Georgia Healthcare Group PLC

1st quarter 2016 results

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Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's first quarter of 2016 consolidated financial results. Unless otherwise mentioned, comparatives are for the first quarter of 2015. The results are based on International Financial Reporting Standards ("IFRS") as adopted in the European Union ("EU"), are unaudited and extracted from management accounts.

HIGHLIGHTS

GHG announces today the Group's 1Q16 consolidated results, reporting record high profit of GEL 12.0 million (US$5.1 million/GBP 3.5 million) and earnings per share ("**EPS**") of GEL 0.08 (US$ 0.03 per share/GBP 0.02 per share).

GHG Highlights

1Q16 performance

- Net profit was GEL 12.0 million (US$ 5.1 million / GBP 3.5 million), up 91.6% y-o-y and up 138.0% q-o-q
- EPS was GEL 0.08 (US$0.03 / GBP 0.02 per share)
- Revenue was GEL 71.7 million (up 33.1% y-o-y, up 4.3% q-o-q)
- EBITDA was GEL 17.1 million (up 69.4% y-o-y, up 3.7% q-o-q)
- Operating leverage was positive at 27.3 percentage points y-o-y
- Return on Average Equity ("**ROAE**"), adjusted[1], was 16.5%

Healthcare services business highlights

1Q16 performance

- Revenue was GEL 60.5 million (up 41.4% y-o-y, up 9.0% q-o-q)
- Organic revenue growth was 14.6%
- Gross profit was GEL 27.0 million (up 54.4% y-o-y, up 10.9% q-o-q)
- EBITDA was GEL 17.8 million (up 84.4% y-o-y, up 7.8% q-o-q)
- EBITDA margin was 29.5% (up 690 basis points (bps) y-o-y, down 30 bps q-o-q)
- Operating leverage was positive at 35.1 percentage points y-o-y and positive at 4.1 percentage points q-o-q
- Net profit was GEL 12.2 million (up 116.4% y-o-y, up 115.1% q-o-q)

Medical insurance business highlights

1Q16 performance

- Net insurance premiums earned were GEL 12.9 million (down 0.4% y-o-y, down 11.0% q-o-q)
- Gross profit was GEL 1.0 million (down 54.4% y-o-y, down 39.1% q-o-q)
- Loss ratio was 92.4% (up 9.0 percentage points y-o-y, up 3.5 percentage points q-o-q)
- Expense ratio was 14.7% (down 0.2 percentage points y-o-y, up 0.9 percentage points q-o-q)
- Combined ratio was 107.1% (up 8.8 percentage points y-o-y, up 4.4 percentage points q-o-q)
- EBITDA was negative at GEL (0.7) million
- Net profit was negative at GEL (0.1) million

[1] Adjusted Return on average total equity ("**Adjusted ROAE"**) equals profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period net of unutilised portion of IPO proceeds.

Strong growth driven by the healthcare services business

- Healthcare services operated 46 healthcare facilities, of which 16 referral hospitals, 20 community hospitals, and 10 ambulatory clinics, as of 31 March 2016
- Total beds operated were 2,686, of which 2,229 beds were at referral hospitals and 457 beds were at community hospitals, as of 31 March 2016
- Healthcare services market share by number of beds was 26.7% as of 31 March 2016
- Hospital bed occupancy rate was 60.4% in 1Q16 (51.9% in 4Q15)
- Referral hospital bed occupancy rate was 66.7% in 1Q16 (59.9% in 4Q15)
- Average length of stay at referral hospitals was 5.2 days in 1Q16 (5.0 in 4Q15)

- Number of insured clients was 206,000 as at 31 March 2016
- Medical insurance market share was 38.3% based on net insurance premium revenue, as at 31 December 2015
- Insurance renewal rate[2] was 88.5% in 1Q16

- Total number of employees was 9,747, of which 9,315 were at the healthcare services business and 432 at the medical insurance business, as of 31 March 2016. Total number of employees grew by 1,570 employees, or at 19.2%, compared to a year ago mainly driven by acquisitions and outpatient rollout
- Number of physicians was 2,762 and number of nurses was 2,706, as of 31 March 2016, adding 351 physicians and 432 nurses versus same time last year, and implying a y-o-y growth of 14.6% and 19.0%, respectively

- We acquired one of the largest retail and wholesale pharmacy chains in Georgia, becoming the major purchaser of pharmaceutical products in Georgia and became the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value
- We bought-out the remaining 33.3% minority shareholding of our largest pediatric hospital, Iashvili Referral Hospital ("Iashvili"). Iashvili operates 266 beds and recorded GEL 25.2 million in gross revenue in 2015, of which GEL 8.4 million was attributable to the minority shareholder brought out as a result of this transaction
- We also expanded the senior management team and appointed George Arveladze as a Deputy CEO, in charge of ambulatory and pharmaceutical Businesses. He brings strong knowledge of and experience in the Georgian retail sector, and has an excellent operational track record which will be invaluable to Georgia Healthcare Group

- During 1Q16, we spent a total of GEL 16.9 million on capital expenditures, an increase of 9.1% y-o-y enhancing our service mix and introducing new services to cater to unfulfilled demand. Of this, maintenance capex was GEL 2.5 million
- We launched an In Vitro Fertilisation service ("IVF") at Caraps Medline ("**Caraps**") – an up-scale boutique hospital in Tbilisi, particularly renowned for gynaecology and plastic surgery services in Georgia
- We completed the renovation of our hospitals in the Samtskhe region (capex of GEL 9.3 million), which became fully operational in 1Q16
- We have completed implementation of new enterprise resource planning system (ERP), a software for data collection, transaction capturing, accounting and further analysis of financial transactions. The ERP enhances our capabilities to identify and extract further the efficiencies in our operations
- We further enhanced our residency programs in line with our strategy to develop a new generation of doctors. We obtained accreditation for internal medicine, endocrinology, pediatric gastroenterology, and pediatric endocrinology, with a total of 15 residents to be enrolled. We already had 43 residents involved in the residency program that we launched at the end of 2015

[2] Renewal rate is calculated by dividing number of clients who renewed insurance contracts during given period by total number of clients excluding those from one large client whose contract was not renewed at the end of 2015.

CHIEF EXECUTIVE OFFICER STATEMENT

I am delighted with the Group's substantial progress in the first quarter of 2016, building on an unprecedented period of growth over the last two years. The Group's profit of GEL 12.0 million in the first quarter of 2016 almost doubled the GEL 6.3 million made in the first quarter of 2015, supported by a 116% increase in profit from our healthcare services business which delivered record revenues of GEL 60.5 million, positive operational leverage, and an EBITDA margin of 29.5%.

Revenues, at GEL 71.7 million for the quarter, increased by 33.1% supported in particular by strong 14.6% organic revenue growth in the healthcare services business where revenue increased by 41.4% to GEL 60.5 million. Margins in the healthcare services business also improved significantly with an EBITDA margin for the quarter of 29.5%, compared to 22.6% in the first quarter of 2015. This improvement reflects the increasing scale of our business as well as the capturing of ongoing efficiency savings. We continue to benefit significantly from our economies of scale, and this was reflected in 27.3 percentage points of positive operating leverage in the quarter. The EBITDA from our healthcare services business increased by 84.4%, to a record GEL 17.8 million, and the net profit increased by 116.4% to GEL 12.2 million in the first quarter of 2016.

Our medical insurance business delivered a stabilisation of revenues in the first quarter, following a period of reductions reflecting the Government's increased focus on the Universal Healthcare Programme which led to an industrywide reduction in medical insurance revenues over the last few years. Retail sales of private medical insurance increased 38.1%, but this was offset by the non-renewal of one large corporate insurance client. Costs remained well managed, but the impact of last year's Lari devaluation against the US Dollar and a seasonal flu virus epidemic in February and March 2016 led to the loss ratio increasing by 9.0 percentage points year over year to 92.4%, and the insurance business delivering a net loss of GEL 0.1 million. Price increases to a number of insurance products, in response to the impact of last year's Lari devaluation, leave the business in good shape for 2016, and are expected to deliver gradual stabilisation of the loss ratio.

The strong first quarter earnings performance reflects the further development of the Group's key strategic priorities: to achieve one-third market share by hospital beds; to deliver a rapid launch of ambulatory clinics in the highly fragmented and underpenetrated outpatient market; and to invest to close existing medical service gaps. We continued to make progress in each of these strategic priorities during the quarter.

In our healthcare services business, we have already started significant renovation work on both our Deka and Sunstone hospital facilities. These 2 newly modernised multi-profile hospitals are currently on schedule and within budget, and both are expected to be fully completed and operational in mid-2017. We also completed the renovation of our hospitals in the Samtskhe region in the first quarter of 2016, and these are now fully operational. Our strategy to increase our share of healthcare revenues through the roll-out of a nationwide network of ambulatory clinics has begun and by the end of January 2016 we had opened 4 ambulatory clusters in a number of high population density areas of Tbilisi and one in Kutaisi, the second largest city in Georgia. As a result, revenue from ambulatory clinics increased by 36% quarter-on-quarter and 46% year over year. We are currently in the process of developing a further four ambulatory clusters, to be launched over the next few months. Three of these clusters will be in Tbilisi, and one will be in Zugdidi, a city in West Georgia. A further two clusters will be developed in the second half of the year. The ambulatory clinic roll-out is an extremely significant growth opportunity for the Group over the next few years, as we plan to build significant market share in what is a highly fragmented and high margin segment of a market in which we currently have only approximately 1% share of the market, and our recent acquisition of GPC will further accelerate this strategy.

We have just completed the acquisition of GPC one of the largest retail and wholesale pharmacy chains in Georgia. This acquisition supports our desire to be the leading integrated provider in all areas of the GEL 3.4 billion healthcare ecosystem, and positions the Group as the largest purchaser of pharmaceutical products in Georgia with a platform to deliver significant cost synergies. Cost synergies totaling approximately GEL 5 million are expected to be obtained from eliminating unnecessary costs and capturing substantial manufacturer cost savings. In addition, we aim to achieve c.GEL 9-10 million of revenue synergies from the opening of GPC pharmacies in GHG's existing hospitals and flagship ambulatory clinics (c.40 new locations) which we have already started to launch. We believe the biggest value enhancement in this acquisition however is the potential for increased customer acquisition for our outpatient business through GPC's 1 million customer interactions and 0.5 million loyalty program users and we have already started to explore this opportunity. We were delighted to announce the appointment of George Arveladze, as Deputy CEO in charge of our ambulatory and pharmaceutical businesses. He brings strong knowledge of, and experience in, the Georgian retail sector and will lead the ambulatory clinic roll-out programme and development and integration of GPC together with David Kiladze, CEO of GPC who has an excellent knowledge of the sector and has been instrumental in building the exceptionally strong GPC brand in Georgia.

There are still many service gaps in Georgia which, as the largest provider of healthcare services in the country, GHG is focused on covering. In the first quarter of 2016, we launched an In Vitro Fertilisation (IVF) service at Caraps Medline, our upscale boutique hospital in Tbilisi. IVF services are significantly underdeveloped in Georgia, with Georgians generally having to travel abroad for this service. Our immediate goal is to capture those patients currently travelling abroad, and Caraps now has a monthly capacity of 150 IVF patients. In addition to IVF, we are currently planning to launch a number of services during 2016, including the expansion of neurosurgery, cardiosurgery and intensive care units in a number of regional hospitals, and pediatric kidney transplantation in our major pediatric hospital in Tbilisi, that will boost our organic growth further.

From a macroeconomic perspective, Georgia has continued to deliver a remarkably resilient performance. Georgia's real GDP growth was 3.4% year-on-year in March 2016. In addition, the Lari has recently strengthened against the US Dollar by over 10%, Foreign Direct Investment continued to be strong, and tourist numbers – a significant driver of US$ inflows for the country – continue to rise significantly. As a result, the Georgian Government's fiscal position continues to be strong.

A recent development in the Georgian Government's tax policy is currently in the process of being finalised through the Parliamentary process and is expected to significantly benefit Georgian companies, including GHG's businesses. The Government is in the process of introducing a tax code amendment that will apply Profits tax (currently 15%) only to distributed profits. Undistributed profits will no longer be subject to Profits tax. We expect this amendment to take effect for our healthcare services earnings on 1 January 2017, and this is therefore expected to significantly reduce the Group's effective tax rate from 2017 onwards.

We believe we remain extremely well positioned to deliver strong earnings momentum in 2016 and beyond, from both high levels of organic revenue growth as well as from the benefits of our key strategic priorities and recent acquisitions. We are clearly on track to deliver our targeted more than doubling of 2015 healthcare services revenues by 2018.

Nikoloz Gamkrelidze,

CEO of Georgia Healthcare Group PLC

FINANCIAL SUMMARY

Income Statement	**Healthcare services**					**Medical insurance**					**Total GHG**				
GEL thousands; unless otherwise noted	**1Q16**	**1Q15**	**Chang, Y-o-Y**	**4Q15**	**Change, Q-o-Q**	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**
Revenue, gross	**60,451**	**42,745**	**41.4%**	**55,481**	**9.0%**	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**	**71,682**	**53,875**	**33.1%**	**68,720**	**4.3%**
Corrections & rebates	(410)	(957)	-57.2%	(1,086)	-62.2%	-	-	-	-	-	(410)	(957)	-57.2%	(1,086)	-62.2%
Revenue, net	**60,041**	**41,788**	**43.7%**	**54,395**	**10.4%**	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**	**71,272**	**52,918**	**34.7%**	**67,634**	**5.4%**
Cost of services	**(32,998)**	**(24,273)**	**35.9%**	**(30,007)**	**10.0%**	**(11,953)**	**(10,837)**	**10.3%**	**(12,917)**	**-7.5%**	**(43,257)**	**(33,339)**	**29.7%**	**(41,618)**	**3.9%**
Gross profit	**27,043**	**17,515**	**54.4%**	**24,388**	**10.9%**	**983**	**2,155**	**-54.4%**	**1,615**	**-39.1%**	**28,015**	**19,579**	**43.1%**	**26,016**	**7.7%**
Total operating expenses	(9,456)	(7,923)	19.3%	(8,857)	6.8%	(1,660)	(1,760)	-5.7%	(1,627)	2.0%	(11,105)	(9,592)	15.8%	(10,480)	6.0%
Other operating income	241	78	209.0%	1,008	-76.1%	(21)	47	NMF	(5)	320.0%	220	125	76.0%	986	-77.7%
EBITDA	**17,828**	**9,670**	**84.4%**	**16,539**	**7.8%**	**(699)**	**442**	**NMF**	**(17)**	**NMF**	**17,129**	**10,112**	**69.4%**	**16,522**	**3.7%**
EBITDA margin	***29.5%***	***22.6%***		***29.8%***		***-5.4%***	***3.4%***		***-0.1%***		***23.9%***	***18.8%***		***24.0%***	
Depreciation and amortisation	(4,261)	(2,186)	94.9%	(4,046)	5.3%	(204)	(136)	50.0%	(249)	-18.0%	(4,465)	(2,322)	92.3%	(4,295)	4.0%
Net interest (expense) / income	(2,259)	(4,073)	-44.5%	(5,535)	-59.2%	603	(28)	NMF	158	282.4%	(1,656)	(4,101)	-59.6%	(5,377)	-69.2%
Net (losses) / gains from foreign currencies	(411)	2,907	NMF	(1,586)	-74.1%	151	497	-69.6%	(6)	NMF	(260)	3,404	NMF	(1,592)	-83.7%
Net non-recurring (expense) / income	1,968	(211)	NMF	484	306.3%	-	-	-	(676)	NMF	1,968	(211)	NMF	(192)	NMF
Profit before income tax expense	**12,865**	**6,107**	**110.7%**	**5,856**	**119.7%**	**(149)**	**775**	**NMF**	**(790)**	**-81.1%**	**12,716**	**6,882**	**84.8%**	**5,066**	**151.0%**
Income tax (expense) / benefit	(712)	(491)	45.0%	(206)	245.1%	19	(116)	NMF	192	-90.1%	(693)	(607)	14.2%	(14)	NMF
Profit for the period	**12,153**	**5,616**	**116.4%**	**5,650**	**115.1%**	**(130)**	**659**	**NMF**	**(598)**	**-78.3%**	**12,023**	**6,275**	**91.6%**	**5,052**	**138.0%**
Attributable to:															
- shareholders of the Company	10,051	5,073	98.1%	4,421	127.3%	(130)	659	NMF	(598)	-78.3%	9,921	5,732	73.1%	3,823	159.5%
- non-controlling interests	2,102	543	287.1%	1,229	71.0%	-	-	-	-	-	2,102	543	287.1%	1,229	71.0%

Balance Sheet	**Healthcare services**					**Medical insurance**					**Total GHG**				
GEL thousands; unless otherwise noted	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**
Total assets, of which:	**670,861**	**365,689**	**83.5%**	**703,309**	**-4.6%**	**75,493**	**76,669**	**-1.5%**	**67,372**	**12.1%**	**737,815**	**435,124**	**69.6%**	**758,280**	**-2.7%**
Cash and bank deposits	52,408	13,378	291.7%	139,085	-62.3%	12,996	16,829	-22.8%	18,313	-29.0%	65,404	30,207	116.5%	157,398	-58.4%
Receivables from healthcare services	78,034	51,317	52.1%	71,348	9.4%	-	-	-	-	-	73,750	48,552	51.9%	65,863	12.0%
Insurance premiums receivable	-	-	-	-	-	39,042	37,412	4.4%	20,948	86.4%	39,042	37,205	4.9%	20,663	88.9%
Property and equipment	481,969	265,856	81.3%	439,131	9.8%	5,672	4,886	16.1%	5,587	1.5%	487,641	270,742	80.1%	444,718	9.7%
Goodwill and other intangible assets	19,433	6,190	213.9%	19,708	-1.4%	6,097	3,940	54.7%	6,079	0.3%	25,530	10,130	152.0%	25,787	-1.0%
Other assets	39,017	28,948	34.8%	34,037	14.6%	11,686	13,602	-14.1%	16,445	-28.9%	46,448	38,288	21.3%	43,851	5.9%
Total liabilities, of which:	**214,166**	**207,158**	**3.4%**	**247,762**	**-13.6%**	**56,192**	**58,147**	**-3.4%**	**47,937**	**17.2%**	**261,819**	**258,071**	**1.5%**	**283,299**	**-7.6%**
Borrowings	92,336	151,689	-39.1%	140,439	-34.3%	11,775	15,956	-26.2%	16,497	-28.6%	99,856	163,720	-39.0%	152,762	-34.6%
Accounts payable	36,533	13,942	162.0%	29,160	25.3%	832	-	NMF	1,016	-18.1%	37,365	13,942	168.0%	30,176	23.8%
Insurance contract liabilities	-	-	-	-	-	39,431	38,168	3.3%	22,463	75.5%	36,935	35,471	4.1%	21,351	73.0%
Other liabilities	85,297	41,527	105.4%	78,163	9.1%	4,154	4,023	3.3%	7,961	-47.8%	87,663	44,938	95.1%	79,010	11.0%
Total shareholders' equity	**456,695**	**158,531**	**188.1%**	**455,547**	**0.3%**	**19,301**	**18,522**	**4.2%**	**19,435**	**-0.7%**	**475,996**	**177,053**	**168.8%**	**474,981**	**0.2%**
Attributable to:															
Shareholders of the Company	409,504	135,428	202.4%	399,547	2.5%	19,301	18,522	4.2%	19,435	-0.7%	428,805	153,950	178.5%	418,981	2.3%
Non-controlling interest	47,191	23,103	104.3%	56,000	-15.7%	-	-	-	-	-	47,191	23,103	104.3%	56,000	-15.7%

Note: healthcare services business and medical insurance business financials do not include interbusiness eliminations. Detailed financials, including interbusiness eliminations, are provided in annexes

Selected ratios and KPIs	1Q16	1Q15	4Q15
GHG			
EPS, GEL	0.08	NMF[3]	NMF[3]
ROAE	9.4%	15.2%	5.0%
Adjusted ROAE	16.5%	15.2%	7.8%
Operating leverage	27.3%	-11.2%	6.6%
Healthcare services			
EBITDA margin of healthcare services	29.5%	22.6%	29.8%
Bed occupancy rate	60.4%	54.2%	51.9%
Bed occupancy rate, referral hospitals	*66.7%*	*61.4%*	59.9%
Bed occupancy rate, community hospitals	*26.6%*	*23.8%*	18.4%
Average length of stay (days)	4.9	4.6	4.7
Average length of stay (days), referral hospitals	*5.2*	*4.9*	*5.0*
Average length of stay (days), community hospitals	*3.0*	*2.9*	*2.7*
Medical insurance			
Loss ratio	92.4%	83.4%	88.9%
Expense ratio	14.7%	14.9%	13.8%
Combined ratio	107.1%	98.3%	102.7%
Renewal rate	88.5%	74.2%	92.0%

[3] Due to the fact that number of outstanding shares increased significantly following GHG's IPO in November 2015, comparison of 1Q 2016 EPS to previous periods would be distorted.

DISCUSSION OF QUARTERLY RESULTS

We have two main sources of revenues: 1) healthcare services revenue, which is revenue from our hospital and ambulatory operations; and 2) net insurance premiums earned, which is revenue from our medical insurance operations.

We delivered record quarterly revenue of GEL 71.7 million, up 33.1% y-o-y and up 4.3% q-o-q. Growth was driven by healthcare services gross revenue, which grew 41.4% y-o-y, with strong organic growth of 14.6%. Healthcare services revenue increased 9.0% on a q-o-q basis, which is fully attributable to organic growth. Our medical insurance business contributed GEL 12.9 million to total revenue, recording a slight decrease of 0.4% y-o-y.

Revenue by business lines

(GEL thousands, unless otherwise noted)	1Q16	1Q15	Change, Y-o-Y	4Q15	Change, Q-o-Q
Healthcare service revenue, *gross*	**60,451**	**42,745**	**41.4%**	**55,481**	**9.0%**
Corrections & rebates	(410)	(957)	-57.2%	(1,086)	-62.2%
Healthcare services revenue, *net*	**60,041**	**41,788**	**43.7%**	**54,395**	**10.4%**
Referral and specialty hospitals	52,026	36,244	43.5%	48,565	7.1%
Community hospitals	5,920	4,108	44.1%	4,291	38.0%
Ambulatory clinics	2,095	1,436	45.9%	1,539	36.2%
Net insurance premiums earned	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**
Private medical insurance products sold to retail clients	1,599	1,158	38.1%	1,540	3.8%
Private medical insurance products sold to corporate clients	11,337	11,834	-4.2%	12,992	-12.7%
Eliminations	**(1,705)**	**(1,862)**	**-8.4%**	**(1,293)**	**31.9%**
Total revenue, *gross*	**71,682**	**53,875**	**33.1%**	**68,720**	**4.3%**

Healthcare services revenue growth of 41.4% was driven by referral hospitals as well as the roll out of ambulatory clinics, in line with our announced strategy. Referral and specialty hospitals posted GEL 52.0 million of revenue in 1Q16, up 43.5% y-o-y driven by strong organic growth as well as acquisitions. Referral hospitals contributed 87% to total revenue from healthcare services. We expect a significant portion of the future growth of our healthcare revenue to come from referral hospitals, in line with our strategy to increase the market share to 1/3 across Georgia through further investments in renovation and expansion of existing facilities, as well as investments in new services. The 14.6% organic growth of revenue from healthcare services was largely sourced from referral hospitals, and almost all of the M&A driven growth came from referral hospitals, mainly driven by the HTMC acquisition completed during 2015. HTMC contributed GEL 10.8 million to gross healthcare services revenues.

Community hospitals, contributing 10% to total revenue from healthcare services, also posted strong, 44.1% y-o-y and 38.0% q-o-q, growth in revenue to GEL 5.9 million in 1Q16. Organic growth was 25.5% y-o-y, and the remaining growth came from Poti community hospital (We previously managed Poti community hospital under a management contract, and consolidated fully starting 1 January 2016, reflecting GHG's control over the hospital).

Ambulatory clinics, contributing only 3% to total revenue from healthcare services, posted revenue of GEL 2.1 million in 1Q16, up 45.9% y-o-y and up 36.2% q-o-q. The revenue growth was entirely organic, driven by the launch of three new ambulatory clusters (currently consisting of five new ambulatory clinics) during the second half of 2015. These launches brought the number of ambulatory clusters we currently operate to four (consisting of ten ambulatory clinics). We expect ambulatory clinic revenue to accelerate growth over the next few years, in line with our strategy of launching an additional 10-12 ambulatory clusters with a total of 20 to 30 ambulatory clinics in the next 2-3 years. Four new clusters are currently under development and will be launched within the next few months. A further two clusters will be developed in the second half of the year.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	1Q16	1Q15	Change, Y-o-Y	4Q15	Change, Q-o-Q
Healthcare service revenue, *gross*	**60,451**	**42,745**	**41.4%**	**55,481**	**9.0%**
Corrections & rebates	(410)	(957)	-57.2%	(1,086)	-62.2%
Healthcare services revenue, *net*	**60,041**	**41,788**	**43.7%**	**54,395**	**10.4%**
Government-funded healthcare programs	45,377	31,169	45.6%	43,130	5.2%
Out-of-pocket payments by patients	11,426	8,074	41.5%	8,811	29.7%
Private medical insurance companies	3,238	2,545	27.2%	2,454	31.9%
Net insurance premiums earned	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**
Private medical insurance products	12,936	12,992	-0.4%	14,532	-11.0%
Eliminations	**(1,705)**	**(1,862)**	**-8.4%**	**(1,293)**	**31.9%**
Total revenue, *gross*	**71,682**	**53,875**	**33.1%**	**68,720**	**4.3%**

UHC continued to be the main driver of our healthcare services revenue growth in 1Q16, resulting in revenue from government-funded healthcare programs of GEL 45.4 million, up 45.6% y-o-y and up 5.2% q-o-q. That constituted c.75% of total net healthcare services revenues – similar to the share a year ago. Our 14.6% y-o-y organic growth of revenue of was largely sourced from government-funded healthcare programs, especially UHC. Since the full roll-out of UHC in mid-2014, government expenditure on healthcare has grown considerably, increasing 81.4% from GEL 487.9 million in 2013 to GEL 885.0 million in 2016, according to the approved government budget for 2016.

Out-of-pocket payments by patients increased to GEL 11.4 million in 1Q16, up 41.5% y-o-y and 29.7% q-o-q. The UHC imposes coverage limits on medical treatments, co-payments and has certain exclusions (i.e. charges that are not covered by the UHC). Any charges in excess of the limit and co-payments are covered by patients on an out-of-pocket basis. Increasing the government financing on healthcare services organically causes growth of the number of patients in hospitals, respectively increasing the revenue from out-of-pocket payments as well.

Our healthcare services revenues from private medical insurance companies also recorded a strong increase reaching GEL 3.2 million, up 27.2% y-o-y and up 31.9% q-o-q, driven by strong organic growth. This organic growth continues to be supported by the roll-out of the ambulatory clinics which attract patients with private medical insurance.

We expect the share of out-of-pocket payments and revenue from private medical insurance companies to increase over the next few years, as a result of the roll out of our ambulatory clinic expansion strategy, as the larger proportion of elective out-patient services are still financed by the patients themselves.

Our medical insurance business contributed GEL 12.9 million to total revenue, largely flat y-o-y but down 11% q-o-q. Sales to retail clients posted a strong, 38.1% growth y-o-y but was offset by decline in the sales to corporate clients, which was a result of not renewing the contract with one large corporate client at the end of 2015. Nonetheless, GHG achieved strong growth in its corporate and retail client base and the number of insured individuals was retained above 200,000 during 1Q 2016. Our medical insurance business plays a crucial role in our business model, as it is an important feeder for our healthcare services business, and we believe that role will grow in the future as we roll-out our ambulatory growth strategy. In 1Q16, our medical insurance claims expense was GEL 12.0 million, of which GEL 2.6 million (22% of total) was inpatient, GEL 6.3 million (53% of total) was outpatient and GEL 3.1 million (25% of total) accounted for drugs. Only GEL 1.7 million, or 14.2% of our own total medical insurance claims were retained within GHG. The feeder role of our medical insurance business is particularly important for our ambulatory services. In 1Q16, only GEL 0.8 million, or 33.8% of our medical insurance claims on ambulatory clinics were retained within GHG, which increased by 4.1% since Q4 2015. With our recently launched ambulatory clinics and the ambitious ambulatory expansion strategy, the retention rate should improve in the future on a larger base, providing a significant revenue boost. In addition, following the expansion of our healthcare services business in referral and specialty hospitals in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising more of our hospitals. Our facilities are increasingly favoured by these customers over competitor facilities due to the better quality of service received, access to a one-stop-shop style of service for ambulatory services and ease of claim reimbursement procedures.

Cost of services and Gross profit

(GEL thousands, unless otherwise noted)	1Q16	1Q15	Change, Y-o-Y	4Q15	Change, Q-o-Q
Cost of healthcare services	**(32,998)**	**(24,273)**	**35.9%**	**(30,007)**	**10.0%**
Cost of salaries and other employee benefits	(19,752)	(15,092)	30.9%	(18,256)	8.2%
Cost of materials and supplies	(9,613)	(6,482)	48.3%	(8,871)	8.4%
Cost of medical service providers	(428)	(468)	-8.5%	(593)	-27.9%
Cost of utilities and other	(3,205)	(2,231)	43.7%	(2,287)	40.1%
Net insurance claims incurred	**(11,953)**	**(10,837)**	**10.3%**	**(12,917)**	**-7.5%**
Eliminations	1,694	1,771	-4.3%	1,306	29.7%
Total cost of services	**(43,257)**	**(33,339)**	**29.7%**	**(41,617)**	**3.9%**
Gross profit	**28,015**	**19,579**	**43.1%**	**26,016**	**7.7%**
Gross margin	**39.1%**	**36.3%**		**37.9%**	
Cost of healthcare services as % of revenue					
Direct salary rate	32.7%	35.3%		32.9%	
Materials rate	15.9%	15.2%		16.0%	
Medical insurance					
Loss ratio	92.4%	83.4%		88.9%	

Our margins improved as a result of the increasing utilisation and scale of our business, as well as our continued focus on efficiency and the on-going integration of recently acquired healthcare facilities. Costs continued to be well contained in 1Q16, with a 29.7% y-o-y growth in the cost of services favorably lagging behind a 33.1% growth in our revenues, thus posting strong operating leverage. Cost of services grew in both of our businesses, but was primarily driven by healthcare services business.

In the healthcare services business, the absolute growth of 35.9% y-o-y is favorably below the respective 41.4% growth in our healthcare services revenues. The growth of salaries and other employee benefits by 30.9% y-o-y was mainly attributable to recent acquisitions. A portion of the growth, however, was organic and reflected primarily the variable direct salary paid to revenue generating physicians. The share of the cost of salaries and other employee benefits in the total cost of services decreased to 60% in 1Q16, down from 62% a year ago and down from 61% in 4Q15. The direct salary rate in healthcare services business (expense on direct salaries as a percentage of gross revenue) was 32.7% in 1Q16, down from 35.3% a year ago and down from 32.9% in 4Q15.

Cost of materials and supplies was GEL 9.6 million, up 48.3% y-o-y which was primarily a result of the acquisition of HTMC, in August 2015. Growth of the cost of material and supplies by 8.4% q-o-q was mostly attributable to organic growth of business. The materials rate (expense on direct materials as a percentage of gross revenue) was 15.9% in 1Q16, up from 15.2% a year ago and down from 16.0% in 4Q15. The fluctuation in the materials is primarily attributable to HTMC, which is a large referral hospital with a broad service mix that incurs greater expenditure on higher usage of materials as compared to the rest of the Group's hospitals. This caused the spike in the materials rate in 2016. Following the acquisition we began transferring HTMC procurement to our group-wide procurement contracts. The process continues and we expect full centralisation during 2016. As a result of which we expect cost of materials to decline further, within the group consolidated range of c.15%.

The medical insurance loss ratio (net insurance claims divided by net insurance revenue) increased from 83.4% in 1Q15 to 92.4% in 1Q16, mostly as a result of the 10.3% y-o-y increase in net insurance claims incurred. The growth in claims was attributable to two main factors: 1) increased utilisation due to a flu virus epidemic trend that was observed in February and March; and2) GEL devaluation against US$, which drove up the retail prices of pharmaceuticals, (drugs represent c. 25% of our medical insurance claims). Another factor causing the increase in the ratio was that net insurance premiums earned (the denominator in the ratio) remained flat y-o-y, in part due to the non-renewal of a contract with one of the largest corporate clients in 4Q15. To address the this latter factor , we are actively attracting new corporate and retail clients, as a result of which we have managed to keep the number of insured individuals above 200,000 by the end of 1Q16.

Deconcentration of our insurance portfolio is one of the key targets for our medical insurance business, and by the end of 1Q16, we managed to reduce concentration of top five clients to 26.0%, down from 45.0% a year ago, measured by insurance revenue. We have also addressed the second driver of increased claims referred to above, having adjusted the pricing (with an average increase of 20%) and underwriting criteria (copayments) of our medical insurance products. We expect that this will improve the loss ratio gradually as existing contracts are renewed or new sales at adjusted prices are made. The majority of the contracts at re-priced levels so far have become effective since January 2016. We expect the benefit associated with these changes to our coverage of pharmaceuticals will accelerate with the synergies that we expect to realise as a result of the acquisition of GPC, the third largest pharmaceuticals retailer and wholesaler in Georgia.

Cost of utilities was GEL 3.2 million, up 43.7% y-o-y. The increase is due to some increase in tariffs of utilities in the country as well as acquisitions, while the q-o-q increase of 40.1% is primarily due to seasonality.

The increase in gross profit to GEL 28.0 million in 1Q16 was driven by the 33.1% growth in revenues, which outpaced the 29.7% growth in cost of services during the period. This drove an increase in gross margin (defined as gross profit divided by revenue) to 39.1%, up 280bps from 36.3% a year ago.

Operating expenses and EBITDA

(GEL thousands, unless otherwise noted)	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**
Operating expense of healthcare service business	**(9,456)**	**(7,923)**	**19.3%**	**(8,857)**	**6.8%**
Salaries and other employee benefits	(6,115)	(5,314)	15.1%	(6,178)	-1.0%
General and administrative expenses	(2,483)	(1,778)	39.7%	(2,219)	11.9%
Impairment of healthcare services receivables	(858)	(831)	3.2%	(460)	86.5%
Operating expense of medical insurance business	**(1,660)**	**(1,760)**	**-5.7%**	**(1,627)**	**2.0%**
Eliminations	11	91	-87.9%	4	175.0%
Total operating expense	**(11,105)**	**(9,592)**	**15.8%**	**(10,480)**	**6.0%**
Other operating income	220	125	76.0%	986	-77.7%
EBITDA, *Of which:*	**17,129**	**10,112**	**69.4%**	**16,522**	**3.7%**
EBITDA of healthcare services business	*17,828*	*9,670*	*84.4%*	*16,539*	*7.8%*
EBITDA margin of healthcare service business	*29.5%*	*22.6%*		*29.8%*	
Medical Insurance					
Expense ratio	14.7%	14.9%		13.8%	
Combined ratio	107.1%	98.3%		102.7%	

Primarily driven by recent acquisitions, operating expenses increased by 15.8% in 1Q16, compared to the same period last year and increased by 6.0% over 4Q15. The growth of salaries and other employee benefits as well as general and administrative expenses, is primarily due to the acquisition and integration of newly acquired hospitals. Despite this increase, the administrative salary rate (administrative salary expenses as a percentage of gross revenue) reduced to 10.1%, compared to 12.4% a year ago, and 11.1% in 4Q15. Quarterly growth of general and administrative expenses is mostly attributable to the newly launched intensive marketing campaign alongside the roll-out of our ambulatory strategy.

With revenue growth outpacing the increase in expenses, our operating leverage was positive at 27.3 percentage points. Strong operating leverage was solely driven by our healthcare services business which posted a positive operating leverage at 35.1 percentage points y-o-y. This resulted from the elimination of unnecessary costs and realisation of post-acquisition synergies, as well as increasing benefits of scale of our business.

Furthermore, post-acquisition synergies in our healthcare services business are not yet fully reflected in the current financial results, as the integration process for a number of recent acquisitions is still ongoing. We are continuing our work on realising synergies, mainly administrative inefficiencies, in recently acquired hospitals, as benchmarked against our existing healthcare facilities in the areas of procurement, process standardisation and payroll.

As a result, we reported record quarterly EBITDA of GEL 17.1 million, a solid growth of 69.4% y-o-y. This increase was primarily driven by our healthcare services business. The healthcare services business recorded outstanding EBITDA growth of 84.4% y-o-y and 7.8% q-o-q, reaching GEL 17.8 million in 1Q16. The medical insurance business recorded a negative EBITDA of GEL 0.7 million, caused by the loss of a large corporate client by the end of 4Q15 and increase in medical insurance claims, as explained above. We continue attracting new corporate clients to sustain the planned organic growth with already tangible results in the retail segment of the medical insurance.

We sustained the EBITDA margin in our healthcare services business close to our target of c.30% (we target c.30% healthcare services business EBITDA margin by 2018), notwithstanding the first quarter is usually a relatively weak quarter by nature. Our continued focus on efficiency and the integration of newly acquired facilities, resulted in outstanding EBITDA margin within our healthcare services business in 1Q16, of 29.5%, up 690 bps y-o-y.

As with the claims ratio discussed above, the expense ratio (operating expenses excluding interest expense divided by net insurance revenue) was affected by the non-renewal of the contract by the major corporate customer at year-end 2015. After having improved from 14.9% for 1Q15 to 13.8% for the 4Q15 year, the ratio weakened again to 14.7% for 1Q16. Combined ratio is the sum of loss ratio and expense ratio and its weakening reflects the trends discussed above.

Depreciation; net-interest expense and profit for the period

(GEL thousands, unless otherwise noted)	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**
Depreciation and amortisation	(4,465)	(2,322)	92.3%	(4,295)	4.0%
Net interest (expense) income	(1,656)	(4,101)	-59.6%	(5,377)	-69.2%
Net (losses)/gains from foreign currencies	(260)	3,404	NMF	(1,592)	-83.7%
Net non-recurring income/(expense)	1,968	(211)	NMF	(192)	NMF
Profit before income tax expense	**12,716**	**6,882**	**84.8%**	**5,066**	**151.0%**
Income tax (expense) / benefit	(693)	(607)	14.2%	(14)	NMF
Profit for the period	**12,023**	**6,275**	**91.6%**	**5,052**	**138.0%**
Of which:					
Profit from healthcare services business	12,153	5,616	116.4%	5,650	115.1%
Profit from medical insurance business	(130)	659	-119.7%	(598)	NMF
Attributable to:					
- shareholders of the Company	9,921	5,732	73.1%	3,823	159.5%
- non-controlling interests	2,102	543	287.1%	1,229	71.0%

Our strong EBITDA performance in 1Q16 was further translated into a strong profit for the period of GEL 12.0 million, which grew by 91.6% y-o-y. This was primarily driven by the profit of the healthcare services business that more than doubled for the same period reaching GEL 12.2 million.

This strong profit performance was despite an increase in depreciation and amortisation expenses by 92.3% y-o-y which was primarily driven by acquisitions and sizeable development projects. The company is still in an intensive CAPEX mode and depreciation and amortisation continued to grow at a modest 4.0% q-o-q. The decrease in net interest expense to GEL 1.7 million, down 59.6% y-o-y and down 69.2% q-o-q, is mainly attributable to reduced total borrowings to GEL 99.9 million as at 31 March 2016, down from GEL 163.7 million a year ago, in line with our declared strategy of deleveraging through IPO proceeds. The loss from foreign currencies is due to the long position in GBP in the end of 1Q16, the currency of IPO proceeds, which was affected by the appreciation of GEL against GBP. Net non-recurring income includes GEL 2.2 million of income tax benefit originated from a tax deductible impairment of past due receivables.

Selected balance sheet items

(GEL thousands, unless otherwise noted)	Mar-16	Mar-15	Change, Y-o-Y	Dec-15	Change, Q-o-Q
Total assets, of which:	**737,815**	**435,124**	**69.6%**	**758,280**	**-2.7%**
Cash and bank deposits	65,404	30,207	116.5%	157,398	-58.4%
Property and equipment	487,641	270,742	80.1%	444,718	9.7%
Total liabilities, of which:	**261,819**	**258,071**	**1.5%**	**283,299**	**-7.6%**
Borrowings	99,856	163,720	-39.0%	152,762	-34.6%
Total shareholders' equity	**475,996**	**177,053**	**168.8%**	**474,981**	**0.2%**
Attributable to:					
Shareholders of the Company	*428,805*	*153,950*	*178.5%*	418,981	2.3%
Non-controlling interest	*47,191*	*23,103*	*104.3%*	56,000	-15.7%

As a result of recent acquisitions and the IPO completed in November 2015, our balance sheet increased substantially over the last 12 months reaching GEL 737.8 million as at 31 March 2016. The growth of total assets by GEL 302.7 million y-o-y was largely driven by the 80.1% (GEL 216.9 million) increase in property and equipment, reflecting the acquisition of new hospitals in 2015. Cash and bank deposits have also significantly increased, reflecting the receipt of the funds raised in the IPO at the end of 2015. The increase in shareholders' equity largely reflects the primary placement of equity shares in the IPO.

During the quarter, the balance sheet remained largely flat, with cash and bank deposits declining by 58.4% q-o-q mainly a result of the following 1Q16 events: 1) In January we prepaid GEL 48.4 million of loans to local banks, in line with our deleveraging strategy; 2) We paid the GEL 21.5 million to the HTMC sellers representing the holdback for the acquisition; 3) In line with our renovation plan, GEL 14.4 million of development CAPEX was spent.

Net growth in total shareholders' equity in 1Q16 is a result of a GEL 12.2 million growth attributable to 1Q16 consolidated net profit of the Group and buyout of equity attributable to minority stake in Iashvili hospital.

Update on operating performance, project and development highlights:

We operated 2,686 hospital beds in 46 facilities by the end of 31 March 2016, up from 2,140 beds in 39 facilities a year ago, a net increase of 546 beds resulting in a year-end market share of 26.7%. The increase in the number of hospital beds was primarily in Tbilisi, the capital city of Georgia, where revenue per bed is significantly higher compared to the other regions. This reflected the implementation of GHG's expansion strategy and subsequent acquisition of the nine hospitals with a total of 1,380 beds since the end of 2013.

Consequently, our footprint increased significantly in Tbilisi, where our market share in beds grew from 14.1% as of 31 December 2014 to 24.0% as of 31 March 2016. Together with the acquisition of operating beds, we acquired additional development capacity of c.500 beds that will become operational following renovations planned in 2016 and 2017, increasing our national and Tbilisi market share in beds up to c.30%. We commenced the renovation of Deka and Sunstone hospitals at the beginning of 2016, both are currently in an active renovation phase, on schedule, within the budget and are expected to be completed and launched in mid-2017. As a result, our market share by number of beds is expected soon to approach our target of 1/3. In 1Q16 we spent GEL 14.4 million on current/ongoing development projects (net of maintenance). These expenditures already include commencement of the renovation of the two flagship Deka and Sunstone projects, which account for GEL 4.3 million and GEL 3.1 million of CAPEX in 1Q16 respectively.

We accelerated the launch of ambulatory clinics in the second half of 2015, in line with our strategic goal to open 10-12 ambulatory clusters, with 20-30 ambulatory clinics within 2-3 years. We launched three ambulatory clusters in 2015 and will be launching additional six ambulatory clusters during 2016. Three of the clusters that will be located in Tbilisi and one in Zugdidi, a city in West Georgia are under development currently, on schedule, and are expected to be launched within the next couple of months. The remaining two clusters will be opened by the end of the year. Currently we are predominantly a hospital provider, with only 3.5% of our healthcare services revenue derived from ambulatory clinics, up from 2.8% in 4Q15. With our ambulatory strategy we aim to tap the highly fragmented and under-penetrated outpatient segment that represents c.40% of national spending on healthcare services (excluding pharmaceuticals), where no single player has more than 3% of the market. Outpatient encounters per capita have increased from 2.7 in 2013 to 3.5 in 2014, however it remains relatively low when compared to outpatient encounters in CIS and EU countries at 8.9 and 7.7 respectively. The current low utilisation, combined with the higher margins achievable, make the ambulatory sector particularly attractive.

We invest in medical technology, on the back of renovated infrastructure, enhancing our service mix and introducing new services to cater to unfulfilled demand, as indicated by low incidence levels that lag far behind peer benchmarks. We define development capex as additions to GHG's property, plant and equipment, excluding acquisitions. During 1Q16, we spent a total of GEL 16.9 million on capital expenditures, an increase of 9.1% y-o-y. Of this, maintenance capex was GEL 2.5 million.

Notable service developments in 1Q16:

- In April 2016, we launched an In Vitro Fertilisation service ("IVF") at Caraps Medline ("**Caraps**") – an up-scale boutique hospital in Tbilisi, particularly renowned for gynaecology and plastic surgery services in Georgia. IVF services are undeveloped in the country and Georgians generally have to travel abroad for this service. The immediate goal for GHG is to retain those patients that currently travel abroad for IVF service. Total spending amounted GEL 1.0 million. The total monthly capacity of the department is 150 patients. A distinguished embryologist from Turkey set-up the service at Caraps, with the objective to develop a local team, which currently comprises ten specialists. Prior to launching the service, key specialists from the team went through an extensive period of training in Turkey. This was a significant step towards our strategy to fill the existing service gaps in Georgia.

- The renovation of our hospitals in the Samtskhe region (capex of GEL 9.3 million) was completed in 1Q16. Renovation started in August 2015 following the privatisation of the regional hospitals with a total of 126 beds in 2012. Clinics in three locations were fully renovated and fitted with new equipment. Diagnostics capabilities were expanded, new computer tomography units were installed in two locations, and emergency care units were launched. Following the completion of the renovation, a total of 16 new beds were added in the region. Samtkshe clinics posted total healthcare services gross revenue of GEL 4.8 million in 2015.

In spite of these investments, there are still shortages in the supply of equipment and services, which leaves significant room for further growth. We expect to launch a number of these services in the beginning of 2016, including adding or expanding neurosurgery, cardiosurgery, and intensive care units in our regional hospitals; and pediatric kidney transplantation in our major paediatric hospital in Tbilisi.

Total Medical Quality Service Department (TMQS), established in 2015, set priorities for the next 2 years. The TMQS is in charge of the healthcare service risk assessment and quality management. Through assessing the proper data and information, the TMQS identifies compliance with preliminary defined quality and safety goals. TMQS is in the process of training quality officers. Benchmarked against JCI guides, the following key parameters have been identified for efficient medical quality management focus: infection control, readmission monitoring, mortality and morbidity, and clinical performance. Currently the relevant data collection, processing and analysis is based on the existing and available billing systems. We expect further enhancement of our capabilities with regard to the data collection and analysis following the implementation of an Electronic Medical Record software ("**EMR**") expected within next two years.

Other notable developments in the 1Q16:

- **We acquired one of the largest retail and wholesale pharmacy chains in Georgia, becoming the major purchaser of pharmaceutical products in Georgia.** We acquired a 100% equity stake in JSC GPC ("GPC"), one of the top three pharmaceutical retailers and wholesalers in Georgia, in exchange for a total of US$14 million cash consideration. The acquisition of GPC supports our expansion strategy and our aim to be the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value. This acquisition positions us as the major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant synergy potential. GPC has a 15% market share by sales, in a market which is largely concentrated within the hands of four major players. GPC is primarily an urban retailer and operates 96 pharmacies across Georgia, of which 25 are combined with express ambulatory clinics. GPC has approximately 1 million retail customer interactions every month, and has 0.5 million loyalty card members. We aim to focus on the following main areas at GPC over the next 2-3 years:
    - Consolidating GHG's and GPC's purchases of pharmaceuticals and medical disposables to achieve: 1) *manufacturer cost synergy* - saving from additional manufacturer discounts at a consolidated GHG level (pharmaceuticals, hospital and medical insurance businesses), as a result of becoming one of the largest purchasers of pharmaceuticals in Georgia and 2) *captive cost synergy* - decrease in GHG's existing cost on pharmaceuticals and medical disposables (both in the healthcare services and medical insurance businesses), by redirecting part of its purchases to GPC and thus eliminating the distributor margin;
    - GPC acquisition further enhances GHG's existing "patient capture" business model through GPC's strong customer base and loyalty franchise referred to above, which are expected to drive referrals to GHG's ambulatory clinics and drive cross-selling of our medical insurance products;
    - The enhancement of GPC's retail margin by growing the share of high-margin para-pharmacy and generic drug sales;
    - The expansion of GPC's pharmacy footprint by opening pharmacies at GHG's existing hospitals and flagship ambulatory clinics at over 40 new locations countrywide.

  The transaction was finalised on 4 May 2016 and we will start financial consolidation of GPC accordingly. GPC will be reported as a separate segment.

- **We expanded the senior management team** and appointed George Arveladze as a Deputy CEO, in charge of ambulatory and pharmaceutical Businesses. George brings strong knowledge of and experience in the Georgian retail sector, as prior to joining GHG, he worked as a CEO of Liberty Bank. Liberty is Georgia's 3rd largest retail bank with more than 5,300 employees and over 650 branches throughout the country. George led Liberty since 2013 delivering c.200% net profit cumulative annual growth in 2 years, an impressive and strong performance. George holds an MBA from London Business School.

- **We bought out the minority interest at a major referral hospital (Iashvili).** We also bought-out the remaining 33.3% minority shareholding of our largest pediatric hospital, Iashvili Referral Hospital ("Iashvili"). The transaction was finalised as we have signed respective Share Purchase Agreement on 12 March, 2016. We have held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding at Iashvili, we will pay cash of US$ 1.0 million and transfer all of our assets in Tbilisi Maternity Hospital "New Life" ("New Life") to the seller of the minority stake. We have held a 100% stake in New Life since February 2014. Operating 266 beds, Iashvili recorded GEL 25.2 million in gross revenue in 2015, of which GEL 8.4 million was attributable to the minority shareholder brought out as a result of this transaction. Operating 82 beds, New Life recorded GEL 2.4 million in gross revenue in 2015.

- **We have completed the implementation of a new enterprise resource planning system (ERP)**, a software for data collection, transaction capturing, accounting and further analysis of financial transactions, also ensuring standardisation of respective services across GHG's hospitals and clinics. We expect this system will help us track capacity in a consistent manner across the network and identify areas for improvement to get further efficiencies.

- **We further enhanced our residency programs,** in line with our strategy to develop a new generation of doctors. At the end of 2015, we successfully launched residency programs in a number of fields, including pediatrics, neonatology, children's emergency care, children's neurology, anesthesiology and intensive care, laboratory medicine, obstetrics and gynecology, children's cardio and rheumatology. These programs are particularly important to source specialists in the fields where we have a shortage of doctors. Since the launch of the program in December 2015, we have received 120 applications from prospective residents, reflecting a high interest in such programs. Out of these 120 applications, 43 candidates where selected and are currently involved in residency programs in different hospitals and facilities. In April 2016, four additional programs were accredited: internal medicine, endocrinology, pediatric gastroenterology, and pediatric endocrinology, with a total of 15 residents to be enrolled. The process of application review has already started. Applications for 2 additional programs: Radiology and Cardio surgery were filed with Ministry of Health and are awaiting due process of accreditation.

- In December, 2015 we launched ER retraining programme for paediatric physicians. Currently 20 physicians are involved.

SELECTED FINANCIAL INFORMATION

Income Statement	Healthcare services					Medical insurance					Eliminations			Total				
GEL thousands; unless otherwise noted	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**	**1Q16**	**1Q15**	**4Q15**	**1Q16**	**1Q15**	**Change, Y-o-Y**	**4Q15**	**Change, Q-o-Q**
Revenue, gross	**60,451**	**42,745**	**41.4%**	**55,481**	**9.0%**	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**	**(1,705)**	**(1,862)**	**(1,293)**	**71,682**	**53,875**	**33.1%**	**68,720**	**4.3%**
Corrections & rebates	(410)	(957)	-57.2%	(1,086)	-62.2%	-	-	-	-	-	-	-	-	(410)	(957)	-57.2%	(1,086)	-62.2%
Revenue, net	**60,041**	**41,788**	**43.7%**	**54,395**	**10.4%**	**12,936**	**12,992**	**-0.4%**	**14,532**	**-11.0%**	**(1,705)**	**(1,862)**	**(1,293)**	**71,272**	**52,918**	**34.7%**	**67,634**	**5.4%**
Cost of services	**(32,998)**	**(24,273)**	**35.9%**	**(30,007)**	**10.0%**	**(11,953)**	**(10,837)**	**10.3%**	**(12,917)**	**-7.5%**	**1,694**	**1,771**	**1,306**	**(43,257)**	**(33,339)**	**29.7%**	**(41,618)**	**3.9%**
Cost of salaries and other employee benefits	(19,752)	(15,092)	30.9%	(18,256)	8.2%	-	-	-	-	-	565	675	449	(19,187)	(14,417)	33.1%	(17,807)	7.7%
Cost of materials and supplies	(9,613)	(6,482)	48.3%	(8,871)	8.4%	-	-	-	-	-	275	290	240	(9,338)	(6,192)	50.8%	(8,631)	8.2%
Cost of medical service providers	(428)	(468)	-8.5%	(593)	-27.9%	-	-	-	-	-	12	21	13	(416)	(447)	-6.9%	(580)	-28.3%
Cost of utilities and other	(3,205)	(2,231)	43.7%	(2,287)	40.1%	-	-	-	-	-	92	100	60	(3,113)	(2,131)	46.1%	(2,227)	39.8%
Net insurance claims incurred	-	-	-	-	-	(11,953)	(10,837)	10.3%	(12,917)	-7.5%	750	685	544	(11,203)	(10,152)	10.4%	(12,373)	-9.5%
Gross profit	**27,043**	**17,515**	**54.4%**	**24,388**	**10.9%**	**983**	**2,155**	**-54.4%**	**1,615**	**-39.1%**	**(11)**	**(91)**	**13**	**28,015**	**19,579**	**43.1%**	**26,016**	**7.7%**
Salaries and other employee benefits	(6,115)	(5,314)	15.1%	(6,178)	-1.0%	(819)	(1,036)	-20.9%	(636)	28.8%	11	91	4	(6,923)	(6,259)	10.6%	(6,810)	1.7%
General and administrative expenses	(2,483)	(1,778)	39.7%	(2,219)	11.9%	(719)	(621)	15.8%	(839)	-14.3%	-	-	-	(3,202)	(2,399)	33.5%	(3,058)	4.7%
Impairment of healthcare services, insurance premiums and other receivables	(858)	(831)	3.2%	(460)	86.5%	(122)	(103)	18.4%	(152)	-19.7%	-	-	-	(980)	(934)	4.9%	(612)	60.1%
Other operating income	241	78	209.0%	1,008	-76.1%	(21)	47	NMF	(5)	320.0%	-	-	(17)	220	125	76.0%	986	-77.7%
EBITDA	**17,828**	**9,670**	**84.4%**	**16,539**	**7.8%**	**(699)**	**442**	**NMF**	**(17)**	**NMF**	**-**	**-**	**-**	**17,129**	**10,112**	**69.4%**	**16,522**	**3.7%**
EBITDA margin	***29.5%***	***22.6%***		***29.8%***		***-5.4%***	***3.4%***		***-0.1%***		-	-		***23.9%***	***18.8%***		***24.0%***	
Depreciation and amortisation	(4,261)	(2,186)	94.9%	(4,046)	5.3%	(204)	(136)	50.0%	(249)	-18.0%	-	-	-	(4,465)	(2,322)	92.3%	(4,295)	4.0%
Net interest (expense) / income	(2,259)	(4,073)	-44.5%	(5,535)	-59.2%	603	(28)	NMF	158	282.4%	-	-	-	(1,656)	(4,101)	-59.6%	(5,377)	-69.2%
Net (losses) / gains from foreign currencies	(411)	2,907	NMF	(1,586)	-74.1%	151	497	-69.6%	(6)	NMF	-	-	-	(260)	3,404	NMF	(1,592)	-83.7%
Net non-recurring (expense) / income	1,968	(211)	NMF	484	306.3%	-	-	-	(676)	NMF	-	-	-	1,968	(211)	NMF	(192)	NMF
Profit before income tax expense	**12,865**	**6,107**	**110.7%**	**5,856**	**119.7%**	**(149)**	**775**	**NMF**	**(790)**	**-81.1%**	**-**	**-**	**-**	**12,716**	**6,882**	**84.8%**	**5,066**	**151.0%**
Income tax (expense) / benefit	(712)	(491)	45.0%	(206)	245.1%	19	(116)	NMF	192	-90.1%	-	-	-	(693)	(607)	14.2%	(14)	NMF
Profit for the period	**12,153**	**5,616**	**116.4%**	**5,650**	**115.1%**	**(130)**	**659**	**NMF**	**(598)**	**-78.3%**	**-**	**-**	**-**	**12,023**	**6,275**	**91.6%**	**5,052**	**138.0%**
Attributable to:																		
- shareholders of the Company	10,051	5,073	98.1%	4,421	127.3%	(130)	659	NMF	(598)	-78.3%	-	-	-	9,921	5,732	73.1%	3,823	159.5%
- non-controlling interests	2,102	543	287.1%	1,229	71.0%	-	-	-	-	-	-	-	-	2,102	543	287.1%	1,229	71.0%

Balance Sheet	**Healthcare services**					**Medical insurance**					**Eliminations**			**Total**				
GEL thousands; unless otherwise noted	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**	**Mar-16**	**Mar-15**	**Dec-15**	**Mar-16**	**Mar-15**	**Change, Y-o-Y**	**Dec-15**	**Change, Q-o-Q**
Total assets, of which:	**670,861**	**365,689**	**83.5%**	**703,309**	**-4.6%**	**75,493**	**76,669**	**-1.5%**	**67,372**	**12.1%**	**(8,539)**	**(7,234)**	**(12,400)**	**737,815**	**435,124**	**69.6%**	**758,280**	**-2.7%**
Cash and bank deposits	52,408	13,378	291.7%	139,085	-62.3%	12,996	16,829	-22.8%	18,313	-29.0%	-	-	-	65,404	30,207	116.5%	157,398	-58.4%
Receivables from healthcare services	78,034	51,317	52.1%	71,348	9.4%	-	-	-	-	-	(4,284)	(2,765)	(5,485)	73,750	48,552	51.9%	65,863	12.0%
Insurance premiums receivable	-	-	-	-	-	39,042	37,412	4.4%	20,948	86.4%	-	(207)	(285)	39,042	37,205	4.9%	20,663	88.9%
Property and equipment	481,969	265,856	81.3%	439,131	9.8%	5,672	4,886	16.1%	5,587	1.5%	-	-	-	487,641	270,742	80.1%	444,718	9.7%
Goodwill and other intangible assets	19,433	6,190	213.9%	19,708	-1.4%	6,097	3,940	54.7%	6,079	0.3%	-	-	-	25,530	10,130	152.0%	25,787	-1.0%
Other assets	39,017	28,948	34.8%	34,037	14.6%	11,686	13,602	-14.1%	16,445	-28.9%	(4,255)	(4,262)	(6,630)	46,448	38,288	21.3%	43,851	5.9%
Total liabilities, of which:	**214,166**	**207,158**	**3.4%**	**247,762**	**-13.6%**	**56,192**	**58,147**	**-3.4%**	**47,937**	**17.2%**	**(8,539)**	**(7,234)**	**(12,400)**	**261,819**	**258,071**	**1.5%**	**283,299**	**-7.6%**
Borrowings	92,336	151,689	-39.1%	140,439	-34.3%	11,775	15,956	-26.2%	16,497	-28.6%	(4,255)	(3,924)	(4,173)	99,856	163,720	-39.0%	152,762	-34.6%
Accounts payable	36,533	13,942	162.0%	29,160	25.3%	832	-	NMF	1,016	-18.1%	-	-	-	37,365	13,942	168.0%	30,176	23.8%
Insurance contract liabilities	-	-	-	-	-	39,431	38,168	3.3%	22,463	75.5%	(2,496)	(2,697)	(1,112)	36,935	35,471	4.1%	21,351	73.0%
Other liabilities	85,297	41,527	105.4%	78,163	9.1%	4,154	4,023	3.3%	7,961	-47.8%	(1,788)	(613)	(7,115)	87,663	44,938	95.1%	79,010	11.0%
Total shareholders' equity	**456,695**	**158,531**	**188.1%**	**455,547**	**0.3%**	**19,301**	**18,522**	**4.2%**	**19,435**	**-0.7%**	**-**	**-**	**-**	**475,996**	**177,053**	**168.8%**	**474,981**	**0.2%**
Attributable to:																		
Shareholders of the Company	*409,504*	*135,428*	*202.4%*	*399,547*	*2.5%*	*19,301*	*18,522*	*4.2%*	*19,435*	*-0.7%*	-	-	-	*428,805*	*153,950*	*178.5%*	*418,981*	*2.3%*
Non-controlling interest	*47,191*	*23,103*	*104.3%*	*56,000*	*-15.7%*	-	-	-	-	-	-	-	-	*47,191*	*23,103*	*104.3%*	*56,000*	*-15.7%*

Selected ratios and KPIs	1Q16	1Q15	4Q15
GHG			
EPS, GEL	0.08	NMF[4]	NMF[4]
ROAE	9.4%	15.2%	5.0%
Adjusted ROAE	16.5%	15.2%	7.8%
Operating leverage	27.3%	-11.2%	6.6%
Group rent expenditure	(405)	(336)	(527)
Group capex (maintenance)	(2,537)	(1,887)	(3,767)
Group capex (growth)	(14,357)	(13,596)	(30,489)
Number of employees	9,747	8,177	9,709
Number of physicians	2,762	2,411	2,705
Number of nurses	2,706	2,274	2,738
Nurse to doctor ratio	0.98	0.94	1.01
Total number of shares	131,681,820		
Less: Treasury shares	(3,500,000)		
Shares outstanding	128,181,820	28,334,829	
Of which:			
Total free float	42,550,000		
Primary shares issued in IPO	*38,681,820*		
Secondary shares sold to the market	*3,868,180*		
Shares held by BGEO GROUP PLC	85,631,820		
Healthcare services			
EBITDA margin of healthcare services	29.5%	22.6%	29.8%
Direct salary rate (direct salary as % of revenue)	32.7%	35.3%	32.9%
Materials rate (direct materials as % of revenue)	15.9%	15.2%	16.0%
Administrative salary rate (administrative salaries as % of revenue)	10.1%	12.4%	11.1%
SG&A rate (SG&A expenses as % of revenue)	4.1%	4.2%	4.0%
Number of hospitals	46	39	45
Number of beds	2,686	2,140	2,670
Number of referral hospital beds	2,229	1,679	2,209
Bed occupancy rate	60.4%	54.2%	51.9%
Bed occupancy rate, referral hospitals	66.7%	*61.4%*	59.9%
Bed occupancy rate, community hospitals	26.6%	*23.8%*	18.4%
Average length of stay (days)	4.9	4.6	4.7
Average length of stay (days), referral hospitals	*5.2*	*4.9*	*5.0*
Average length of stay (days), community hospitals	*3.0*	*2.9*	*2.7*
Medical insurance			
Loss ratio	92.4%	83.4%	88.9%
Expense ratio	14.7%	14.9%	13.8%
Combined ratio	107.1%	98.3%	102.7%
Renewal rate	88.5%	74.2%	92.0%

[4] Due to the fact that number of outstanding shares increased significantly as a result IPO that was completed in November 2015, comparison of 2016 Q1 EPS to previous periods would be distorted.

Glossary:

- 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 difference between percentage increase in gross profit and percentage increase in total operating costs
- 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 expenditure 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
- Adjusted Return on average total equity (Adjusted ROAE) equals profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period net of unutilised portion of IPO proceeds.
- Adjusted Return on average total equity (Adjusted ROAE) equals Profit for the period attributable to shareholders of the Company divided by average equity attributable to shareholders of the Company for the same period net of IPO proceeds
- Earnings per share (EPS) equals Profit for the period attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period
- FTE represent full time employees
- 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) available during the year
- Average length of stay is calculated as number of inpatient days divided by number of patients
- Renewal rate is calculated by dividing number of clients who renewed insurance contracts during given period by total number of clients excluding those from Ministry of Internal Affairs.
- 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

COMPANY INFORMATION

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