Cash flows from operating activities			
Healthcare services revenue received	269,992	229,871	17.5%
Cost of healthcare services paid	(152,208)	(138,691)	9.7%
Revenue from pharma received	500,593	426,672	17.3%
Cost of sales of pharmaceuticals paid	(401,157)	(342,385)	17.2%
Net insurance premiums received	51,161	50,251	1.8%
Net insurance claims paid	(28,141)	(40,035)	-29.7%
Salaries and other employee benefits paid	(79,341)	(75,500)	5.1%
General and administrative expenses paid	(56,167)	(49,935)	12.5%
Acquisition costs paid	(2,575)	(3,105)	-17.1%
Other operating income received	5,453	7,319	-25.5%
Other operating expenses paid	(7,190)	(5,891)	22.1%
Net cash flows from operating activities before income tax	**100,420**	**58,571**	**71.5%**
Income tax paid	(840)	(332)	153.0%
Net cash flows from operating activities	**99,580**	**58,239**	**71.0%**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	(16,626)	(46,404)	-64.2%
Purchase of property and equipment	(60,986)	(78,468)	-22.3%
Purchase of intangible assets	(10,999)	(15,340)	-28.3%
Loans issued	-	(527)	NMF
Interest income received	1,112	2,607	-57.3%
Withdrawals and redemptions of amounts due from credit institutions	4,384	14,940	-70.7%
Placements of amounts due from credit institutions	(4,094)	(5,997)	-31.7%
Proceeds from sale of property and equipment	1,862	441	322.2%
Net cash used in investing activities	**(85,347)**	**(128,748)**	**-33.7%**
Cash flows from financing activities			
Repurchase of debt securities issued	-	(34,197)	NMF
Proceeds from debt securities issued	-	89,011	NMF
Proceeds from borrowings	83,241	217,121	-61.7%
Repayment of borrowings	(61,818)	(139,343)	-55.6%
Payment of finance lease liabilities	(736)	(3,110)	-76.3%
Purchase of treasury shares	(3,055)	(1,950)	56.7%
Dividends paid to non-controlling interests	(9,801)	(553)	NMF
Interest expense paid	(34,748)	(30,332)	14.6%
Net cash flows from financing activities	**(26,917)**	**96,647**	**-127.9%**
Effect of exchange rates changes on cash and cash equivalents	(2)	(537)	-99.6%
Net increase /(decrease) in cash and cash equivalents	**(12,686)**	**25,601**	**NMF**
Cash and cash equivalents, beginning	**48,840**	**23,239**	**110.2%**
Cash and cash equivalents, end	**36,154**	**48,840**	**-26.0%**

Selected Balance Sheet items	Healthcare services					Pharma					Medical insurance				
GEL thousands; unless otherwise noted	**31-Dec-18**	**31-Dec -17**	**Change, Y-o-Y**	**30-Sep-18**	**Change, Q-o-Q**	**31-Dec-18**	**31-Dec -17**	**Change, Y-o-Y**	**30-Sep-18**	**Change, Q-o-Q**	**31-Dec-18**	**31-Dec -17**	**Change, Y-o-Y**	**30-Sep-18**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	18,293	43,081	-57.5%	9,303	96.6%	17,305	10,464	65.4%	10,626	62.9%	12,363	10,063	22.9%	11,971	3.3%
Property and equipment	651,531	610,810	6.7%	644,907	1.0%	31,292	26,212	19.4%	28,549	9.6%	15,214	5,837	160.6%	15,022	1.3%
Inventory	18,240	19,873	-8.2%	16,824	8.4%	127,924	98,938	29.3%	98,840	29.4%	-	-	-	-	-
Liabilities:															
Borrowed Funds	284,001	262,772	8.1%	280,739	1.2%	100,423	88,145	13.9%	96,988	3.5%	5,966	9,586	-37.8%	6,957	-14.2%
Accounts payable	37,859	53,458	-29.2%	33,274	13.8%	79,772	63,387	25.8%	52,014	53.4%	-	-	-	-	-

Selected Balance Sheet items	Consolidation and eliminations			GHG				
GEL thousands; unless otherwise noted	**31-Dec-18**	**31-Dec -17**	**30-Sep-18**	**31-Dec-18**	**31-Dec -17**	**Change, Y-o-Y**	**30-Sep-18**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	47,961	63,608	-24.6%	31,900	*50.3%*
Property and equipment	-	-	(2,728)	698,037	642,859	8.6%	685,750	*1.8%*
Inventory	-	-	-	146,164	118,811	23.0%	115,664	*26.4%*
Liabilities:								
Borrowed Funds	-	-	-	390,390	360,503	8.3%	384,684	*1.5%*
Accounts payable	(12,539)	(23,920)	(8,479)	105,092	92,925	13.1%	76,809	*36.8%*

Selected ratios and KPIs

	4Q18	4Q17	3Q18	FY18	FY17
GHG					
EPS, GEL	0.08	0.06	0.05	0.27	0.23
ROIC *(%)*	12.0%	11.0%	10.6%	11.0%	10.8%
ROIC adjusted[6] *(%)*	14.3%	13.2%	14.0%	13.9%	12.8%
Group rent expenditure	5,144	4,302	4,866	19,488	18,613
of which, Pharma	*4,442*	*4,174*	*3,868*	*16,839*	*16,912*
Group capex (maintenance)	4,050	2,081	2,601	11,091	9,604
Group capex (growth)	11,003	15,679	5,498	52,561	79,720
Number of employees	15,922	15,078	15,643	15,922	15,078
Number of physicians	3,603	3,496	3,592	3,603	3,496
Number of nurses	3,342	3,205	3,313	3,342	3,205
Nurse to doctor ratio, referral hospitals	0.93	0.92	0.92	0.93	0.92
Number of pharmacists	3,339	2,942	2,859	3,339	2,942
Total number of shares	131,681,820	131,681,820	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(2,937,273)	(3,379,629)	(2,763,916)	(2,937,273)	(3,379,629)
Shares outstanding	128,744,547	128,302,191	128,917,904	128,744,547	128,302,191
Of which:					
Total free float	53,994,727	53,183,688	53,799,401	53,994,727	53,183,688
Shares held by Georgia Capital PLC	74,749,820	75,118,503	75,118,503	74,749,820	75,118,503
Healthcare services					
EBITDA margin of healthcare services	25.7%	26.8%	24.3%	24.9%	26.4%
Direct salary rate (direct salary as % of revenue)	35.6%	35.7%	36.8%	35.8%	36.0%
Materials rate (direct materials as % of revenue)	16.0%	15.1%	14.9%	15.5%	15.4%
Administrative salary rate (administrative salaries as % of revenue)	10.9%	11.6%	12.1%	11.5%	11.7%
SG&A rate (SG&A expenses as % of revenue)	5.7%	6.0%	5.9%	5.9%	6.2%
Number of hospitals	37	37	37	37	37
Number of polyclinics	16	16	16	16	16
Number of beds	3,320	3,014	3,320	3,320	3,014
Number of referral hospital beds	2,825	2,519	2,825	2,825	2,519
Bed occupancy rate, referral hospitals[7]	57.9%	60.4%	51.7%	56.2%	61.6%
Bed occupancy rate, referral hospitals excluding Tbilisi Referral Hospital and Regional Hospital beds[7]	63.2%	63.1%	58.5%	63.3%	64.5%
Average length of stay (days), referral hospitals[8]	5.3	5.5	5.4	5.4	5.5
Pharmacy and distribution					
EBITDA margin	10.8%	10.2%	10.1%	10.1%	8.6%
Number of bills issued	7.15mln	6.57mln	6.52mln	27.10mln	25.28mln
Average bill size	13.9	13.6	13.2	13.4	13.3
Revenue from wholesale as a percentage of total revenue from pharma	25.8%	25.3%	26.2%	25.9%	25.3%
Revenue from retail as a percentage of total revenue from pharma	74.2%	74.7%	73.8%	74.1%	74.7%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	30.1%	30.2%	32.2%	29.6%	29.3%
Number of pharmacies	270	255	267	270	255
Medical insurance					
Loss ratio	78.2%	83.2%	64.8%	77.3%	84.2%
Expense ratio, *of which*	18.5%	17.6%	17.6%	16.8%	18.3%
Commission ratio	*5.7%*	*7.0%*	*5.5%*	*5.2%*	*6.3%*
Combined ratio	96.6%	100.8%	82.4%	94.0%	102.5%
Renewal rate	65.8%	71.8%	76.8%	69.7%	76.9%

[6] Return on invested capital is adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase
[7] Excluding emergency beds
[8] Excludes data for the emergency beds

ANNEX

- 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
- ROIC is calculated as EBITDA minus depreciation, plus interest income divided by aggregate amount of total equity and borrowed funds.

COMPANY INFORMATION

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Incorporation date: 27 August 2015

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