GEORGIA HEALTHCARE GROUP

3rd quarter and 9 month 2016 Results

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Name of authorised official of issuer responsible for making notification:
Ekaterina Shavgulidze, Head of Investor Relations

An investor/analyst conference call, organised by GHG, will be held on Monday, 21 November 2016, at 10:00 am UK / 11:00 am CET / 05:00 am U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

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FORWARD LOOKING STATEMENTS

This document contains statements that constitute "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.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to the following: (1) general market, macroeconomic, governmental, legislative and regulatory trends; (2) movements in local and international currency exchange rates; interest rates and securities markets; (3) competitive pressures; (4) technological developments; (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties and developments in the market in which they operate; (6) management changes and changes to our group structure; and (7) 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 those filed with the respective authorities.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events. Accordingly, we are under no obligations (and expressly disclaim such obligations) to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise.

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's third quarter and nine month 2016 consolidated financial results. Unless otherwise mentioned, comparatives are for the third 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 3Q16 and 9M16 consolidated results, reporting a nine month profit of GEL 55.0 million (US$ 23.6 million/GBP 18.2 million) and earnings per share ("**EPS**") of GEL 0.35 (US$ 0.15 per share/GBP 0.12 per share).

GHG – *the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value*

9M16 financial performance

- Net profit was GEL 55.0 million (US$ 23.6 million / GBP 18.2 million), (up 196.3% y-o-y)
  - Normalised net profit was GEL 27.9 million[1] (US$ 12.0 million / GBP 9.2 million)
- EPS was GEL 0.35 (US$0.15 / GBP 0.12 per share)
  - Normalised EPS was GEL 0.18[2] (US$0.08 / GBP 0.06 per share)
- Revenue was GEL 290.4 million (up 64.8% y-o-y)
- EBITDA was GEL 53.7 million (up 35.6% y-o-y)
- Return on Average Equity ("**ROAE**"), normalised, was 12.4%[3]

3Q16 financial performance

- Net profit was GEL 9.8 million (US$ 4.2 million / GBP 3.2 million), (up 86.3% y-o-y, up 21.4% q-o-q[4])
- EPS was GEL 0.06 (US$0.02 / GBP 0.02 per share)
- Revenue was GEL 116.2 million (up 81.0% y-o-y, up 14.2% q-o-q)
- EBITDA was GEL 19.7 million (up 23.1% y-o-y, up 16.9% q-o-q)
- Return on Average Equity ("**ROAE**"), normalised, was 12.0%

Healthcare services – *the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market*

9M16 financial performance

- Revenue was GEL 178.5 million (up 27.9% y-o-y)
- Organic revenue growth was 13.4% y-o-y
- Gross profit was GEL 81.1 million (up 35.7% y-o-y)
- EBITDA was GEL 52.8 million (up 42.7% y-o-y)
- EBITDA margin was 29.6% (up 310 bps y-o-y)
- Operating leverage was positive at 20.3 percentage points y-o-y
- Net profit was GEL 56.9 million (up 250.8% y-o-y)
- Net profit, normalised, was 29.7 million, (US$ 12.7 million / GBP 9.8 million)

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[1] Normalized net profit is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments (in the amount of GEL 29.3 million for GHG, which fully resulted from the Group's healthcare services business) and adjusted for one-off currency translation loss in June ("**translation loss**") (in the amount of GEL 2.1 million), which resulted from settlement of the US Dollar denominated payable for the acquisition of GPC, the Group's pharma business. For details on the deferred tax adjustments, see the explanation in the bullet point immediately preceding "Healthcare services business" on page 5 of GHG 2nd quarter 2016 results announcement. The above mentioned adjustments were made during 1H16 and no new adjustments were added in 3Q16.
[2] Earnings per share (EPS) equals Profit for the period attributable to shareholders of the Company adjusted for non-recurring income/expense, deferred tax adjustments and foreign currency translation gain/loss divided by weighted average number of shares outstanding during the same period.
[3] Normalised ROAE is calculated as profit for the period attributable to shareholders of the Company adjusted as explained in "footnote 1" divided by average equity attributable to shareholders of the Company for the same period net of unutilised portion of IPO proceeds.
[4] Compared to 2Q16 normalised profit

3Q16 financial performance

- Revenue was GEL 59.3 million (up 16.0% y-o-y, up 0.9% q-o-q)
- Organic revenue growth was 14.2% y-o-y
- Gross profit was GEL 27.4 million (up 26.6% y-o-y, up 2.7% q-o-q)
- EBITDA was GEL 17.8 million (up 21.5% y-o-y, up 3.7% q-o-q)
- EBITDA margin was 30.0% (up 140 bps y-o-y, up 80 bps q-o-q)
- Operating leverage was positive at 17.6 percentage points y-o-y
- Net profit was GEL 9.4 million (up 151.4% y-o-y, down 73.5% q-o-q, down 5.7% q-o-q compared to normilised profit)

Pharma business – *the third largest pharmaceutical retailer and wholesaler in Georgia*

Financial performance since acquisition (May 2016 – Sep 2016)[5]

- Revenue was GEL 76.4 million
- Gross profit was GEL 15.4 million
- Gross margin was 20.2%
- EBITDA was GEL 2.3 million
- EBITDA margin was 3.1%
- Net profit was GEL 0.2 million

3Q16 financial performance

- Revenue was GEL 45.7 million
- Gross profit was GEL 9.8 million
- Gross margin was 21.5% (up 3.1 percentage points q-o-q)
- EBITDA was GEL 1.8 million
- EBITDA margin was 3.9% (up 2.1 percentage points q-o-q)
- Net profit was GEL 0.6 million

Medical insurance business – *the largest medical insurance provider in Georgia*

9M16 financial performance

- Net insurance premiums earned were GEL 45.2 million (up 5.0% y-o-y)
- Gross profit was GEL 4.4 million (down 41.8% y-o-y)
- Loss ratio was 83.6% (up 6.5 percentage points y-o-y)
- Expense ratio was 20.8%[6] (up 3.0 percentage points y-o-y)
- Combined ratio was 104.4% (up 9.5 percentage points y-o-y)
- EBITDA was negative at GEL 1.4 million
- Net loss was GEL 2.1 million

3Q16 financial performance

- Net insurance premiums earned were GEL 16.1 million (up 5.6% y-o-y, up 4.9% q-o-q)
- Gross profit was GEL 2.1 million (down 31.2% y-o-y, up 61.6% q-o-q)
- Loss ratio was 79.9% (up 5.6 percentage points y-o-y, down 5.1 percentage points q-o-q)
- Expense ratio was 20.5% (up 2.9 percentage points y-o-y, down 1.3 percentage points q-o-q)
- Combined ratio was 100.4% (up 8.5 percentage points y-o-y, down 6.4 percentage points q-o-q)
- EBITDA was GEL 0.1mln (EBITDA excluding Ministry of Defense ("**MOD**") related business was GEL 0.6mln)
- Net loss was GEL 0.2 million

[5] Pharma business financials are included since 1st of May 2016, as GHG completed the acquisition of the pharma business in May 2016 and started consolidation afterwards

[6] In prior year GHG financial statements, the Group had offset agents' commission fees paid for attracting insurance premiums with insurance revenue. Therefore insurance revenue was presented on a net basis in all prior period accounts. The Group reconsidered the presentation and decided that separate presentation of agents' commissions aids

CHIEF EXECUTIVE OFFICER STATEMENT

I am pleased to report another robust set of quarterly results for the third quarter of 2016, with continued progress in our Healthcare Services business; a full quarter's consolidation of our GPC acquisition, and the expected stabilisation of profitability in our medical insurance business. We have also today announced a major transaction in the pharmacy business, which, upon completion will make us the number one player in Georgia on the pharma market as we are in healthcare services and medical insurance. Details on the transaction, which is subject to regulatory approval, are in our separate press release.

The Group's profit of GEL 55.0 million in the first nine months of 2016 almost tripled the GEL 18.6 million made in the first nine months of 2015, although the reported results have been significantly affected by a number of one-off items and business changes, in particular the impact of deferred tax releases in the second quarter due to a recent corporate tax legislation change which lifted profits by GEL 25.1 million. Normalised net profit in nine months have increased by 112.8%. Profit before income tax expense in the third quarter of 2016 was GEL 10.4 million, up 96.3% on the third quarter of 2015, and up 65.0% on the second quarter of 2016.

Group revenues, at GEL 290.4 million for the first nine months of the year, increased by 64.8%. The Group's overall performance continues to be driven by the healthcare services business which delivered nine month revenues of GEL 178.5 million, supported by 13.4% organic revenue growth and a 310bps - EBITDA margin improvement to 29.6%, with the third quarter EBITDA margin reaching 30.0%. We continue to benefit significantly from our strong business growth and increasing economies of scale.

The Group's key strategic priorities are: 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. In the third quarter we continued to make progress in each of these strategic priorities.

In our healthcare services business, the renovation work on both our Deka and Sunstone hospital facilities has continued. Both hospital renovations remain on schedule and within budget, and both are expected to be fully completed and operational in mid of 2017. In August, we opened one of the largest diagnostic centres in Tbilisi as part of the Deka hospital - the first step in developing Deka into a flagship multi-profile hospital in Georgia.

We are also in the process of launching around 50 new services at nine of our referral hospitals. This will include the launch of a number of sophisticated services such as oncology, transplantation of bone marrow and paediatric kidney transplants, as well as basic services such as pediatrics, neonatology and ophthalmology. We have already launched a neuro intensive department at Telavi hospital, Laparoscopic operations at Batumi regional hospital and a Thoracoscopy service at Children's new hospital.

Our strategy to increase our share of healthcare revenues through the roll-out of a nationwide network of ambulatory clinics has continued and the launch, in October, of a new ambulatory cluster in Zugdidi, the largest city in the Samegrelo region in West Georgia, increased the size of our ambulatory clinics portfolio to a total of eight ambulatory clusters, out of which four were opened during 9M16. Another two are under renovation and will be launched in 4Q16.

In Q3 we fully consolidated the acquisition of GPC, one of the largest retail and wholesale pharmacy chains in Georgia, and continued our integration activities. We remain on track to deliver our initial guidance on synergies, and more than doubled the EBITDA margin in Q3 to 3.9%, from 1.8% in Q2 2016. The Gross Margin improved to 21.5%, from 18.4%, over the same period. In total, GPC now operates a countrywide network of 112 pharmacies in major cities, 25 of which incorporate express ambulatory clinics.

We are already capturing important synergies from the acquisition of GPC. We have eliminated the majority of the unnecessary costs and negotiations with suppliers continue to achieve better purchase pricing, resulting in the business having already achieved more than half of the expected purchasing synergies. We believe, however, that the biggest value enhancement in the GPC acquisition is the potential for increased customer acquisition for our outpatient business through

GPC's one million customer interactions and 0.5 million loyalty program users and we have already started to explore this opportunity. During the third quarter, we launched a bundled product for our pharma and ambulatory businesses to tap into around 500,000 GPC customers who have never been to our outpatient facilities and we expect to direct some 10,000 new customers per month from our pharmacies to our ambulatory clinics.

Furthermore, the acquisition we announced today of the Pharma-depot chain of pharmacies – the fourth largest player in Georgian pharma market – has a strong strategic fit with our existing business model. As a result of this transaction, GHG will further enhance its already strong position in the pharma market and become the market leader in this segment, in addition to our existing market leading positions in healthcare services and medical insurance. We aim to keep both brands, as they have a distinct positioning in two types of customer segments: GPC for the higher-end customer segment and Pharma-depot for the mass retail segment.

Apart from significant cost synergies in areas of procurement and administrative expenses, we aim to focus on three main areas at the combined pharma business over the next 2-3 years: decreasing the cost of goods sold / cost of services by realising captive cost synergy and manufacturer cost synergy; the enhancement of the retail margin by launching private label products; and the expansion of sales to hospitals and other small players in pharma. We will be further expanding our footprint selectively both in large cities as well as in many regions of Georgia, and will realise additional revenue synergies in healthcare services from the traffic from our combined pharma business that will average two million customer interactions per month.

Our medical insurance business has now delivered the expected stabilisation of earnings. In the third quarter of 2016, our medical insurance revenues increased 5.6% year-on-year, and 4.9% quarter-on-quarter, supported by improved sales to both retail and corporate clients. The combined ratio showed a favorable decline to near 100%, and the business contributed positively to EBITDA for the first time in 2016.

We remain comfortably on track to deliver on our target to more than double our 2015 healthcare services revenues by 2018, and we are already close to achieving our targeted 30% EBITDA margin in the healthcare services business. Our focus on our strategic priorities is clear and we expect a strong performance for the full year.

Nikoloz Gamkrelidze,

CEO of Georgia Healthcare Group PLC

DISCUSSION OF GROUP RESULTS

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest healthcare services business, pharma business and medical insurance provider in the fast-growing, predominantly privately-owned, Georgian healthcare market.

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	**3Q16**	**3Q15**	**Change, Y-o-Y**	**2Q16**	**Change, Q-o-Q**	**9M16**	**9M15**	**Change, Y-o-Y**
Revenue, gross	**116,159**	**64,192**	**81.0%**	**101,673**	**14.2%**	**290,408**	**176,238**	**64.8%**
Corrections & rebates	(762)	(680)	12.1%	(724)	5.2%	(1,896)	(2,522)	-24.8%
Revenue, net	**115,397**	**63,512**	**81.7%**	**100,949**	**14.3%**	**288,512**	**173,716**	**66.1%**
Revenue from healthcare services	58,542	50,451	16.0%	58,056	0.8%	176,639	137,028	28.9%
Revenue from pharma	45,725	-	-	30,691	49.0%	76,416	-	-
Net insurance premiums earned	16,054	15,196	5.6%	15,298	4.9%	45,182	43,010	5.0%
Eliminations	(4,925)	(2,135)	130.6%	(3,095)	59.1%	(9,725)	(6,322)	53.8%
Costs of services	**(76,563)**	**(38,844)**	**97.1%**	**(67,395)**	**13.6%**	**(188,109)**	**(106,603)**	**76.5%**
Cost of healthcare services	(31,170)	(28,821)	8.1%	(31,399)	-0.7%	(95,567)	(77,283)	23.7%
Cost of pharma	(35,915)	-	-	(25,059)	43.3%	(60,974)	-	-
Cost of insurance services	(13,939)	(12,123)	15.0%	(13,989)	-0.4%	(40,775)	(35,444)	15.0%
Eliminations	4,461	2,101	112.3%	3,052	46.2%	9,207	6,125	50.3%
Gross profit	**38,834**	**24,668**	**57.4%**	**33,554**	**15.7%**	**100,403**	**67,113**	**49.6%**
Salaries and other employee benefits	(10,841)	(7,104)	52.6%	(9,229)	17.5%	(26,993)	(19,706)	37.0%
General and administrative expenses	(8,423)	(2,510)	235.6%	(6,758)	24.6%	(18,383)	(7,460)	146.4%
Impairment of receivables	(172)	(990)	-82.6%	(1,236)	-86.1%	(2,388)	(2,836)	-15.8%
Other operating income	329	1,964	-83.2%	551	-40.3%	1,099	2,505	-56.1%
EBITDA	**19,727**	**16,029**	**23.1%**	**16,882**	**16.9%**	**53,738**	**39,617**	**35.6%**
Depreciation and amortisation	(5,215)	(3,482)	49.8%	(4,581)	13.8%	(14,261)	(8,371)	70.4%
Net interest expense	(3,838)	(4,786)	-19.8%	(3,469)	10.6%	(8,963)	(14,904)	-39.9%
Net gains/(losses) from foreign currencies	(263)	(1,759)	-85.1%	(1,964)	-86.6%	(2,487)	3,690	-167.4%
Net non-recurring income/(expense)	(48)	(722)	-93.4%	(586)	-91.8%	(864)	(1,489)	-42.0%
Profit before income tax expense	**10,363**	**5,279**	**96.3%**	**6,282**	**65.0%**	**27,163**	**18,542**	**46.5%**
Income tax benefit	(587)	(31)	NMF	26,920	NMF	27,838	22	NMF
of which: Deferred tax adjustments	-	-		*27,113*		*29,311*		
Profit for the period	**9,776**	**5,248**	**86.3%**	**33,202**	**-70.6%**	**55,001**	**18,564**	**196.3%**
Attributable to:								
- shareholders of the Company	7,125	3,973	79.3%	27,755	-74.3%	44,801	15,827	183.1%
- non-controlling interests	2,651	1,275	107.9%	5,447	-51.3%	10,200	2,737	272.7%
of which: Deferred tax adjustments	-	-		*4,705*		*5,057*	-	

Revenue. We delivered record quarterly revenue of GEL 116.2 million, up 81.0% y-o-y and up 14.2% q-o-q. Growth was driven by all business lines, primarily driven by the consolidation of pharma business results since its acquisition in May 2016 (contributing GEL 45.7 million and GEL 76.4 million in 3Q16 and 9M16 respectively) and also by revenue from healthcare services (up 16.0% y-o-y, with strong organic growth of 14.2% y-o-y), together with growth in net insurance premiums earned (up 5.6% y-o-y). In 3Q16, GHG revenue breakdown is as follows: revenue from healthcare services business accounted for c.47%, revenue from pharma business accounted for c.39% and net insurance premiums earned accounted for c.14%.

Gross Profit. Cost of services reached GEL 76.6 million, up 97.1% y-o-y and 13.6% q-o-q. The cost of healthcare services favorably lagged behind the growth in revenues (up 8.1% y-o-y and down 0.7% q-o-q, compared with the change in revenues which was up 16.0% y-o-y and up 0.9% q-o-q). The 15.0% growth in cost of insurance services, outpaced the 5.6% growth in respective revenue y-o-y; nevertheless, the q-o-q trend was favourable, with the cost of insurance services decreasing at 0.4% compared to 4.9% growth in respective revenue. Finally, headline growth in cost of services appears higher due to the consolidation of the pharma business financial results, which have thinner margins compared to healthcare services.

Consequently, gross profit for 3Q16 reached GEL 38.8 million, up 57.4% y-o-y and up 15.7% q-o-q. Y-o-y growth was primarily driven by the growth in healthcare services business, and acquisition of pharma business in 2Q16, partially offset by the decline in medical insurance. Q-o-q the gross profit growth was driven by all three business lines.

EBITDA. Operating expenses increased by 83.3% y-o-y and 12.8% q-o-q. Growth compared to last year, was favourably affected by the strong positive operating leverage in the healthcare business at 17.6 percentage points, which was partially offset by the negative operating leverage in the medical insurance business coupled with the impact of the pharma business consolidation. On a q-o-q basis, the Group improved the positive operating leverage to 2.9% primarily driven by healthcare services business (operating leverage at 4.0%) and medical insurance business,

As a result, we reported record quarterly EBITDA of GEL 19.7 million, **up 23.1% y-o-y and up 16.9% q-o-q**. The y-o-y growth was primarily driven by the growth in healthcare services business EBITDA (up 21.5%) and the consolidation of the pharma business, partially offset by the decline in our medical insurance business EBITDA (down 89.5%).

Profit. The growth in depreciation and amortisation expenses (up 49.8% y-o-y) was primarily driven by acquisitions and sizeable development projects, as the company continues to actively invest in development of healthcare facilities. The decrease in net interest expense to GEL 3.8 million in 3Q16, down 19.8% y-o-y and up 10.6% q-o-q, is mainly attributable to reduced total borrowings by 12.6% y-o-y, in line with our strategy of deleveraging following the IPO. Furthermore, with the rest of the funds raised during IPO for the capex purposes, the Group tapped the opportunity to lower the cost of funding and achieve longer maturity of borrowings by prepaying relatively expensive and shorter tenor borrowings from local commercial banks and replenishing the capex funds through the fundraising from Development Financial Institutions ("**DFIs**"). Interest expenses increased slightly q-o-q, which is due to the consolidation of the pharma business.

During 3Q16, the Group started hedging its foreign currency risk exposure, which is reflected in the decreasing foreign currency loss, which was down 86.6% q-o-q. The foreign currency exposure was a result of short position in US$, resulting from the acquisition of GPC for a cash consideration of USD 14 million as well as drawing foreign currency borrowings from DFIs. The Group started hedging its major open currency positions through typical foreign currency forwards bought from local commercial banks. This helped to significantly reduce the open currency position in August and September 2016 and the Group will continue its hedging practice. The cost of the foreign currency hedging is included in net interest expense in the income statement.

Consequently, the Group's profit for the third quarter 2016 amounted to GEL 9.8 million, up 86.3% y-o-y and up 21.4% q-o-q, compared to the normalised profit in 2Q16. The healthcare services business was the main driver of the 3Q16 Group's profit, and contributed GEL 9.4 million (up 151.4% y-o-y and down 5.7% q-o-q, compared to the normalised profit in 2Q16). The pharma business contributed GEL 0.6 million to the Group's 3Q16 profit, which was partially offset by loss of GEL 0.2 million medical insurance businesses.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**30-Sep-16**	**30-Sep-15**	**Change, Y-o-Y**	**30-Jun-16**	**Change, Q-o-Q**
Total assets, of which:	**876,940**	**622,021**	**41.0%**	**814,089**	**7.7%**
Cash and bank deposits	48,067	26,789	79.4%	26,395	82.1%
Receivables from healthcare services	73,895	61,128	20.9%	70,398	5.0%
Receivables from sale of pharmaceuticals	8,757	-	-	6,110	43.3%
Insurance premiums receivable	31,147	29,048	7.2%	34,275	-9.1%
Property and equipment	541,206	424,304	27.6%	501,739	7.9%
Goodwill and other intangible assets	65,053	22,204	193.0%	64,733	0.5%
Inventory	49,490	11,266	339.3%	42,470	16.5%
Prepayments	40,451	7,375	448.5%	49,074	-17.6%
Other assets	18,874	39,907	-52.7%	18,895	-0.1%
Total liabilities, of which:	**361,976**	**372,791**	**-2.9%**	**306,861**	**18.0%**
Borrowed Funds	195,188	223,339	-12.6%	141,257	38.2%
Accounts payable	54,179	25,960	108.7%	52,582	3.0%
Insurance contract liabilities	31,067	26,289	18.2%	32,941	-5.7%
Other liabilities	81,542	97,203	-16.1%	80,081	1.8%
Total shareholders' equity attributable to:	**514,964**	**249,230**	**106.6%**	**507,228**	**1.5%**
Shareholders of the Company	*460,848*	*191,915*	*140.1%*	*455,824*	*1.1%*
Non-controlling interest	*54,116*	*57,315*	*-5.6%*	*51,404*	*5.3%*

Our balance sheet increased substantially over the last 12 months, as a result of the recent acquisitions and the IPO completed in November 2015, reaching GEL 876.9 million as at 30 September 2016. The growth of total assets by GEL 254.9 million y-o-y was largely driven by the 27.6% (GEL 116.9 million) increase in property and equipment, reflecting investments in the renovation of hospitals, roll out of ambulatory clinics and the acquisition of pharma business in 2016.

Cash and bank deposits have increased as a result of additional borrowings from DFI's during 3Q16. The increase in accounts receivable is primarily due to the growth in revenues of healthcare services by 27.9% y-o-y. The pharma business consolidation primarily affected inventories and goodwill. Borrowed funds have decreased y-o-y and increased q-o-q as described above.

Statement of cash flow, GHG consolidated

	9M16, Adjusted[7]	Adjustments	9M16, Actual	9M15, Actual	Change, Y-o-Y (9M16 adjusted to 9M15 actual)
Cash flows from / (used in) operating activities					
Healthcare services revenue received	156,523	-	156,523	120,325	30%
Cost of healthcare services paid	(99,459)	633	(100,092)	(73,133)	36%
Pharma revenue received	76,364	2,600	73,764	-	-
Cost of pharma paid	(61,116)	-	(61,116)	-	-
Net insurance premiums received	42,380	-	42,380	40,565	4%
Net insurance claims paid	(30,176)	-	(30,176)	(29,174)	3%
Salaries and other employee benefits paid	(28,669)	-	(28,669)	(19,260)	49%
General and administrative expenses paid	(16,044)	4,565	(20,609)	(6,536)	145%
Other	(2,775)	-	(2,775)	(1,522)	82%
Net cash flows from / (used in) operating activities before income tax	**37,028**	7,798	**29,230**	**31,264**	**18%**
Income tax paid	(1,123)	1,000	(2,123)	(543)	107%
Net cash flows from operating activities	**35,905**	8,798	**27,107**	**30,721**	**17%**
Cash flows from / (used in) investing activities					
Acquisition of subsidiaries, net of cash acquired	(52,230)	-	(52,230)	(48,205)	8%
Acquisition of additional interest in existing subsidiaries	(2,472)	-	(2,472)	(2,011)	23%
Purchase of property and equipment	(81,682)	-	(81,682)	(29,505)	177%
Other investing activities	(2,997)	-	(2,997)	1,011	-396%
Net cash from / (used in) investing activities	**(139,380)**	-	**(139,380)**	**(78,710)**	**77%**
Cash flows from / (used in) financing activities					
Proceeds from debt securities issued	-	-	-	34,247	-100%
Redemption of debt securities issued	(1,350)	-	(1,350)	-	100%
Proceeds from borrowings	125,154	-	125,154	39,191	219%
Repayment of borrowings	(103,341)	-	(103,341)	(37,431)	176%
Interest expense paid	(12,660)	-	(12,660)	(15,021)	-16%
Other financing activities	(2,300)	-	(2,300)	2,204	-204%
Net cash flows from / (used in) financing activities	**5,503**	-	**5,503**	**23,190**	**-76%**
Effect of exchange rates changes on cash and cash equivalents	(4,007)	-	(4,007)	2,673	-250%
Net increase in cash and cash equivalents	**(101,978)**	8,798	**(110,776)**	**(22,127)**	**361%**
Cash and cash equivalents excluding bank deposits, beginning	**145,153**	-	**145,153**	**32,784**	**343%**
Cash and cash equivalents excluding bank deposits, ending	**43,175**	8,798	**34,377**	**10,657**	**305%**
Bank deposits, beginning	**12,245**	-	**12,245**	**25,484**	**-52%**
Bank deposits, ending	**13,690**	-	**13,690**	**16,132**	**-15%**
Cash and Bank deposits, beginning	**157,398**	-	**157,398**	**58,268**	**170%**
Cash and Bank deposits, ending	**56,865**	8,798	**48,067**	**26,789**	**112%**

The revenue cash conversion ratio, on a consolidated basis, improved to 92.3% in 9M16 compared to 89.4% in 9M15. This translated into an EBITDA cash conversion ratio of 68.9% on a consolidated adjusted basis for the same period. Significant growth across all operating cash flow lines reflects the organic growth of the business (13.4% y-o-y organic growth of healthcare services business) as well as material acquisitions completed since June 30, 2015. To provide a like-for-like picture for 9M16 cash flows, we have applied a few adjustments for non-recurring cash flow items: a) in our healthcare services business, we accelerated settlement of aged payables to inventory suppliers increasing regular payments by GEL 0.6 million or 0.6%; b) we also accelerated payments of aged general and administrative expenses by GEL 4.6 million or 28.5%; c) we provided a temporary funding to HTMC for the one-off tax settlement of GEL 1 million, as a result of the tax audit conducted prior to its acquisition (the settled amount had been fully provisioned at the time of acquisition).

Net cash flows used in investing activities mostly comprise the acquisitions (HTMC and pharma business), as well as capex investments (additions to property plant and equipment) increased by 177% y-o-y, in line with the Group's original three year business plan.

[7] Statement of Cash Flows adjusted for effect of accelerated payments of aged accounts payables in 9M 2016 as compared to 9M 2015.

Net cash flows used in financing activities mostly reflects repayments of high interest rate borrowings by the end of 2015 and beginning of 2016 and proceeds from cheaper borrowings attracted during 2016, which also reflected in reduced interest charges.

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 3Q16, we spent a total of GEL 32.7 million on capital expenditure, an increase of 88.4% y-o-y. Of this, maintenance capex was GEL 2.4 million.

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Our healthcare services business consists of hospitals and ambulatory clinics and provides the most comprehensive range of inpatient and outpatient services in Georgia. We target the mass market segment through our vertically integrated network of 35 hospitals and eight ambulatory clusters (with 39 ambulatory clinics), as at 30 September 2016.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Healthcare service revenue, gross	**59,305**	**51,131**	**16.0%**	**58,779**	**0.9%**	**178,535**	**139,550**	**27.9%**
Corrections & rebates	(762)	(680)	12.1%	(724)	5.2%	(1,896)	(2,522)	-24.8%
Healthcare services revenue, net	**58,543**	**50,451**	**16.0%**	**58,055**	**0.8%**	**176,639**	**137,028**	**28.9%**
Costs of healthcare services	**(31,170)**	**(28,821)**	**8.1%**	**(31,399)**	**-0.7%**	**(95,567)**	**(77,283)**	**23.7%**
Gross profit	**27,373**	**21,630**	**26.6%**	**26,656**	**2.7%**	**81,072**	**59,745**	**35.7%**
Salaries and other employee benefits	(6,003)	(6,060)	-0.9%	(5,254)	14.3%	(17,372)	(16,897)	2.8%
General and administrative expenses	(3,708)	(1,954)	89.8%	(3,517)	5.4%	(9,708)	(5,641)	72.1%
Impairment of receivables	(48)	(943)	-94.9%	(1,120)	-95.7%	(2,026)	(2,680)	-24.4%
Other operating income	180	1,970	-90.9%	395	-54.4%	816	2,461	-66.8%
EBITDA	**17,794**	**14,642**	**21.5%**	**17,160**	**3.7%**	**52,782**	**36,987**	**42.7%**
EBITDA margin	***30.0%***	***28.6%***		***29.2%***		***29.6%***	***26.5%***	
Depreciation and amortisation	(4,613)	(3,327)	38.7%	(4,121)	11.9%	(12,995)	(7,927)	63.9%
Net interest income (expense)	(3,125)	(4,733)	-34.0%	(2,999)	4.2%	(8,383)	(14,817)	-43.4%
Net gains/(losses) from foreign currencies	(95)	(1,982)	-95.2%	(1,711)	-94.4%	(2,217)	2,898	-176.5%
Net non-recurring income/(expense)	22	(676)	-103.3%	387	-94.3%	179	(1,443)	-112.4%
Profit before income tax expense	**9,983**	**3,923**	**154.5%**	**8,716**	**14.5%**	**29,366**	**15,697**	**87.1%**
Income tax benefit/(expense)	(612)	(196)	212.8%	26,619	-102.3%	27,493	512	NMF
of which: Deferred tax adjustments	-	-		*27,113*		*29,311*	-	
Profit for the period	**9,371**	**3,728**	**151.4%**	**35,335**	**-73.5%**	**56,859**	**16,210**	**250.8%**
Attributable to:								
- shareholders of the Company	6,721	2,453	174.0%	29,888	-77.5%	46,660	13,473	246.3%
- non-controlling interests	2,650	1,275	107.8%	5,447	-51.3%	10,199	2,737	272.6%
of which: Deferred tax adjustments	-	-		*4,705*		*5,057*	-	

Healthcare services business revenue

Our healthcare services business recorded strong quarterly revenue of GEL 59.3 million, up 16.0% y-o-y, of which 14.2% represented organic growth. The demand for healthcare services is seasonally low in Q3, but the business nevertheless recorded 0.9% q-o-q growth. For the 9M of 2016, growth was 27.9% y-o-y, of which 13.4% was driven organically. We have several healthcare facilities which were launched recently, therefore currently are at a roll-out phase and in 3Q16 they generated revenue of GEL 1.9 million and a negative EBITDA of GEL 0.3 million, which dragged healthcare services EBITDA down by 140bps. We expect these healthcare facilities to reach targeted run-rate revenue levels during 2017 as well as improve the margin performance.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Healthcare services revenue, net	**58,543**	**50,451**	**16.0%**	**58,055**	**0.8%**	**176,639**	**137,028**	**28.9%**
Referral hospitals	49,850	44,381	12.3%	49,667	0.4%	151,543	119,962	26.3%
Community hospitals	5,601	4,814	16.3%	5,389	3.9%	16,910	13,332	26.8%
Ambulatory clinics	3,092	1,256	146.1%	2,999	3.1%	8,186	3,734	119.2%

Net healthcare services revenue grew by 16.0% y-o-y. While all three types of healthcare facilities contributed, the largest growth was in the revenues of referral hospitals and ambulatory clinics, the roll out of which continues in line with our strategy.

Referral hospitals contributed 85% to total revenue from healthcare services. The 12.3% y-o-y increase in referral hospitals revenue was driven by strong organic growth. 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 14.2% organic growth of revenue from healthcare services was largely sourced from referral hospitals.

Community hospitals, contributed 10% to total revenue from healthcare services. Community hospitals also posted a strong 16.3% y-o-y growth in revenue. Community hospitals play a feeder role for the referral hospitals, so we expect more moderate future growth of their revenue.

Ambulatory clinics contributed 5% to total revenue from healthcare services, up from 2% contribution during the same period last year. Ambulatory clinics posted revenue increase of 146.1% y-o-y and up 3.1% q-o-q. The revenue growth was entirely organic, driven by the launch of seven new ambulatory clusters since the second half of 2015. These launches brought the number of ambulatory clusters to eight (consisting of 11 district ambulatory clinics and 28 express ambulatory clinics). We expect growth in revenue from ambulatory clinics to accelerate over the next few years, in line with our strategy of launching a total of more than 15 ambulatory clusters with more than 40 ambulatory clinics through 2018. Two new clusters are currently under development and will be launched within the next few months.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Healthcare services revenue, net	**58,543**	**50,451**	**16.0%**	**58,055**	**0.8%**	**176,639**	**137,028**	**28.9%**
Government-funded healthcare programs	42,194	38,786	8.8%	41,835	0.9%	129,406	102,602	26.1%
Out-of-pocket payments by patients	11,197	8,795	27.3%	12,179	-8.1%	34,802	25,990	33.9%
Private medical insurance companies, *of which*	5,152	2,871	79.5%	4,041	27.5%	12,431	8,437	47.3%
GHG medical insurance	*3,574*	*2,101*	*70.1%*	*3,052*	*17.1%*	*8,320*	*6,125*	*35.8%*

All thereof the sources of our net healthcare services revenue grew y-o-y, with UHC contributing the most volume-wise and the other two sources increasing more on a percentage basis. The q-o-q decreases in patients' out-of-pocket payments are primarily attributable to seasonality.

UHC continued to be the main driver of our healthcare services revenue growth in 3Q16, with revenue increasing by GEL 3.4 million y-o-y, up 8.8% and up 0.9% q-o-q. The 9M16 y-o-y increase is GEL 26.8 million, up 26.1%. Since the full rollout of UHC in mid-2014, government expenditure on healthcare has grown considerably, increasing 81.4% from GEL 487.9 million in 2013 to an expected GEL 885.0 million in 2016, according to the approved government budget for 2016.

The y-o-y 27.3% increase in out-of-pocket payments by patients reflects mainly the natural growth in these payments as government funded expenditures increase, as well as rollout of ambulatory clinics. 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 of healthcare services and rollout of outpatient facilities organically causes growth of the number of patients in hospitals, resulting in a corresponding increase in revenue from out-of-pocket payments as well. The mainly seasonal 8.1% q-o-q decrease in out-of-pocket payments is driven particularly by one of our facilities, Caraps Medline that specialises in plastic surgery, demand for which regularly declines during the summer holidays and the clinic becomes practically non-operational.

The strong - 79.5% y-o-y / 27.5% q-o-q - increase in revenues from private medical insurance companies was driven by strong organic growth. This organic growth continues to be supported by the rollout of the ambulatory clinics which attract patients with private medical insurance. Our medical insurance clients have also increased their utilisation of our ambulatory clinics (supported by the launches of four new ambulatory cluster during the 9M16), which is reflected in the increased revenue from our medical insurance to our healthcare services business (up 70.1% y-o-y and 17.1% q-o-q). This reflects an increase in y-o-y and q-o-q health insurance business outpatient claims retained within GHG, 43% in 3Q16 compared to 35% in 3Q15 and 42% in 2Q16 respectively.

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.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Cost of healthcare services	**(31,170)**	**(28,821)**	**8.1%**	**(31,399)**	**-0.7%**	**(95,567)**	**(77,283)**	**23.7%**
Cost of salaries and other employee benefits	(19,746)	(18,748)	5.3%	(19,857)	-0.6%	(59,355)	(49,759)	19.3%
Cost of materials and supplies	(8,602)	(7,486)	14.9%	(9,228)	-6.8%	(27,443)	(20,226)	35.7%
Cost of medical service providers	(463)	(852)	-45.7%	(401)	15.5%	(1,292)	(1,830)	-29.4%
Cost of utilities and other	(2,359)	(1,736)	35.9%	(1,913)	23.3%	(7,477)	(5,469)	36.7%
Gross profit	**27,373**	**21,630**	**26.6%**	**26,656**	**2.7%**	**81,072**	**59,745**	**35.7%**
Gross margin	***46.2%***	***42.3%***		***45.3%***		***45.4%***	***42.8%***	
Cost of healthcare services as % of revenue								
Direct salary rate	33.3%	36.7%		33.8%		33.2%	35.7%	
Materials rate	14.5%	14.6%		15.7%		15.4%	14.5%	

The main cost drivers of our healthcare services business are the cost of salaries and employee benefits and the cost of materials and supplies. The 9M16 increases compared to the prior period resulted from the expansion of the business resulting from the acquisition of HTMC and the significant expansion of ambulatory care from the prior year.

Our healthcare services margins are improving 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 healthcare facilities acquired during 2015. The relatively modest growth (up 5.3% y-o-y) in salaries and other employee benefits was mainly driven by the roll out of new ambulatory clinics, while q-o-q salaries were well managed and remained flat. The share of the cost of salaries and other employee benefits in the total cost of services decreased to 63% in 3Q16, down from 65% a year ago. The 3Q16 direct salary rate in healthcare services business (expense on direct salaries as a percentage of gross revenue) declined to 33.3%, an improvement both y-o-y and q-o-q. The direct salary rate for the 9M16 improved substantially to 33.2% as the revenue expansion outpaced the increase in salaries.

The cost of materials and supplies was improved compared to previous quarter (down 6.8% q-o-q), reflecting the benefits of the consolidated purchasing power following acquisition of pharma business. This is also reflected in the improvement of the materials rate (expense on direct materials as a percentage of gross revenue), which was 14.5% in 3Q16, down from 15.7% from the previous quarter. The 9M16 increase in the cost of materials and supplies reflects the expanded business.

The cost of utilities was GEL 2.4 million, up 35.9% y-o-y and 23.3% q-o-q. The increase compared to previous quarter is attributable to seasonality (the utilisation of air-conditioning in our facilities during summer), while y-o-y change is mainly due to the increase in utilities tariffs in the country from fourth quarter 2015, as well as to the expansion of the business.

As a result of the above, gross margin (gross profit divided by gross revenue) increased by 390bps y-o-y to 46.2% for the quarter and by 260bps y-o-y to 45.4% for the nine months. Gross profit reached GEL 27.4 million for 3Q16 and GEL 81.1 million for the nine months, up y-o-y by 26.6% and 35.7%, respectively.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Operating expenses	**(9,579)**	**(6,988)**	**37.1%**	**(9,496)**	**0.9%**	**(28,290)**	**(22,758)**	**24.3%**
Salaries and other employee benefits	(6,003)	(6,060)	-0.9%	(5,254)	14.3%	(17,372)	(16,897)	2.8%
General and administrative expenses	(3,708)	(1,954)	89.8%	(3,517)	5.4%	(9,708)	(5,641)	72.1%
Impairment of receivables	(48)	(943)	-94.9%	(1,120)	-95.7%	(2,026)	(2,680)	-24.4%
Other operating income	180	1,970	-90.9%	395	-54.4%	816	2,461	-66.8%
EBITDA	**17,794**	**14,642**	**21.5%**	**17,160**	**3.7%**	**52,782**	**36,987**	**42.7%**
EBITDA margin	***30.0%***	***28.6%***		***29.2%***		***29.6%***	***26.5%***	

For the operating expenses of our healthcare services business, salaries and other employee benefits and general and administrative expenses are the main drivers. The 9M16 y-o-y cost increases are due to the expansion of the business.

Expenses on administrative salaries and other employee benefits in 3Q16 were well contained and remained flat y-o-y. The GEL 1.8 million (89.8%) y-o-y increase in G&A was primarily driven by the following factors: 1). governance-related expenses as a result of the IPO at the end of 2015; 2) the newly launched intensive marketing campaign alongside the rollout of our ambulatory clinics, which comes on a very low base of marketing expenditure undertaken previously. These were also main drivers of the 9M16 increase.

In 3Q16 we also released part of the conservatively assessed provisions that were recorded previously.

As a result, we reported quarterly EBITDA of GEL 17.8 million, **up 21.5% y-o-y and up 3.7% q-o-q**. Our continued focus on efficiency and the integration of newly acquired facilities resulted in the healthy EBITDA margin in our healthcare services business in 3Q16, of 30.0% and 29.6% for 9M16 (**maintaining this key figure for our healthcare services business close to our target of c.30% by 2018)**. This result was achieved despite pressure on our EBITDA margin from a number of healthcare facilities at the roll-out phase, which posted negative EBITDA of GEL 0.3 million in 3Q16. EBITDA margin, excluding such healthcare facilities was 31.4%.

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Depreciation and amortisation	(4,613)	(3,327)	38.7%	(4,121)	11.9%	(12,995)	(7,927)	63.9%
Net interest income (expense)	(3,125)	(4,733)	-34.0%	(2,999)	4.2%	(8,383)	(14,817)	-43.4%
Net gains/(losses) from foreign currencies	(95)	(1,982)	-95.2%	(1,711)	-94.4%	(2,217)	2,898	-176.5%
Net non-recurring income/(expense)	22	(676)	-103.3%	387	-94.3%	179	(1,443)	-112.4%
Profit before income tax expense	**9,983**	**3,923**	**154.5%**	**8,716**	**14.5%**	**29,366**	**15,697**	**87.1%**
Income tax benefit/(expense)	(612)	(196)	212.8%	26,619	-102.3%	27,493	512	NMF
of which: Deferred tax adjustments	-	-		*27,113*		*29,311*	-	
Profit for the period	**9,371**	**3,728**	**151.4%**	**35,335**	**-73.5%**	**56,859**	**16,210**	**250.8%**
Attributable to:								
- shareholders of the Company	6,721	2,453	174.0%	29,888	-77.5%	46,660	13,473	246.3%
- non-controlling interests	2,650	1,275	107.8%	5,447	-51.3%	10,199	2,737	272.6%
of which: Deferred tax adjustments	-	-		*4,705*		*5,057*	-	

The increase in depreciation expense for 3Q16 and the nine months results from the increased asset base resulting from our expansion. The decline in net interest expense reflects the reduction in our debt following the application of the IPO proceeds. Finally, the normalisation of the foreign currency loss follows the one off loss in 2Q16 relating to the settlement of the GPC acquisition.

Our strong EBITDA performance in 3Q16 was further translated into a strong profit for the period of GEL 9.4 million, which grew by 151.4% y-o-y and decreased by 5.7% q-o-q, compared to the normalised profit in 2Q16. Profit for 9M16 reached GEL 56.9 million, up 250.8% y-o-y (up 161.9% y-o-y, if comparing normalised 9M16 profit to the same period last year).

Operating performance highlights and notable developments in 3Q 2016, healthcare services business

- As of 30 September 2016, our healthcare services business operated 15 referral hospitals, 20 community hospitals and 8 ambulatory clusters (consisting of 11 district ambulatory clinics and 28 express ambulatory clinics).
- As of 30 September 2016, total beds operated were 2,474, of which 2,012 beds were at referral hospitals and 462 beds were at community hospitals.
- Our healthcare services market share by number of beds was 23.0% as of 30 September 2016, flat q-o-q.
- Our hospital bed occupancy rate was 56.8% in 3Q16 (52.5% in 3Q15, 57.6% in 2Q16).
    - Our referral hospital bed occupancy rate was 63.7% in 3Q16 (60.6% in 3Q15, 64.9% in 2Q16).
- The average length of stay was 4.9 days in 3Q16 (4.7 days in 3Q15, 5.1 days in 2Q16).

  - The average length of stay at referral hospitals was 5.1 days in 3Q16 (4.9 days in 3Q15, 5.3 days in 2Q16).

- During 3Q16, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 32.7 million on capital expenditures, primarily on renovation of Deka and Sunstone hospitals as well as enhancing our service mix and introducing new services to cater for unfulfilled demand. Of this, maintenance capex was GEL 2.4 million.

  - Renovation of Sunstone (c.334 beds, scheduled launch in May, 2017) and Deka (c.320 beds, scheduled launch in June, 2017) is ongoing within schedule and budget.

- We started the process of launching new services at our referral hospitals. This includes some basic services (like pediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynecology, cardio-surgery, traumatology, angio-surgery, intensive care, reproductive services, etc.) as well as sophisticated services (like oncology, transplantation of bone marrow, paediatric kidney transplant, etc.). We have already launched Neuro intensive department at Telavi hospital, Laparoscopic operations service at Batumi regional hospital and Thoracoscopy service at Children's new hospital.

- We expanded number of specialties of our residency program in line with our strategy to develop a new generation of doctors. We obtained accreditation in additional 5 specialties with total of 58 residency quotas, bringing total number of specialties to 13 and residency quotas to 166, currently are waiting accreditation in seven additional specialties (general surgery, orthopedic surgery, neurosurgery, pediatric general surgery, oncology, radiation oncology, cardiac surgery). Since the launch of residency programs at the end of 2015, we have 58 residents involved in 12 specialties.

- Since the launch of an In Vitro Fertilisation service ("IVF"), in April 2016, at Caraps Medline ("Caraps") – an up-scale boutique hospital in Tbilisi, particularly renowned for gynaecology and plastic surgery services, 168 patients have received treatment

Discussion of Pharma Business Results

Our pharma business consists of retail and wholesale pharma distribution operations through 112 pharmacies mainly located in the urban locations in Georgia and 2 warehouses. 25 of these pharmacies also have express ambulatory clinics. We have approximately 1 million retail customer interactions per month, with c.0.5 million loyalty card members. The number of our pharmacies located at our hospitals has now reached 16.

We entered the pharma business through the acquisition of GPC in May 2016 and our results of operations include GPC results since May 2016. As a result, year-on-year and quarter-on-quarter comparisons are not yet meaningful.

Our pharma business recorded revenue of GEL 45.7 million for the 3Q16, with an improved gross margin and EBITDA margin of 21.5% and 3.9%, respectively.

Income Statement, pharma business

GEL thousands; unless otherwise noted	**3Q16**	**2Q16[8]**	**YTD 2016**
Pharma revenue	**45,725**	**30,691**	**76,416**
Costs of pharma	**(35,915)**	**(25,059)**	**(60,974)**
Gross profit	**9,810**	**5,632**	**15,442**
Salaries and other employee benefits	(4,106)	(2,690)	(6,796)
General and administrative expenses	(4,066)	(2,533)	(6,599)
Impairment of receivables	-	-	-
Other operating income	150	145	295
EBITDA	**1,788**	**554**	**2,342**
EBITDA margin	***3.9%***	***1.8%***	***3.1%***
Depreciation and amortisation	(391)	(258)	(649)
Net interest income (expense)	(627)	(427)	(1,054)
Net gains/(losses) from foreign currencies	(77)	(272)	(349)
Net non-recurring income/(expense)	(71)	-	(71)
Profit before income tax expense	**622**	**(403)**	**219**
Income tax benefit/(expense)	-	-	-
Profit for the period	**622**	**(403)**	**219**
Attributable to:			
- shareholders of the Company	622	(403)	219
- non-controlling interests	-	-	-

Of the GEL 45.7 million in pharma revenue in 3Q16, 74% was retail revenue (GEL 33.8 million) and the remaining 26% was wholesale revenue (GEL 11.9 million). In terms of revenue breakdown by product mix, 74% was from pharmacy products (GEL 33.6 million) and the remaining 26% was from para-pharmacies (GEL 12.1 million). The share of para-pharmacies in retail revenue was c.35%.

Our pharma business reported gross margin of 21.5% in 3Q16, compared to 18.4% May-June 2016 period. The retail gross margin gradually rebounded from 19.6% in May and June (when it was affected by the pricing pressure from the competition after GHG announced its acquisition of the pharma business) to 23.8% in 3Q16.

Since we completed the acquisition of the pharma business in May 2016, we have launched integration activities and are on track to deliver the initial guidance on cost savings and revenue enhancement. We have rolled out a number of initiatives, as announced during the acquisition, which have a positive effect on the pharma business and are partially reflected in 3Q16 results. The quarterly comparisons of the key operating cost drivers (salaries and other employee benefits and general and administrative expenses), however, will only become meaningful in the fourth quarter. Mainly as a result of the improved gross margin, the GEL 1.8 million EBITDA and 3.9% EBITDA margin achieved by the pharma business in 3Q16 represented our pharma business meaningful improvement over the May-June 2016 period. We expect that the effects of our optimisation and integration efforts will continue to be reflected in the results of the operations of the pharma business throughout 2016 and early of 2017.

[8] GPC is consolidated since 1 May 2016, therefore 2Q16 results include only the results of two months of operations

Pharma business operating highlights and notable developments in 3Q 2016

- We successfully continued the elimination of unnecessary costs. We have already eliminated GEL 2.1 million compared to initial guidance of GEL 1.9 million on an annulised basis. We are planning further saving of GEL 1.2 million in operating expenses, bringing total annulised savings to GEL 3.3 million
- We are delivering better purchase pricing from manufacturers. As a result of the consolidated purchasing of our healthcare services and pharma business, we expected to deliver GEL 3.0 million cost savings from manufacturer discounts, of which GEL 2.3 million has been already achieved. We continue negotiations and expect to achieve further annulised savings of GEL 1.1 million, bringing total annual effect to GEL 3.4 million

Summary of synergies:

Cost Synergies from:	***Original guidance***	***Delivered through the end of 3Q16***	***Further expected***	***Total saving***
Elimination of unnecessary cost	GEL 1.9 million	GEL 2.1 million	GEL 1.2million	GEL 3.3 million
Better purchase pricing	GEL 3.0 million	GEL 2.3 million	GEL 1.1million	GEL 3.4 million
Total:	**GEL 4.9 million**	**GEL 4.4 million**	**GEL 2.3 million**	**GEL 6.7 million**

- In total, we operate a country-wide distribution network of 112 pharmacies in major cities, 25 of which also have express ambulatory clinics, the number of our pharmacies located at our hospitals and clinics reached 16. We also operate two warehouses for our pharma business as of 30 September 2016.
- We launched a bundled product for the customers of our pharma and healthcare services businesses, to tap into c.500,000 GPC clients that have never been to our ambulatory clinics. We expect to direct approximately 10,000 unique customers per month from our pharmacies to our ambulatory clinics, which have not used our ambulatory services before.
- We accelerated procurement of medical disposables for our healthcare services business through our pharma business. By the year end 2016, we expect c.GEL 4.0 million annualised intercompany purchases, compared to GEL 1.0 million in 2015. As of now we have already GEL 2.9 million intercompany purchases.
- For the period of May-September 2016, the pharma business had:
  - c.1 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 12.4
  - c.15% market share measured by sales
  - Total number of bills issued during the 3Q16 was more than 2.8 million

Discussion of Medical Insurance Business Results

Our medical insurance business consists of private medical insurance operations in Georgia, providing medical insurance products to corporate and retail clients. It is the largest provider of medical insurance in Georgia, with a 34.8% market share based on net insurance premiums earned as of 30 June 2016 and have approximately 208,000 insurance customers as at 30 September 2016. Our medical insurance business plays a crucial role in our business model, as it is an important feeder for our healthcare services business, particularly for the ambulatory clinics, and we believe that role will grow in the future as we roll-out our ambulatory growth strategy.

Our medical insurance business continued the process of stabilising its earnings in the third quarter. On the back of increased net insurance premiums earned and the stabilisation of its claims supported by improved cost management discipline, in 3Q16 the medical insurance business reported its first positive quarter EBITDA this year.

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Net insurance premiums earned	**16,054**	**15,196**	**5.6%**	**15,298**	**4.9%**	**45,182**	**43,010**	**5.0%**
Cost of insurance services	**(13,939)**	**(12,123)**	**15.0%**	**(13,989)**	**-0.4%**	**(40,775)**	**(35,444)**	**15.0%**
Gross profit	**2,115**	**3,073**	**-31.2%**	**1,309**	**61.6%**	**4,407**	**7,566**	**-41.8%**
Salaries and other employee benefits	(1,196)	(1,078)	11.0%	(1,328)	-9.9%	(3,343)	(3,006)	11.2%
General and administrative expenses	(649)	(558)	16.3%	(708)	-8.3%	(2,076)	(1,821)	14.0%
Impairment of receivables	(124)	(47)	164.9%	(116)	6.9%	(362)	(156)	132.3%
Other operating income	(1)	(4)	-71.7%	11	-109.1%	(12)	46	-125.8%
EBITDA	**145**	**1,387**	**-89.5%**	**(832)**	**-117.4%**	**(1,386)**	**2,630**	**-152.7%**
EBITDA margin	***0.9%***	***9.1%***		***-5.4%***		***-3.1%***	***6.1%***	
Depreciation and amortisation	(211)	(155)	36.4%	(202)	4.5%	(617)	(444)	39.1%
Net interest income (expense)	(86)	(53)	62.5%	(43)	100.0%	474	(87)	-645.4%
Net gains/(losses) from foreign currencies	(91)	223	-140.9%	19	-578.9%	79	792	-90.0%
Net non-recurring income/(expense)	-	(46)	NMF	(973)	NMF	(973)	(46)	NMF
Profit before income tax expense	**(243)**	**1,356**	**-117.9%**	**(2,031)**	**-88.0%**	**(2,423)**	**2,845**	**-185.2%**
Income tax benefit/(expense)	25	164	-84.8%	301	-91.7%	345	(491)	-170.3%
Profit for the period	**(218)**	**1,520**	**-114.3%**	**(1,730)**	**-87.4%**	**(2,078)**	**2,354**	**-188.3%**
Attributable to:								
- shareholders of the Company	(218)	1,520	-114.3%	(1,730)	-87.4%	(2,078)	2,354	-188.3%
- non-controlling interests	-	-		-		-	-	

Medical insurance business revenue

In 3Q16, our medical insurance business contributed GEL 16.1 million to total revenue, up 5.6% y-o-y and up 4.9% q-o-q.

Revenue by types of clients

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M 15	Change, Y-o-Y
Net insurance premiums earned	**16,054**	**15,196**	**5.6%**	**15,298**	**4.9%**	**45,182**	**43,010**	**5.0%**
Private medical insurance products sold to retail clients	2,438	2,041	19.5%	2,108	15.7%	6,516	4,797	35.8%
Private medical insurance products sold to corporate clients	13,616	13,155	3.5%	13,190	3.2%	38,666	38,213	1.2%

The growth in medical insurance business revenue was equally driven by sales to the both types of clients, with notably very strong retail revenue growth. Sales to retail clients posted 19.5% and 15.7% growth y-o-y and q-o-q, respectively, together with a slight increase in sales to corporate clients. This is driven by the Group's focus on diversifying its revenue sources, launching insurance products particularly targeted at retail clients and enhancing the sales efforts in retail. We grew our corporate client base and the number of insured individuals remained above 200,000 during 3Q16.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M 15	Change, Y-o-Y
Cost of insurance services	**(12,834)**	**(11,286)**	**13.7%**	**(13,003)**	**-1.3%**	**(37,790)**	**(33,158)**	**14.0%**
Private medical insurance products sold to retail clients	(1,512)	(1,096)	38.0%	(1,570)	-3.7%	(4,397)	(2,468)	78.2%
Private medical insurance products sold to corporate clients	(11,322)	(10,190)	11.1%	(11,433)	-1.0%	(33,393)	(30,690)	8.8%
Agents, brokers and employee commissions	**(1,105)**	**(837)**	**32.0%**	**(986)**	**12.1%**	**(2,985)**	**(2,286)**	**30.6%**
Gross profit	**2,115**	**3,073**	**-31.2%**	**1,309**	**61.6%**	**4,407**	**7,566**	**-41.8%**
Loss ratio	*79.9%*	*74.3%*		*85.0%*		*83.6%*	*77.1%*	

Our medical insurance continues to focus on efficiency improvements, which is reflected in the dynamics of cost of insurance services compared to the revenue. The medical insurance loss ratio (net insurance claims divided by net insurance revenue) increased from 74.3% in 3Q15 to 79.9% in 3Q16, mostly as a result of the 13.7% y-o-y increase in net insurance claims incurred. The y-o-y growth in claims was mostly attributable to the contract with the Ministry of Defense, which was a loss making contract originally and deteriorated further subsequent to exclusion of MOD beneficiaries from UHC coverage, effective 1 May 2016. Our medical insurance loss ratio adjusted for MOD was 73.3% in 3Q16 almost — the same as it was in 3Q15. The current MOD contract will expire in January, 2017.

The 79.9% loss ratio in 3Q16 was an improvement from 85.0% recorded in 2Q16, which is primarily driven by the seasonality, (as the July-August period is good for insurance due to low utilisation). In addition improved loss ratio also is a result of stabilised and tighter control on claims in 3Q16. It reflects the impact of the adjusted pricing (with an average increase of 20% which started since 1Q16) and improved underwriting criteria (co-payments) of our medical insurance products. We expect the effects of these changes to continue to impact our financial results favorably, as the existing contracts are renewed or the adjusted prices are applied to new contracts. The changes to the majority of the contracts already re-priced have been in effect since January 2016 and the average monthly premium per insured increased from GEL 23, in January 2016 to GEL 26 in September 2016.

De-concentrating our insurance portfolio is one of the key targets for our medical insurance business, and by the end of 3Q16, we managed to reduce the concentration of our top five clients to 27.4%, down from 43.6% a year ago, measured by insurance revenue.

We also improved the level of medical insurance claims retained within the Group. In 3Q16, our medical insurance claims expense was GEL 12.8 million, of which GEL 6.1 million (47.6% of total) was inpatient, GEL 4.5 million (32.5% of total) was outpatient and GEL 2.2 million (17.2% of total) accounted for drugs. Only GEL 4.1 million, or 31.2% of our own total medical insurance claims were retained within GHG, of which GEL 3.6 million and GEL 0.5 million was retained in healthcare services and pharma businesses, respectively. The feeder role of our medical insurance business is particularly important for our ambulatory services. In 3Q16, GEL 1.6 million, or 43.2% of our medical insurance claims on ambulatory clinics were retained within GHG, which increased by 0.8 percentage points from 42.4% since 2Q16 and by 7.2 percentage points from 36.0% since 3Q15. With our recently launched ambulatory clinics and the ambulatory expansion strategy, the retention rate should improve further in the future on a larger base, providing a significant revenue boost for our healthcare services business. In addition, following the expansion of our healthcare services business in referral 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, access to a one-stop-shop style ambulatories and ease of claim reimbursement procedures.

Gross profit increased by 61.6% q-o-q as a result of the increased revenues and reduction of the loss ratio described above, but lagged y-o-y principally as a result of the MOD contract.

EBITDA, medical insurance business

(GEL thousands, unless otherwise noted)	3Q16	3Q15	Change, Y-o-Y	2Q16	Change, Q-o-Q	9M16	9M15	Change, Y-o-Y
Operating expenses	**(1,970)**	**(1,686)**	**16.8%**	**(2,141)**	**-8.0%**	**(5,793)**	**(4,936)**	**17.4%**
Salaries and other employee benefits	(1,196)	(1,078)	11.0%	(1,328)	-9.9%	(3,343)	(3,006)	11.2%
General and administrative expenses	(649)	(558)	16.3%	(708)	-8.3%	(2,076)	(1,821)	14.0%
Impairment of receivables	(124)	(47)	164.9%	(116)	6.9%	(362)	(156)	132.3%
Other operating income	(1)	(4)	-71.7%	11	-109.1%	(12)	46	-125.8%
EBITDA	**145**	**1,387**	**-89.5%**	**(832)**	**-117.4%**	**(1,386)**	**2,630**	**-152.7%**
Expense ratio	*20.5%*	*17.6%*		*21.8%*		*20.8%*	*17.8%*	
Combined ratio	*100.4%*	*91.9%*		*106.8%*		*104.4%*	*94.9%*	

Despite the 17.0% increase in operating expenses, the expense ratio (operating expenses excluding interest expense divided by net insurance revenue) improved by 1.3 percentage points q-o-q to 20.5% in 3Q16 as a result of the increasing revenues. The improved ratio reflects the Group's efforts to keep operating expenses under control as it continues to adjust its business model to the changed medical insurance market following the introduction of UHC in Georgia. As a result, the combined ratio, which is the sum of loss ratio and expense ratio, improved to 100.4%.

These trends are further reflected in the bottom line of our medical insurance business, which improved since previous quarter.

Medical insurance business operating highlights and notable developments in 3Q 2016

- The number of insured clients was 208,000 as at 30 September 2016
- Our medical insurance market share was 34.8% based on net insurance premium revenue, as at 30 June 2016
- Our insurance renewal rate was 78.1% in 3Q16

SELECTED FINANCIAL INFORMATION

Income Statement, YTD	Healthcare services			Medical insurance			Pharma	Eliminations		GHG		
GEL thousands; unless otherwise noted	**9M16**	**9M15**	**Change, Y-o-Y**	**9M16**	**9M15**	**Change, Y-o-Y**	**YTD16**	**9M16**	**9M15**	**9M16**	**9M15**	**Change, Y-o-Y**
Revenue, gross	**178,535**	**139,550**	**27.9%**	**45,182**	**43,010**	**5.0%**	**76,416**	**(9,725)**	**(6,322)**	**290,408**	**176,238**	**64.8%**
Corrections & rebates	(1,896)	(2,522)	-24.8%	-	-	-	-	-	-	(1,896)	(2,522)	-24.8%
Revenue, net	**176,639**	**137,028**	**28.9%**	**45,182**	**43,010**	**5.0%**	**76,416**	**(9,725)**	**(6,322)**	**288,512**	**173,716**	**66.1%**
Costs of services	**(95,567)**	**(77,283)**	**23.7%**	**(40,775)**	**(35,444)**	**15.0%**	**(60,974)**	**9,207**	**6,125**	**(188,109)**	**(106,603)**	**76.5%**
Cost of salaries and other employee benefits	(59,355)	(49,759)	19.3%	-	-	-	-	3,228	2,236	(56,127)	(47,522)	18.1%
Cost of materials and supplies	(27,443)	(20,226)	35.7%	-	-	-	-	1,493	909	(25,950)	(19,317)	34.3%
Cost of medical service providers	(1,292)	(1,830)	-29.4%	-	-	-	-	70	82	(1,222)	(1,748)	-30.1%
Cost of utilities and other	(7,477)	(5,469)	36.7%	-	-	-	-	407	246	(7,070)	(5,223)	35.4%
Net insurance claims incurred	-	-	-	(37,790)	(33,158)	14.0%	-	4,009	2,651	(33,781)	(30,507)	10.7%
Agents, brokers and employee commissions	-	-	-	(2,985)	(2,286)	30.6%	-			(2,985)	(2,286)	30.6%
Cost of pharma - wholesale	-	-	-	-	-	-	(16,631)	-	-	(16,631)	-	-
Cost of pharma - retail	-	-	-	-	-	-	(44,343)	-	-	(44,343)	-	-
Gross profit	**81,072**	**59,745**	**35.7%**	**4,407**	**7,566**	**-41.8%**	**15,442**	**(518)**	**(197)**	**100,403**	**67,113**	**49.6%**
Salaries and other employee benefits	(17,372)	(16,897)	2.8%	(3,343)	(3,006)	11.2%	(6,796)	518	197	(26,993)	(19,706)	37.0%
General and administrative expenses	(9,708)	(5,641)	72.1%	(2,076)	(1,821)	14.0%	(6,599)	-	2	(18,383)	(7,460)	146.4%
Impairment of receivables	(2,026)	(2,680)	-24.4%	(362)	(156)	132.3%	-	-	-	(2,388)	(2,836)	-15.8%
Other operating income	816	2,461	-66.8%	(12)	46	NMF	295	-	(2)	1,099	2,505	-56.1%
EBITDA	**52,782**	**36,987**	**42.7%**	**(1,386)**	**2,630**	**NMF**	**2,342**	**-**	**-**	**53,738**	**39,617**	**35.6%**
EBITDA margin	***29.6%***	***26.5%***		***-3.1%***	***6.1%***		***3.1%***	-	-	***18.5%***	***22.5%***	
Depreciation and amortisation	(12,995)	(7,927)	63.9%	(617)	(444)	39.1%	(649)	-	-	(14,261)	(8,371)	70.4%
Net interest income (expense)	(8,383)	(14,817)	-43.4%	474	(87)	NMF	(1,054)	-	-	(8,963)	(14,904)	-39.9%
Net gains/(losses) from foreign currencies	(2,217)	2,898	NMF	79	792	-90.0%	(349)	-	-	(2,487)	3,690	NMF
Net non-recurring income/(expense)	179	(1,443)	NMF	(973)	(46)	NMF	(71)	-	-	(864)	(1,489)	NMF
Profit before income tax expense	**29,366**	**15,697**	**87.1%**	**(2,423)**	**2,845**	**NMF**	**219**	**-**	**-**	**27,163**	**18,542**	**46.5%**
Income tax benefit/(expense)	27,493	512	NMF	345	(491)	NMF	-	-	-	27,838	22	NMF
of which: Deferred tax adjustments	*29,311*	-	-			-		-	-	*29,311*	-	-
Profit for the period	**56,859**	**16,210**	**250.8%**	**(2,078)**	**2,354**	**NMF**	**219**	**-**	**-**	**55,001**	**18,564**	**196.3%**
Attributable to:												
- shareholders of the Company	46,660	13,473	246.3%	(2,078)	2,354	NMF	**219**	-	-	44,801	15,827	183.1%
- non-controlling interests	10,199	2,737	272.6%	-	-	-	-	-	-	10,200	2,737	272.6%
of which: Deferred tax adjustments	*5,057*	-	-	-	-	-	-	-	-	*5,057*	-	-

Income Statement, *Quarterly*	**Healthcare services**					**Medical insurance**					**Pharma**		**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**3Q16**	**3Q15**	**Change, Y-o-Y**	**2Q16**	**Change, Q-o-Q**	**3Q16**	**3Q15**	**Change, Y-o-Y**	**2Q16**	**Change, Q-o-Q**	**3Q16**	**May-June 2016**	**3Q16**	**3Q15**	**2Q16**	**3Q16**	**3Q15**	**Change, Y-o-Y**	**2Q16**	**Change, Q-o-Q**
Revenue, gross	**59,305**	**51,131**	**16.0%**	**58,779**	**0.9%**	**16,054**	**15,196**	**5.6%**	**15,298**	**4.9%**	**45,725**	**30,691**	**(4,925)**	**(2,135)**	**(3,095)**	**116,159**	**64,192**	**81.0%**	**101,673**	**14.2%**
Corrections & rebates	(762)	(680)	12.1%	(724)	5.2%	-	-	-	-	-	-	-	-	-	-	(762)	(680)	12.1%	(724)	5.2%
Revenue, net	**58,543**	**50,451**	**16.0%**	**58,055**	**0.8%**	**16,054**	**15,196**	**5.6%**	**15,298**	**4.9%**	**45,725**	**30,691**	**(4,925)**	**(2,135)**	**(3,095)**	**115,397**	**63,512**	**81.7%**	**100,949**	**14.3%**
Costs of services	**(31,170)**	**(28,821)**	**8.1%**	**(31,399)**	**-0.7%**	**(13,939)**	**(12,123)**	**15.0%**	**(13,989)**	**-0.4%**	**(35,915)**	**(25,059)**	**4,461**	**2,101**	**3,052**	**(76,563)**	**(38,844)**	**97.1%**	**(67,395)**	**13.6%**
Cost of salaries and other employee benefits	(19,746)	(18,748)	5.3%	(19,857)	-0.6%	-	-	-	-	-	-	-	1,569	794	1,094	(18,177)	(17,953)	1.2%	(18,763)	-3.1%
Cost of materials and supplies	(8,602)	(7,486)	14.9%	(9,228)	-6.8%	-	-	-	-	-	-	-	704	317	514	(7,898)	(7,169)	10.2%	(8,714)	-9.4%
Cost of medical service providers	(463)	(852)	-45.7%	(401)	15.5%	-	-	-	-	-	-	-	35	37	23	(428)	(815)	-47.5%	(378)	13.2%
Cost of utilities and other	(2,359)	(1,736)	35.9%	(1,913)	23.3%	-	-	-	-	-	-	-	193	72	122	(2,166)	(1,664)	30.2%	(1,791)	20.9%
Net insurance claims incurred	-	-	-	-	-	(12,834)	(11,286)	13.7%	(13,003)	-1.3%	-	-	1,960	880	1,299	(10,874)	(10,406)	4.5%	(11,704)	-7.1%
Agents, brokers and employee commissions	-	-	-	-	-	(1,105)	(837)	32.0%	(986)	12.1%	-	-	-	-	-	(1,105)	(837)	32.0%	(986)	12.1%
Cost of pharma - wholesale	-	-	-	-	-	-	-	-	-	-	(10,086)	(6,545)	-	-	-	(10,086)	-	-	(6,545)	-
Cost of pharma - retail	-	-	-	-	-	-	-	-	-	-	(25,829)	(18,514)	-	-	-	(25,829)	-	-	(18,514)	-
Gross profit	**27,373**	**21,630**	**26.6%**	**26,656**	**2.7%**	**2,115**	**3,073**	**-31.2%**	**1,309**	**61.6%**	**9,810**	**5,632**	**(464)**	**(34)**	**(43)**	**38,834**	**24,668**	**57.4%**	**33,554**	**15.7%**
Salaries and other employee benefits	(6,003)	(6,060)	-0.9%	(5,254)	14.3%	(1,196)	(1,078)	11.0%	(1,328)	-9.9%	(4,106)	(2,690)	464	34	43	(10,841)	(7,104)	52.6%	(9,229)	17.5%
General and administrative expenses	(3,708)	(1,954)	89.8%	(3,517)	5.4%	(649)	(558)	16.3%	(708)	-8.3%	(4,066)	(2,533)	-	2	-	(8,423)	(2,510)	235.6%	(6,758)	24.6%
Impairment of other receivables	(48)	(943)	-94.9%	(1,120)	-95.7%	(124)	(47)	164.9%	(116)	6.9%	-	-	-	-	-	(172)	(990)	-82.6%	(1,236)	-86.1%
Other operating income	180	1,970	-90.9%	395	-54.4%	(1)	(4)	-71.7%	10	-110.0%	150	145	-	(2)	-	329	1,964	-83.2%	550	-40.2%
EBITDA	**17,794**	**14,642**	**21.5%**	**17,160**	**3.7%**	**145**	**1,387**	**-89.5%**	**(832)**	**-117.4%**	**1,788**	**554**	-	-	-	**19,727**	**16,029**	**23.1%**	**16,882**	**16.9%**
EBITDA margin	***30.0%***	***28.6%***		***29.2%***		***0.9%***	***9.1%***		***-5.4%***		***3.9%***	***1.8%***	-	-	-	***17.0%***	***25.0%***		***16.6%***	
Depreciation and amortisation	(4,613)	(3,327)	38.7%	(4,121)	11.9%	(211)	(155)	36.4%	(202)	4.5%	(391)	(258)	-	-	-	(5,215)	(3,482)	49.8%	(4,581)	13.8%
Net interest income (expense)	(3,125)	(4,733)	-34.0%	(2,999)	4.2%	(86)	(53)	62.5%	(43)	NMF	(627)	(427)	-	-	-	(3,838)	(4,786)	-19.8%	(3,469)	10.6%
Net gains/(losses) from foreign currencies	(95)	(1,982)	NMF	(1,711)	-94.4%	(91)	223	-140.9%	19	-578.9%	(77)	(272)	-	-	-	(263)	(1,759)	NMF	(1,964)	-86.6%
Net non-recurring income/(expense)	22	(676)	NMF	387	-94.3%	-	(46)	-	(973)	-	(71)	-	-	-	-	(49)	(722)	NMF	(586)	-91.6%
Profit before income tax expense	**9,983**	**3,923**	**154.5%**	**8,716**	**14.5%**	**(243)**	**1,356**	**NMF**	**(2,031)**	**-88.0%**	**622**	**(403)**	**-**	**-**	**-**	**10,362**	**5,279**	**96.3%**	**6,282**	**64.9%**
Income tax benefit/(expense)	(612)	(196)	NMF	26,619	NMF	25	164	-84.8%	301	-91.7%	-	-	-	-	-	(587)	(31)	NMF	26,920	NMF
of which: Deferred tax adjustments	-	-	-	*27,113*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*27,113*	-
Profit for the period	**9,371**	**3,728**	**151.4%**	**35,335**	**-73.5%**	**(218)**	**1,520**	**NMF**	**(1,730)**	**-87.4%**	**622**	**(403)**	-	-	-	**9,775**	**5,248**	**86.3%**	**33,202**	**-70.6%**
				-																
Attributable to:				-																
- shareholders of the Company	6,721	2,453	174.0%	29,888	-77.5%	(218)	1,520	NMF	(1,730)	-87.4%	622	(403)	-	-	-	7,125	3,973	79.3%	27,755	-74.3%
- non-controlling interests	2,650	1,275	107.8%	5,447	-51.3%	-	-	-	-	-	-	-	-	-	-	2,650	1,275	107.8%	5,447	-51.3%
of which: Deferred tax adjustments	-	-	-	*4,705*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*4,705*	-

Balance Sheet	Healthcare services					Medical insurance					Pharma		
GEL thousands; unless otherwise noted	30-Sep-16	30-Sep-15	Change, Y-o-Y	30-Jun-16	Change, Q-o-Q	30-Sep-16	30-Sep-15	Change, Y-o-Y	30-Jun-16	Change, Q-o-Q	30-Sep-16	30-Jun-16	Change, Q-o-Q
Total assets, of which:	**738,935**	**557,564**	**32.5%**	**675,998**	**9.3%**	**67,643**	**73,767**	**-8.3%**	**71,120**	**-4.9%**	**59,917**	**56,334**	**6.4%**
Cash and bank deposits	34,699	7,368	370.9%	12,551	176.5%	12,259	19,421	-36.9%	11,991	2.2%	1,109	1,853	-40.2%
Receivables from healthcare services	81,766	66,264	23.4%	77,757	5.2%	-	-	-	-		-	-	-
Receivables from sale of pharmaceuticals	-	-	-	-	-	-	-	-	-	-	10,538	6,110	72.5%
Insurance premiums receivable	-	-		-		31,852	29,205	9.1%	34,959	-8.9%	-	-	-
Property and equipment	527,358	420,518	25.4%	488,105	8.0%	5,693	3,786	50.4%	5,684	0.2%	8,155	7,950	2.6%
Goodwill and other intangible assets	28,415	16,193	75.5%	28,192	0.8%	6,057	6,011	0.8%	6,091	-0.6%	823	829	-0.7%
Inventory	12,889	11,097	16.1%	8,552	50.7%	162	169	-4.1%	226	-28.3%	36,439	33,692	8.2%
Prepayments	38,256	5,578	585.8%	45,226	-15.4%	3,121	1,797	73.7%	2,148	45.3%	346	2,972	-88.4%
Other assets	15,553	30,546	-49.1%	15,615	-0.4%	8,499	13,378	-36.5%	10,021	-15.2%	2,507	2,928	-14.4%
Total liabilities, of which:	**271,726**	**328,551**	**-17.3%**	**216,391**	**25.6%**	**51,291**	**53,550**	**-4.2%**	**54,229**	**-5.4%**	**58,273**	**55,225**	**5.5%**
Borrowed Funds	172,568	208,801	-17.4%	120,897	42.7%	10,144	18,553	-45.3%	11,942	-15.1%	20,022	18,020	11.1%
Accounts payable	24,709	28,365	-12.9%	25,156	-1.8%	-	930	-	-	-	33,224	31,122	6.8%
Insurance contract liabilities	-	-	-	-	-	33,917	27,997	21.1%	35,424	-4.3%	-	-	-
Other liabilities	74,450	91,385	-18.5%	70,338	5.8%	7,230	6,070	19.1%	6,863	5.3%	5,027	6,083	-17.4%
Total shareholders' equity attributable to:	**467,209**	**229,013**	**104.0%**	**459,607**	**1.7%**	**16,352**	**20,217**	**-19.1%**	**16,891**	**-3.2%**	**1,644**	**1,109**	**48.2%**
Shareholders of the Company	*413,093*	*171,698*	*140.6%*	*408,203*	*1.2%*	*16,352*	*20,217*	*-19.1%*	*16,891*	*-3.2%*	*1,644*	*1,109*	*48.2%*
Non-controlling interest	*54,116*	*57,315*	*-5.6%*	*51,404*	*5.3%*	-	-	-	-		-	-	-

Balance Sheet	Eliminations			GHG				
GEL thousands; unless otherwise noted	30-Sep-16	30-Sep-15	30-Jun-16	30-Sep-16	30-Sep-15	Change, Y-o-Y	30-Jun-16	Change, Q-o-Q
Total assets, of which:	**10,445**	**(9,310)**	**10,637**	**876,940**	**622,021**	**41.0%**	**814,089**	**7.7%**
Cash and bank deposits	-	-	-	48,067	26,789	79.4%	26,395	82.1%
Receivables from healthcare services	(7,871)	(5,136)	(7,359)	73,895	61,128	20.9%	70,398	5.0%
Receivables from sale of pharmaceuticals	(1,781)	-	-	8,757	-	-	6,110	-
Insurance premiums receivable	(705)	(157)	(684)	31,147	29,048	7.2%	34,275	-9.1%
Property and equipment	-	-	-	541,206	424,304	27.6%	501,739	7.9%
Goodwill and other intangible assets	29,758	-	29,621	65,053	22,204	193.0%	64,733	0.5%
Inventory	-	-	-	49,490	11,266	339.3%	42,470	16.5%
Prepayments	(1,272)	-	(1,272)	40,451	7,375	448.5%	49,074	-17.6%
Other assets	(7,685)	(4,017)	(9,669)	18,874	39,907	-52.7%	18,895	-0.1%
Total liabilities, of which:	**(19,314)**	**(9,310)**	**(18,984)**	**361,976**	**372,791**	**-2.9%**	**306,861**	**18.0%**
Borrowed Funds	(7,546)	(4,015)	(9,602)	195,188	223,339	-12.6%	141,257	38.2%
Accounts payable	(3,754)	(3,335)	(3,696)	54,179	25,960	108.7%	52,582	3.0%
Insurance contract liabilities	(2,850)	(1,708)	(2,483)	31,067	26,289	18.2%	32,941	-5.7%
Other liabilities	(5,165)	(252)	(3,203)	81,542	97,203	-16.1%	80,081	1.8%
Total shareholders' equity attributable to:	**29,759**	**-**	**29,621**	**514,964**	**249,230**	**106.6%**	**507,228**	**1.5%**
Shareholders of the Company	*29,759*	-	*29,621*	*460,848*	*191,915*	*140.1%*	*455,824*	*1.1%*
Non-controlling interest	-	-	-	*54,116*	*57,315*	*-5.6%*	*51,404*	*5.3%*

Selected ratios and KPIs

	3Q16	3Q15	2Q16	9M16	9M15
GHG					
EPS, GEL	0.06	NMF	0.22	0.35	NMF
EPS normalised, GEL	0.06	NMF	0.08	0.18	NMF
ROAE	10.3%	14.3%	25.1%	15.2%	12.9%
ROAE, normalised	12.0%	14.3%	12.8%	12.4%	12.9%
Group rent expenditure	3,586	455	2,266	5,851	1,145
of which, Pharma	*2,596*	-	*1,642*	*4,237*	-
Group capex (maintenance)	2,375	1,917	2,053	6,965	5,745
Group capex (growth)	30,311	15,428	29,895	74,563	37,179
Number of employees	12,478	9,490	11,884	12,478	9,490
Number of physicians	3,140	2,690	2,954	3,140	2,690
Number of nurses	2,840	2,684	2,795	2,840	2,684
Nurse to doctor ratio, referral hospitals	0.93	0.93	0.92	0.93	0.93
Total number of shares				131,681,820	
Less: Treasury shares				(3,727,835)	
Shares outstanding				127,953,985	28,334,829
Of which:					
Total free float				42,550,000	
Shares held by BGEO GROUP PLC				85,631,820	
Healthcare services					
EBITDA margin of healthcare services	30.0%	28.6%	29.2%	29.6%	26.5%
Direct salary rate (direct salary as % of revenue)	33.3%	36.7%	33.8%	33.2%	35.7%
Materials rate (direct materials as % of revenue)	14.5%	14.6%	15.7%	15.4%	14.5%
Administrative salary rate (administrative salaries as % of revenue)	10.1%	11.9%	8.9%	9.7%	12.1%
SG&A rate (SG&A expenses as % of revenue)	6.3%	3.8%	6.0%	5.4%	4.0%
Number of hospitals	35	34	35	35	34
Number of district outpatient clinics	11	5	9	11	5
Number of express ambulatory clinics	28	1	28	28	1
Number of beds	2,474	2,220	2,467	2,474	2,220
Number of referral hospital beds	2,012	1,759	2,005	2,012	1,759
Bed occupancy rate	56.8%	52.5%	57.6%	58.1%	52.7%
Bed occupancy rate, referral hospitals	63.7%	60.6%	64.9%	66.4%	60.6%
Bed occupancy rate, community hospitals	24.5%	22.4%	23.9%	25.2%	23.0%
Average length of stay (days)	4.9	4.7	5.1	4.8	5.1
Average length of stay (days), referral hospitals	5.1	4.9	5.3	5.0	5.4
Average length of stay (days), community hospitals	3.4	2.9	3.9	3.5	3.1
Pharma					
EBITDA margin	3.9%	-	1.8%	3.1%	-
Days sales outstanding	21.0	-	NMF	NMF	-
Number of bills issued	2,84million	-	1,92million	4,76million[9]	-
Revenue from wholesale as a percentage of total revenue from pharma	26%	-	25%	26%	-
Revenue from retail as a percentage of total revenue from pharma	74%	-	75%	74%	-
Revenue from para-pharmacy as a percentage of retail revenue from pharma	35%	-	33%	34%	-
Number of pharmacies	112	-	110	112	-
Medical insurance					
Loss ratio	79.9%	74.3%	85.0%	83.6%	77.1%
Expense ratio, *of which*	20.5%	17.6%	21.8%	20.8%	17.8%
Commission ratio	*6.9%*	*5.5%*	*6.4%*	*6.6%*	*5.3%*
Combined ratio	100.4%	91.9%	106.8%	104.4%	94.9%
Renewal rate	78.1%	74.8%	75.7%	77.4%	76.5%

[9] For the five month, from May till September

Annexes:

- Corrections and rebates are corrections of invoices due to errors or faults by third parties
- Eliminations are intercompany transactions between medical insurance and healthcare services Gross margin – Gross margin equals gross profit divided by gross revenue excluding corrections and rebates
- Materials rate equals cost of materials and supplies divided by gross revenue excluding corrections and rebates
- Direct salary rate equals cost of salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Admin salary rate equals administrative Salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Selling, general and administrative expenses rate (SG&A rate) equals General and administrative expenses divided by gross revenue excluding corrections and rebates
- Other operating expenses are operating expenses which are not included in cost of sales and administrative expenses, which primarily include the cost of medicines sold, any losses from the sale of property and equipment, expenses on factoring, write-offs of fixed assets and other
- Operating leverage is calculated as the difference between percentage increase in gross profit and percentage increase in total operating costs
- 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
- 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, 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 cost of pharma
- 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

COMPANY INFORMATION

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Registered under number 09752452 in England and Wales
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