GEORGIA HEALTHCARE GROUP

# 4th quarter and full year 2016 Preliminary Results

www.ghg.com.ge

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 Wednesday, 15 February 2017, at 14:00 UK / 15:00 CET / 09:00 U.S Eastern Time. Please find below the dial ins:

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***Forward looking statements***

This announcement contains forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things: weakening of global and regional economic conditions; exchange rate fluctuations, including depreciation of the Georgian Lari; competition for qualified healthcare personnel; business integration risk; technological developments; changes to the Universal Healthcare Programme; disruption to our supply chain or operations or those of our suppliers; governmental, legislative and regulatory risk; regional tensions; changes in US foreign policy affecting the region; failure to achieve strategic priorities or to meet targets or expectations; competitive pressures; operational risk; risk of failure of information technology and cybercrime; and other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including the 'Principal Risks and Uncertainties' included in Georgia Healthcare Group PLC's 2016 Second Quarter & Half Year Results and in Georgia Healthcare Group PLC's Annual Report and Accounts 2015. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's fourth quarter and full year 2016 preliminary consolidated financial results. Unless otherwise mentioned, comparatives are for the fourth 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.

The information in the preliminary results announcement for the year ended 31 December 2016, which was approved by the Board of Directors on 14 February 2017, does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006.

# HIGHLIGHTS

GHG announces today the Group's 4Q16 and FY16 consolidated results, reporting a full year profit of GEL 61.3 million (US$ 23.2 million/GBP 18.8 million) and earnings per share ("**EPS**") of GEL 0.39 (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*

### FY16 financial performance

- Net profit was GEL 61.3 million (US$ 23.2 million / GBP 18.8 million), (up 159.7% y-o-y)
  - Normalised net profit was GEL 39.6 million[1] (US$ 14.9 million / GBP 12.1 million), (up 117.8% y-o-y)
- EPS was GEL 0.39 (US$0.15 / GBP 0.12 per share)
  - Normalised EPS was GEL 0.24[2] (US$0.09 / GBP 0.07 per share)
- Revenue was GEL 426.4 million (up 73.4% y-o-y)
- EBITDA was GEL 78.0 million (up 39.0% y-o-y)
- Return on Average Equity ("**ROAE**"), normalised, was 11.5%[3]

### 4Q16 financial performance

- Net profit was GEL 6.3 million (US$ 2.4 million / GBP 1.9 million), (up 25.3% y-o-y, down 35.2% q-o-q)
  - Normalised net profit was GEL 11.6 million[4] (US$ 4.4 million / GBP 3.6 million), (up 130.6% y-o-y, up 19.2% q-o-q)
- EPS was GEL 0.04 (US$0.02 / GBP 0.01 per share)
  - Normalised EPS was GEL 0.08[5] (US$0.03 / GBP 0.02 per share)
- Revenue was GEL 136.0 million (up 95.1% y-o-y, up 17.1% q-o-q)
- EBITDA was GEL 24.3 million (up 47.0% y-o-y, up 23.1% q-o-q)
- ROAE, normalised, was 12.5%[6]

[1] Normalised net profit for the full year 2016, is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments (in the aggregate amount of GEL 24.0 million for GHG, which resulted from the Group's healthcare services – positive GEL 25.0 million, medical insurance business – negative GEL 0.8 million and pharma business – negative GEL 0.2 million) and adjusted for one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million). For details on the deferred tax adjustments in FY16, see the explanation in the third bullet point in "Operating performance highlights and notable developments in 2016, GHG", on page 13 of this Announcement.
[2] Normalised EPS is calculated as net profit for the period attributable to shareholders adjusted as explained in "footnote 1" divided by the weighted average number of shares outstanding during the same period.
[3] Normalised ROAE is calculated as net profit for the period attributable to shareholders adjusted as explained in "footnote 1", divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.
[4] Normalised net profit for the fourth quarter 2016, is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustments (in the amount of GEL 5.3 million for GHG, which resulted from the Group's healthcare services – GEL 4.3 million, medical insurance business –GEL 0.8 million and pharma business – GEL 0.2 million). For details on the deferred tax adjustments in 4Q16, see the explanation in the third bullet point in "Operating performance highlights and notable developments in 2016, GHG", on page 13 of this Announcement.
[5] Normalised EPS is the net profit for the period attributable to shareholders adjusted as explained in "footnote 4" divided by the weighted average number of shares outstanding during the same period.
[6] Normalised ROAE is calculated as net profit for the period attributable to shareholders adjusted as explained in "footnote 4", divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.

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

### FY16 financial performance

- Revenue was GEL 246.1 million (up 26.2% y-o-y)
- Organic revenue growth was 16.3% y-o-y
- Gross profit was GEL 113.1 million (up 34.4% y-o-y)
- EBITDA was GEL 74.3 million (up 38.8% y-o-y)
- EBITDA margin was 30.2% (up 280 bps y-o-y)
- Operating leverage was positive at 17.5 percentage points y-o-y
- Net profit was GEL 64.5 million (up 195.1% y-o-y)
  - Net profit, normalised, was 41.6 million[7] (US$ 15.7 million / GBP 12.8 million), (up 145.2% y-o-y)

### 4Q16 financial performance

- Revenue was GEL 67.6 million (up 21.9% y-o-y, which was fully organic; up 14.0% q-o-q)
- Gross profit was GEL 32.0 million (up 31.3% y-o-y, up 16.9% q-o-q)
- EBITDA was GEL 21.5 million (up 30.2% y-o-y, up 21.0% q-o-q)
- EBITDA margin was 31.9% (up 210 bps y-o-y, up 190 bps q-o-q)
- Operating leverage was positive at 10.0 percentage points y-o-y
- Net profit was GEL 7.6 million (up 35.3% y-o-y, down 18.4% q-o-q)
  - Net profit, normalised, was 12.0 million[8] (US$ 4.5 million / GBP 3.7 million), (up 111.7% y-o-y, up 27.7% q-o-q)

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

### Financial performance since the acquisition of JSC GPC ("GPC") in May 2016[9]

- Revenue was GEL 133.0 million
- Gross profit was GEL 27.5 million
- Gross margin was 20.7%
- EBITDA was GEL 5.7 million
- EBITDA margin was 4.3%
- Net profit was GEL 1.9 million

### 4Q16 financial performance

- Revenue was GEL 56.6 million (up 23.8% q-o-q)
- Gross profit was GEL 12.1 million (up 23.2% q-o-q)
- Gross margin was 21.4% (flat q-o-q)
- EBITDA was GEL 3.4 million (up 89.8% q-o-q)
- EBITDA margin was 6.0% (up 2.1 percentage points q-o-q)
- Net profit was GEL 1.7 million (up 174.1% q-o-q)

[7] Normalised net profit for the full year 2016, is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustment, positive GEL 25.0 million and adjusted for one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million). For details on the deferred tax adjustments in FY16, see the explanation in the third bullet point in "Operating performance highlights and notable developments in 2016, GHG", on page 13 of this Announcement.
[8] Normalised net profit for the fourth quarter 2016, is the net profit adjusted for one-off non-recurring gain due to deferred tax adjustment, negative GEL 4.3 million. For details on the deferred tax adjustments in 4Q16, see the explanation in the third bullet point in "Operating performance highlights and notable developments in 2016, GHG", on page 13 of this Announcement
[9] Pharma business financials are included from 1 May 2016, as GHG completed the first acquisition of the pharma business in May 2016 and started consolidation from that month. The consolidation of the second pharma acquisition, JSC ABC, will commence 1 January 2017.

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

### FY16 financial performance

- Net insurance premiums earned were GEL 61.5 million (up 5.0% y-o-y)
- Gross profit was GEL 5.7 million (down 37.7% y-o-y)
- Loss ratio was 84.1% (up 5.4 percentage points y-o-y)
- Expense ratio was 20.6%[10] (up 2.6 percentage points y-o-y)
- Combined ratio was 104.7% (up 8.0 percentage points y-o-y)
- EBITDA was negative at GEL 2.0 million
- Net loss was GEL 4.9 million

### 4Q16 financial performance

- Net insurance premiums earned were GEL 16.3 million (up 5.0% y-o-y, up 1.6% q-o-q)
- Gross profit was GEL 1.3 million (down 18.6% y-o-y, down 37.8% q-o-q)
- Loss ratio was 85.3% (up 2.2 percentage points y-o-y, up 5.4 percentage points q-o-q)
- Expense ratio was 20.0% (up 1.4 percentage points y-o-y, down 0.5 percentage points q-o-q)
- Combined ratio was 105.3% (up 3.6 percentage points y-o-y, up 4.9 percentage points q-o-q)
- EBITDA was negative GEL 0.6 million
- Net loss was GEL 2.8 million

[10] In the FY 2015 and prior period GHG financial statements, the Group had offset agents' commission fees paid for attracting insurance premiums from insurance revenue, so that insurance revenue was presented on a net basis. The Group reconsidered the presentation and decided to separate presentation of agents' commission in 2016.

# CHIEF EXECUTIVE OFFICER STATEMENT

2016 was another extremely strong year for Georgia Healthcare Group, as the Group continued to build strongly in all areas of the wider Georgian healthcare ecosystem including, for the first time, in the pharmaceutical retail and wholesale sector.

During the year, the Group continued to grow its operations, both organically and via acquisition. We have made significant further progress in the implementation of our strategy to develop a nationwide chain of ambulatory clinics, subsequently growing our capacity to provide quality outpatient services to a much larger part of Georgia's population. We increased the number of district ambulatory clinics from 7 to 13 during 2016, as well as now having 28 express ambulatory clinics in operation. In May 2016, we completed the acquisition of JSC GPC, one of the largest retail and wholesale pharmacy chains in Georgia. GPC operates a countrywide network of 118 pharmacies in major cities, and the acquisition has created a number of substantial purchase synergy opportunities, and significant potential for increased customer acquisition in our outpatient business. In addition, in January 2017, the Group completed the acquisition of the Pharma-depot chain of pharmacies – the fourth largest pharma retailer in Georgia (operating with 125 pharmacies by YE 2016) – which has made GHG the market leader in the pharma segment with c.29% market share by revenue.

The 2016 results clearly reflect these significant developments, and I am pleased to report a net profit of GEL 61.3 million, a 159.7% increase year-on-year from GEL 23.6 million in 2015. These results were, however, affected by the impact of a number of one-off items and business changes which increased profits by GEL 24.0 million, the largest of which was the release during the year of deferred tax releases due to a corporate tax legislation change. On an operational basis, the Group still made extremely good progress during the year with net revenues up 74.8% to GEL 423.8 million; EBITDA up 39.0% to GEL 78.0 million; and profit before income tax expense up 70.2% to GEL 40.2 million. Within this strong year-on-year performance, the Group has continued to build strongly on a sequential basis, with record high revenue in both the healthcare services business and the pharma business. Profit before income tax expense in the fourth quarter of 2016 was GEL 13.0 million, up 156.9% on the fourth quarter of 2015, and up 25.6% on the third quarter of the year.

Group net revenues, at GEL 423.8 million for the year, increased by 74.8%. The Group's overall performance continues to be driven by the healthcare services business which delivered net revenues of GEL 243.5 million, supported by 16.3% organic revenue growth and a 280 basis point EBITDA margin improvement to 30.2%. The fourth quarter EBITDA margin reached 31.9%, as we continue to deliver strong business growth and capture significant economies of scale.

In our healthcare services business, 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 Georgia. During 2016, we continued to make significant progress in each of these priorities. The renovation work on both our Deka and Sunstone hospital facilities in Tbilisi has continued and both hospital renovations remain on track and within budget. In August, we opened one of the largest diagnostic centres in Georgia as part of the Deka hospital - the first step in developing Deka into a flagship multi-profile hospital for the country which we will leverage to also retain those patients currently going abroad for healthcare diagnostics and treatment. The renovation at Sunstone is nearing completion, and we are currently scheduling the launch of this multi-profile hospital for March 2017, over two months ahead of schedule. Opening of Sunstone will enable a population of over 1 million to get access to sufficiently improved healthcare services closer to their home.

We are also in the process of launching more than 60 new services at more than 10 of our referral hospitals. These services are primarily targeted at filling service gaps that currrently exist in Georgia either due to the unavailability of the service or its poor quality. Our new service launches 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 paediatrics, neonatology and ophthalmology. Our main focus in 2017 will be to increase our focus on the Tbilisi market, especially in elective services where we see substantial room to grow. We have already launched a neuro intensive care at Telavi hospital, laparoscopic operations at Batumi regional hospital and a thoracoscopy service at Children's new hospital in Tbililsi. During 2016, we also made significant progress in monitoring and improving a number of clinical quality indicators within our referral hospitals, and more improvements are planned in 2017.

Our strategy to increase our share of healthcare revenues through the roll-out of a nationwide network of ambulatory clinics has continued and we grew the number of our district ambulatory clinics from seven in December 2015, to 13 in December 2016, with revenues from this part of the business increasing more than 120% year-on-year.

One of our main priorities: people development, continued to be high on our agenda throughout 2016. The depth of our senior management team continued to improve and the bench itself has increased with the recruitment of several high performing key executives. In addition, 25 executives from our mid-level management team completed a tailored six month course for them to improve their leadership and managerial skills. On the clinical side, we continued to focus on the education and training of our doctors and nurses. Our residency program, which is a very important part of our strategy to develop a new generation of doctors, became the most popular residency program in the country among residents and, with 58 residents currently in our system, we anticipate accepting a further 100 plus in 2017. Our nurse school is also now fully functional, and we will be further increasing its scale during 2017. People development, one of our key success factors, will remain a top priority in 2017 as well. 2016 was a particularly busy year for us in pharma. In May, we completed the acquisition of GPC, one of the largest retail and wholesale pharmacy chains in Georgia, and have made substantial progress with our integration activities. We have eliminated unnecessary costs and negotiations with suppliers continue to achieve better purchase pricing, so that the business has already achieved more than its anticipated cost synergies. With important synergies from the GPC acquisition already having been captured, we are comfortably on track to deliver our initial guidance on synergies, and more than tripled the EBITDA margin in 4Q to 6.0%, from 1.8% in 2Q 2016.

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 per month and 0.5 million loyalty programme users and we have already started to explore this opportunity. In August 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.

On top of all that, in November 2016 we announced the acquisition of ABC, the fourth largest player in the Georgian pharma market and owner of the Pharma-depot chain of pharmacies. We completed the transaction in January 2017, and as a result GHG has become the market leader in the pharma market (with c.29% market share by revenue) in Georgia. The Pharma-depot acquisition has a strong strategic fit with our existing business model. We aim to keep both brands, as they have a distinct positioning in two distinct customer segments: GPC for higher-end customers and Pharma-depot for the mass retail. Together with the strong Pharma-depot retail franchise, we also brought their strong management team to the Group, and they will be leading our integrated pharma business. This new team brings an excellent track record of growth and execution that managed to grow a niche wholesale company into one of the largest pharma retailers in 4-5 years.

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 two to three years: decreasing the cost of goods sold/cost of services by realising captive cost synergies and manufacturer cost synergies; enhancing the retail margin by launching private label products; and expanding 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. The integration process of the two pharma companies has already started and we expect to finalise it in the second half of 2017, whilst achieving annualised cost synergies of c. GEL 11.8 million.

Our medical insurance business had a more challenging year, particularly reflecting the loss-making impact of one large corporate insurance contract. This contract has now expired and has not been renewed. As a result, we expect to see a stabilisation of earnings in 2017, compared to a loss of GEL 4.9 million in 2016.

We remain comfortably on track to deliver a more than doubling of 2015 healthcare services revenues by 2018. Healthcare services net revenue increased by 27.2% year-on-year in 2016, with organic revenue growth of more than 16%. In addition, the rapid roll-out of our nationwide ambulatory clinic model, and our significant new participation in the Georgian pharmaceuticals market will continue to create further business development and cost efficiency opportunities over the next few years. At the same time, we continue to expect the overall Georgian healthcare services market revenues to grow at a double digit rate per annum over next few years.

The Group delivered a strong performance in 2016, and remains in good shape to benefit over the next few years from the combination of its position as the largest healthcare services provider, pharmaceuticals wholesaler and retailer and medical insurer in what continues to be a fast-growing, predominantly privately-owned, Georgian healthcare services market. As a result, the Group is well positioned to deliver further strong growth in 2017 and beyond.

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, pharma and medical insurance businesses in the fast-growing, predominantly privately-owned, Georgian healthcare market.*

**Income statement, GHG consolidated**

| *GEL thousands; unless otherwise noted* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Revenue, gross** | **136,031** | **69,730** | **95.1%** | **116,159** | **17.1%** | **426,439** | **245,969** | **73.4%** |
| Corrections & rebates | (790) | (1,086) | -27.3% | (762) | 3.7% | (2,686) | (3,608) | -25.6% |
| **Revenue, net** | **135,241** | **68,644** | **97.0%** | **115,397** | **17.2%** | **423,753** | **242,361** | **74.8%** |
| Revenue from healthcare services | 66,814 | 54,395 | 22.8% | 58,542 | 14.1% | 243,453 | 191,424 | 27.2% |
| Revenue from pharma | 56,586 | - | - | 45,725 | 23.8% | 133,002 | - | - |
| Net insurance premiums earned | 16,312 | 15,542 | 5.0% | 16,054 | 1.6% | 61,494 | 58,552 | 5.0% |
| Eliminations | (4,473) | (1,293) | 245.9% | (4,925) | -9.2% | (14,196) | (7,615) | 86.4% |
| **Costs of services** | **(89,626)** | **(42,629)** | **110.2%** | **(76,563)** | **17.1%** | **(277,735)** | **(149,232)** | **86.1%** |
| Cost of healthcare services | (34,802) | (30,008) | 16.0% | (31,170) | 11.7% | (130,369) | (107,291) | 21.5% |
| Cost of pharma | (44,498) | - | - | (35,915) | 23.9% | (105,472) | - | - |
| Cost of insurance services | (14,997) | (13,928) | 7.7% | (13,939) | 7.6% | (55,772) | (49,372) | 13.0% |
| Eliminations | 4,671 | 1,306 | 257.6% | 4,461 | 4.7% | 13,878 | 7,431 | 86.8% |
| **Gross profit** | **45,615** | **26,015** | **75.3%** | **38,834** | **17.5%** | **146,018** | **93,129** | **56.8%** |
| Salaries and other employee benefits | (12,757) | (6,810) | 87.3% | (10,841) | 17.7% | (39,750) | (26,515) | 49.9% |
| General and administrative expenses | (9,470) | (3,058) | 209.7% | (8,423) | 12.4% | (27,853) | (10,517) | 164.8% |
| Impairment of receivables | 56 | (612) | NMF | (172) | NMF | (2,332) | (3,448) | -32.4% |
| Other operating income | 845 | 986 | -14.3% | 329 | 156.8% | 1,944 | 3,490 | -44.3% |
| **EBITDA** | **24,289** | **16,522** | **47.0%** | **19,727** | **23.1%** | **78,027** | **56,139** | **39.0%** |
| Depreciation and amortisation | (5,316) | (4,295) | 23.8% | (5,215) | 1.9% | (19,577) | (12,666) | 54.6% |
| Net interest expense | (4,773) | (5,377) | -11.2% | (3,838) | 24.4% | (13,736) | (20,282) | -32.3% |
| Net gains/(losses) from foreign currencies | (3,170) | (1,592) | 99.1% | (263) | NMF | (5,657) | 2,098 | NMF |
| Net non-recurring income/(expense) | 1,982 | (192) | NMF | (48) | NMF | 1,118 | (1,682) | NMF |
| **Profit before income tax expense** | **13,012** | **5,066** | **156.9%** | **10,363** | **25.6%** | **40,175** | **23,608** | **70.2%** |
| Income tax benefit | (6,682) | (14) | NMF | (587) | NMF | 21,156 | 9 | NMF |
| *of which: Deferred tax adjustments* | *(5,319)* | - | | - | | *23,992* | | |
| **Profit for the period** | **6,330** | **5,052** | **25.3%** | **9,776** | **-35.2%** | **61,331** | **23,617** | **159.7%** |
| | | | | | | | | |
| ***Attributable to:*** | | | | | | | | |
| - shareholders of the Company | 5,401 | 3,823 | 41.3% | 7,125 | -24.2% | 50,202 | 19,651 | 155.5% |
| - non-controlling interests | 929 | 1,229 | -24.4% | 2,651 | -65.0% | 11,129 | 3,966 | 180.6% |
| *of which: Deferred tax adjustments* | *(516)* | - | | - | | *4,541* | - | |

**Revenue. We delivered record quarterly and full year 2016 revenue of GEL 136.0 million (up 95.1% y-o-y and up 17.1% q-o-q) and of GEL 426.4 million (up 73.4% y-o-y), respectively.** This growth was driven by all business lines. The first-time consolidation of revenues from our pharma business (GPC) acquired in May 2016 had the largest effect. The healthcare services business was the next biggest contributor to the revenue growth, with strong organic growth (16.3% in FY16) mainly as a result of: investments in new services to close the service gaps primarily in hospitals further strengthening our leading market position; and the roll out of the ambulatory clinics to tap a highly fragmented outpatient services segment (no single competitor has more than 1% market share by revenues). Growth of net insurance premiums earned contributed slightly to the Group revenue growth, while the increase in referrals from the medical insurance business to Group healthcare facilities resulted in an increase in the retention of medical insurance claims within the Group by 7.2% y-o-y, in 2016.

In the full year 2016, we achieved a well-diversified revenue mix at GHG, tapping all three segments of the Georgian healthcare ecosystem. 55% of our revenues came from the healthcare services business, 31% came from the pharma business (consolidated only since May 2016) and the remaining 14% came from the medical insurance business.

**Gross Profit. In 2016, we continued our focus on extracting operating efficiencies and synergies in our healthcare and pharma businesses, achieving stronger gross profit margins as a result. Our medical insurance business continues to implement the initiatives to achieve targeted levels of loss ratio.** The stronger gross profit in the healthcare services business is primarily a result of increase in both, the scale of our business and the utilisation of our healthcare facilities, each of which drives more revenue, while fixed costs grow at a slower pace. We expect this trend to be supported next year by some of our healthcare facilities that we launched in 2016 and which are still in the ramp-up phase. On the other hand, some pressure on margins may result from the launch in 2017 of the two large hospitals in Tbilisi which we are currently renovating. Another factor favorably affecting gross profit in healthcare services is that we have started to realise the synergies in our medical disposables procurement as a result of entering into the pharma business. This process will be ongoing and the results of the cost savings are expected to be reflected in the coming year as well. As to gross profit in the pharma business itself, since the acquisition of GPC the pharma business, we have focused on implementing initiatives, such as renegotiating pricing with manufacturers and engaging in more profitable sales initiatives and at the same time cancelling the initiatives which were not bringing additional business or which diluted margins. The acquisition of the Pharma-depot chain will allow us to continue these efforts in 2017.

**EBITDA. We reported record EBITDA of GEL 24.3 million (up 47.0% y-o-y and up 23.1% q-o-q) and of GEL 78.0 million (up 39.0% y-o-y) for 4Q16 and FY16, respectively**. EBITDA margin for the healthcare services was 30.2%, compared to 27.4% in 2015 (4Q16 was 31.9%, compared to 29.8% in 4Q15). Healthcare services was the main contributor to this increase, with strong gross margin and low single digit growth in administrative payroll for healthcare services that resulted in strong positive operating leverage in the healthcare business at 10.0 percentage points in 4Q16 and 17.5 percentage points in FY16. The addition of the pharma business from May 2016 brought GEL 5.7 million EBITDA to the Group in 2016. For a more detailed discussion of the main factors affecting EBITDA, see the discussion of the segments.

**Profit. The Group's profit was GEL 6.3 million and GEL 61.3 million for 4Q16 and FY16, respectively.** The healthcare services business was the main driver of the FY16 Group's profit, and contributed GEL 64.5 million, up 195.1% y-o-y, followed by the pharma business, which contributed GEL 1.9 million to the Group's profit. The Group's profit was partially offset by the loss of GEL 4.9 million reported by the medical insurance businesses. Due to the changes in the corporate tax legislation in Georgia, the Group recognised one-off gains during the year *(see the explanation in the second bullet point in "Operating performance highlights and notable developments in 2016, GHG", on page 13 of this Announcement)*. Group profit, adjusted for the impact of deferred tax and adjusted for the foreign currency translation loss was GEL 11.6 million for 4Q16 (up 130.6% y-o-y; up 19.2% q-o-q) and GEL 39.6 million for FY16 (up 117.8% y-o-y).

*Depreciation and amortisation*. The Group continued sizeable development projects throughout the year and actively invested in healthcare facilities, which is reflected in the y-o-y growth of the depreciation and amortisation expenses for the quarter as well as for the full year 2016 (up 23.8% and 54.6% y-o-y respectively).

*Financing costs.* The Group reduced its borrowings in line with our strategy of deleveraging following the IPO. Additionally, the Group repaid a large part of the borrowings from local commercial banks and instead sourced longer-term and less expensive funding from Development Financial Institutions ("**DFIs**"). Subsequently, these efforts resulted in net interest expense decrease by 32.3% y-o-y in FY16.

*Foreign currency exposure cost.* The foreign currency exposure is a result of a US$ short position, arising from foreign currency denominated borrowings from DFIs and the trade accounts payable of the pharma business. The Group started hedging its major open currency positions through typical foreign currency forwards (swap) bought from local commercial banks. During 3Q16 and 4Q16, the Group hedged US$ 27.0 million and US$ 4.0 million of its short position. This helped to significantly reduce the open currency position, however, during 4th quarter 2016, the Group still had a short currency position of US$ 9.0 million due to the foreign currency denominated borrowings, which resulted in increased foreign currency losses at the end of 4Q16 as the Georgian Lari continued to devalue. By the end of December 2016, the Group's entire foreign currency position other than to foreign suppliers of the pharma business has been closed fully. The cost of the foreign currency hedging is included in net interest expense in the income statement.

## Selected balance sheet items, GHG consolidated

| *GEL thousands; unless otherwise noted* | **31-Dec-16** | **31-Dec-15** | **Change, Y-o-Y** | **30-Sep-16** | **Change, Q-o-Q** |
|---|---|---|---|---|---|
| **Total assets, of which:** | **912,563** | **758,280** | **20.3%** | **876,940** | **4.1%** |
| Cash and bank deposits | 47,115 | 157,398 | -70.1% | 48,067 | -2.0% |
| Receivables from healthcare services | 81,927 | 65,863 | 24.4% | 73,895 | 10.9% |
| Receivables from sale of pharmaceuticals | 5,105 | - | - | 8,757 | -41.7% |
| Insurance premiums receivable | 24,207 | 20,663 | 17.2% | 31,147 | -22.3% |
| Property and equipment | 574,972 | 444,718 | 29.3% | 541,206 | 6.2% |
| Goodwill and other intangible assets | 70,339 | 25,787 | 172.8% | 65,053 | 8.1% |
| Inventory | 54,920 | 11,056 | 396.7% | 49,490 | 11.0% |
| Prepayments | 30,518 | 9,117 | 234.7% | 40,451 | -24.6% |
| Other assets | 23,460 | 23,678 | -0.9% | 18,874 | 24.3% |
| **Total liabilities, of which:** | **370,531** | **283,299** | **30.8%** | **361,976** | **2.4%** |
| Borrowed Funds | 223,581 | 152,762 | 46.4% | 195,188 | 14.5% |
| Accounts payable | 64,367 | 35,471 | 81.5% | 54,179 | 18.8% |
| Insurance contract liabilities | 26,787 | 21,351 | 25.5% | 31,067 | -13.8% |
| Other liabilities | 55,796 | 73,715 | -24.3% | 81,542 | -31.6% |
| **Total shareholders' equity attributable to:** | **542,032** | **474,981** | **14.1%** | **514,964** | **5.3%** |
| *Shareholders of the Company* | *485,888* | *418,981* | *16.0%* | *460,848* | *5.4%* |
| *Non-controlling interest* | *56,144* | *56,000* | *0.3%* | *54,116* | *3.7%* |

Our balance sheet increased substantially over the last twelve months, as a result of the recent acquisitions (mostly GPC), reaching GEL 912.6 million as at 31 December 2016. The growth of total assets by 20.3% y-o-y was largely driven by the 29.3% (GEL 130.3 million) increase in property and equipment reflecting investments in the renovation of hospitals, roll out of ambulatory clinics and the acquisition of the pharma business in 2016.

The high level of cash and bank deposits at the end of 2015 reflected the receipt of IPO proceeds, and during 2016, a large part of those proceeds were deployed for the capex projects as well as for the acquisition of GPC. The increase in accounts receivable is primarily due to the growth in net revenues of healthcare services by 26.2% y-o-y. The pharma business consolidation primarily affected inventories and goodwill. Out of the GEL 54.9 million inventory balance at the year end, GEL 40.0 million was attributable to the pharma business. Borrowed funds have increased y-o-y as a result of obtaining new cheaper funding from DFIs, replacing part the local funding previously repaid through IPO proceeds. We have simultaneously introduced the practice of hedging the foreign currency risk associated with these borrowings from DFIs that are denominated in foreign currency. We describe the swap agreements with local commercial banks in "*Foreign currency exposure cost*" above. A currency swap asset of GEL 6.3 million as at 31 December 2016 is recognised on the balance sheet, included in other assets. It is accounted at fair value and its carrying amount decreased our net debt as far as the instrument is attached to these borrowings.

## Statement of cash flow, GHG consolidated

| | FY16, Adjusted[11] | Adjustments | FY16, Actual | FY15, Actual | Change, Y-o-Y (FY16 adjusted to FY15 actual) |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Healthcare services revenue received | 210,099 | - | 210,099 | 167,043 | 26% |
| Cost of healthcare services paid | (135,585) | 633 | (136,218) | (98,750) | 37% |
| Pharma revenue received | 118,671 | - | 118,671 | - | - |
| Cost of pharma paid | (94,979) | 4,616 | (99,595) | - | - |
| Net insurance premiums received | 59,963 | - | 59,963 | 56,828 | 6% |
| Net insurance claims paid | (38,042) | - | (38,042) | (36,695) | 4% |
| Salaries and other employee benefits paid | (40,328) | - | (40,328) | (25,827) | 56% |
| General and administrative expenses paid | (23,601) | 2,461 | (26,062) | (12,301) | 92% |
| Other | (3,529) | - | (3,529) | (3,998) | -12% |
| **Net cash flows from operating activities before income tax** | **52,669** | **7,710** | **44,959** | **46,300** | **14%** |
| Income tax paid | (1,602) | 1,000 | (2,602) | (932) | 72% |
| **Net cash flows from operating activities** | **51,067** | **8,710** | **42,357** | **45,368** | **13%** |
| **Cash flows used in investing activities** | | - | | | |
| Acquisition of subsidiaries, net of cash acquired | (50,058) | - | (50,058) | (48,085) | 4% |
| Acquisition of additional interest in existing subsidiaries | (2,472) | - | (2,472) | (6,384) | -61% |
| Purchase of property and equipment | (111,035) | - | (111,035) | (69,607) | 60% |
| Other investing activities | (13,352) | - | (13,352) | 4,094 | -426% |
| **Net cash used in investing activities** | **(176,917)** | - | **(176,917)** | **(119,982)** | **47%** |
| **Cash flows from financing activities** | | - | - | | |
| Proceeds from IPO | - | - | - | 233,975 | -100% |
| IPO related transaction cost | (2,520) | - | (2,520) | (12,096) | -79% |
| Proceeds from debt securities issued | - | - | - | 34,247 | -100% |
| Redemption of debt securities issued | (3,497) | - | (3,497) | - | 100% |
| Proceeds from borrowings | 133,332 | - | 133,332 | 40,612 | 228% |
| Repayment of borrowings | (91,551) | - | (91,551) | (95,839) | -4% |
| Interest expense paid | (19,292) | - | (19,292) | (24,555) | -21% |
| Other financing activities | (2,333) | - | (2,333) | 6,932 | -134% |
| **Net cash flows from financing activities** | **14,139** | - | **14,139** | **183,276** | **-92%** |
| Effect of exchange rates changes on cash and cash equivalents | (1,493) | - | (1,493) | 3,707 | -140% |
| **Net increase in cash and cash equivalents** | **(113,204)** | **8,710** | **(121,914)** | **112,369** | **-201%** |
| **Cash and cash equivalents excluding bank deposits, beginning** | **145,153** | **-** | **145,153** | **32,784** | **343%** |
| **Cash and cash equivalents excluding bank deposits, ending** | **31,949** | **8,710** | **23,239** | **145,153** | **-78%** |
| | | - | | | |
| **Bank deposits, beginning** | **12,245** | **-** | **12,245** | **13,954** | **-12%** |
| **Bank deposits, ending** | **23,876** | **-** | **23,876** | **12,245** | **95%** |
| | | - | | | |
| **Cash and Bank deposits, beginning** | **157,398** | **-** | **157,398** | **46,738** | **237%** |
| **Cash and Bank deposits, ending** | **55,825** | 8,710 | **47,115** | **157,398** | **-65%** |

**The revenue cash conversion ratio, on a consolidated basis improved, reaching 91.2% in FY16 compared to 89.6% in FY15.** This translated into an EBITDA cash conversion ratio of 68% on a consolidated adjusted basis for the same period. Significant growth across all lines of the operating cash flow reflects the organic growth of the business (16.3% y-o-y organic growth of the healthcare services business for FY16) as well as material acquisitions completed since 30 June 2015. To provide a like-for-like comparison for FY16 cash flows, we have applied a few adjustments for non-recurring cash flow items: a) in 2016 we accelerated payments to our core suppliers for the healthcare services and pharma businesses, in order to obtain higher discounts on procured materials and supplies - the full year effect of this acceleration is GEL 0.6 million and GEL 4.6 million for the healthcare and pharma businesses, respectively; b) we also accelerated payments of aged general and administrative expenses by GEL 2.5 million; c) we provided 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 two acquisitions (HTMC, the cash payment of which was made in 2016 although it was acquired in 2015 and the pharma business) as well as capex (additions to property and equipment), which grew by 60.0% y-o-y, in line with the Group's original three year business plan. **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 2016, we spent a total of GEL 111.0 million on capital expenditure. Of this, maintenance capex was GEL 9.4 million.

[11] Statement of Cash Flows adjusted for effect of accelerated payments of aged accounts payables and one off loss in medical insurance claims in 2016 as compared to 2015.

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

**Operating performance highlights and notable developments in 2016, GHG:**

- **In 2016, GHG entered in to the pharma market as a result of acquiring 3rd and 4th players in the pharma retail and wholesale market. As a result, GHG has become the largest pharma player in Georgia, with c.29% market share, of the GEL 1.3 billion market.**

  In May 2016 we completed the acquisition (announced in March) of a 100% equity stake in JSC GPC ("GPC"), the third largest pharmaceutical retailer and wholesaler in Georgia with a 15% market share based on 2015 revenue. GPC is an urban-retailer, operates with a countrywide distribution network of 118 pharmacies, of which 20 pharmacies are located at GHG's healthcare facilities. 25 of these pharmacies also have express ambulatory clinics.

  In January 2017, we completed the acquisition (announced in November 2016) of the fourth largest retail and wholesale pharmacy chains in Georgia, JSC ABC ("**ABC**"). Subsequently we combined the acquired pharma businesses and GHG now owns a 67% equity stake in the combined pharmaceutical business and the remaining 33% minority stake is owned by ABC's former principal shareholders, being Mr. Enriko Beridze and Mr. Mikheil Abramidze. ABC focuses on a mass market pharmacy model, with a countrywide distribution network of 125 pharmacies across Georgia and operates under the brand name Pharma-depot.

  We are currently in the process of integrating the operations of ABC and GPC.

  These transactions underpin our expansion strategy and further consolidate GHG's position as the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value. Our combined pharma business is the largest retailer in the country, with over two million customer interactions per month through over 240 pharmacies. Being the leader in the Georgian retail pharma market strengthens GHG's position as the major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant cost and revenue synergy potential.

- In March 2016, we bought-out the remaining 33.3% minority shareholding of our largest paediatric hospital, Iashvili Referral Hospital ("**Iashvili**"). We had held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding at Iashvili, we paid cash of US$ 1.0 million and transferred all of our assets in Tbilisi Maternity Hospital "New Life" ("**New Life**") to the seller of the minority stake. We had 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 bought out as a result of this transaction. Operating 82 beds, New Life recorded GEL 2.4 million in gross revenue in 2015.

- In May 2016, the Parliament of Georgia approved amendments to the corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from financial institutions, including insurance businesses (the changes are applicable to financial institutions, including insurance businesses, from 1 January 2019). The changed model implies zero corporate tax rate on retained earnings and 15% tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status (under the previous regime, however, the healthcare sector in particular was permitted to deduct re-investments from the taxable profit and this way reducing the effective rate). The change had an immediate impact on deferred tax asset and deferred tax liability balances ("deferred taxes") attributable to previously recognised temporary differences, arising from prior periods. Under IFRS requirements, the new regime is considered to be substantively enacted in 2016, with its impact have been fully assessed in 2016. The Group has measured its deferred tax assets and liabilities as at 30 June 2016. The Group estimated the portion of deferred tax assets or liabilities that it expected to utilise by 1 January 2017 for its non-financial businesses (healthcare services and pharma businesses) and the portion of the deferred tax assets or liabilities it expects to utilise by 1 January 2019 for its financial businesses (medical insurance business). Based on such assessment, the Group has fully written off the unutilised portion of deferred tax assets and liabilities. The deferred tax liabilities that were reversed significantly exceeded the deferred tax assets written off. The net amount ("Deferred tax adjustments") was recognised as an income tax benefit for the Group and amounted to GEL 24.0 million in FY16 – a positive effect of GEL 29.3 million was recorded in the first half of 2016 was partially offset by a negative effect of GEL 5.3 million recorded in 4Q16.

Both effects are non-recurring and one off by nature and are fully utilised in 2016. Based on IFRS requirements, the negative impact recorded in 4Q16 represents a write off of the deferred tax asset that was originated in 4Q16 but could not be utilised post 31 December 2016. As per IFRS, this is the last timing difference that GHG had on its balance sheet prior to moving to the new tax legislation, effective 1 January 2017.

- We have completed the implementation of Exact, a new enterprise resource planning system ("**ERP**") sourced from a Dutch supplier. It fully covers all financial functions (integrated internet banking, GL, receivables, payables, fixed assets, intangibles, shareholder's equity, etc.) as well as all key operating functions (requesting, ordering, procurement and purchasing, warehouse management, sale and resale, cost accounting, stock item management, rents, depreciations, etc.). The ERP system enhances our capabilities to identify and extract further efficiencies in our operations. As a result, we run one ERP platform, group wide, except the pharma business.

- We have also completed the implementation of Vabaco, a software package that includes a complete billing system, fully integrated human resource management system ("**HRMS**") and fully integrated payroll module for the healthcare services business. Vabaco has been fully integrated with Exact in real time. With this approach our Group currently runs fully integrated ERP, billing, HRMS and payroll systems. Vabaco is fully integrated with all external payment channels. It covers Universal Healthcare Programme ("**UHC**") services as well as private services for the insured individuals and out-of-pocket coverage. It is running successfully in all of our healthcare facilities except three, where implementation is ongoing. As a result of implementing Vabaco, the entire healthcare services business now runs on one unified platform with substantially increased functionality, capacity and speed.

# 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 10 ambulatory clusters (with 41 ambulatory clinics), as at 31 December 2016.*

**Income Statement, healthcare services business**

| *GEL thousands; unless otherwise noted* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Healthcare service revenue, gross** | **67,604** | **55,481** | **21.9%** | **59,305** | **14.0%** | **246,139** | **195,032** | **26.2%** |
| Corrections & rebates | (790) | (1,086) | -27.3% | (762) | 3.7% | (2,686) | (3,608) | -25.6% |
| **Healthcare services revenue, net** | **66,814** | **54,395** | **22.8%** | **58,543** | **14.1%** | **243,453** | **191,424** | **27.2%** |
| **Costs of healthcare services** | **(34,802)** | **(30,007)** | **16.0%** | **(31,170)** | **11.7%** | **(130,369)** | **(107,291)** | **21.5%** |
| **Gross profit** | **32,012** | **24,388** | **31.3%** | **27,373** | **16.9%** | **113,084** | **84,133** | **34.4%** |
| Salaries and other employee benefits | (6,676) | (6,178) | 8.1% | (6,003) | 11.2% | (24,048) | (23,075) | 4.2% |
| General and administrative expenses | (4,212) | (2,219) | 89.8% | (3,708) | 13.6% | (13,920) | (7,860) | 77.1% |
| Impairment of receivables | 145 | (460) | MNF | (48) | NMF | (1,881) | (3,140) | -40.1% |
| Other operating income | 269 | 1,008 | -73.3% | 180 | 49.4% | 1,085 | 3,468 | -68.7% |
| **EBITDA** | **21,538** | **16,539** | **30.2%** | **17,794** | **21.0%** | **74,320** | **53,526** | **38.8%** |
| ***EBITDA margin*** | ***31.9%*** | ***29.8%*** | | ***30.0%*** | | ***30.2%*** | ***27.4%*** | |
| Depreciation and amortisation | (5,292) | (4,046) | 30.8% | (4,613) | 14.7% | (18,287) | (11,973) | 52.7% |
| Net interest income (expense) | (3,815) | (5,535) | -31.1% | (3,125) | 22.1% | (12,198) | (20,352) | -40.1% |
| Net gains/(losses) from foreign currencies | (2,053) | (1,586) | 29.5% | (95) | NMF | (4,270) | 1,312 | NMF |
| Net non-recurring income/(expense) | 2,704 | 484 | 458.3% | 22 | NMF | 2,883 | (960) | NMF |
| **Profit before income tax expense** | **13,082** | **5,856** | **123.4%** | **9,983** | **31.0%** | **42,448** | **21,553** | **96.9%** |
| Income tax benefit/(expense) | (5,439) | (206) | NMF | (612) | 788.7% | 22,054 | 307 | NMF |
| *of which: Deferred tax adjustments* | *(4,321)* | - | | - | | *24,990* | - | |
| **Profit for the period** | **7,643** | **5,650** | **35.3%** | **9,371** | **-18.4%** | **64,502** | **21,860** | **195.1%** |
| | | | | | | | | |
| ***Attributable to:*** | | | | | | | | |
| - shareholders of the Company | 6,714 | 4,421 | 51.9% | 6,721 | -0.1% | 53,374 | 17,894 | 198.3% |
| - non-controlling interests | 929 | 1,229 | -24.4% | 2,650 | -64.9% | 11,128 | 3,966 | 180.6% |
| *of which: Deferred tax adjustments* | *(516)* | - | | - | | *4,541* | - | |

### Healthcare services business revenue

**Our healthcare services business recorded strong quarter revenue of GEL 67.6 million (up 21.9% y-o-y and up 14.0% q-o-q) as well as strong full year 2016 revenue of GEL 246.1 million (up 26.2% y-o-y). The business continued its double digit organic growth at 16.3% FY16**. The quarterly growth was primarily organic supported by a strong seasonal effect of the fourth quarter.

### Revenue by types of healthcare facilities

| *(GEL thousands, unless otherwise noted)* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Healthcare services revenue, net** | **66,814** | **54,395** | **22.8%** | **58,543** | **14.1%** | **243,453** | **191,424** | **27.2%** |
| Referral hospitals | 58,020 | 48,565 | 19.5% | 49,850 | 16.4% | 209,563 | 168,527 | 24.4% |
| Community hospitals | 5,363 | 4,291 | 25.0% | 5,601 | -4.2% | 22,273 | 17,623 | 26.4% |
| Ambulatory clinics | 3,430 | 1,540 | 122.8% | 3,092 | 10.9% | 11,616 | 5,274 | 120.3% |

Net healthcare services revenue grew by 27.2% y-o-y in 2016. While all three types of healthcare facilities contributed to the growth, the largest driver was referral hospitals. Revenues from the ambulatory clinics more than doubled during 2016, which was a result of the roll out of the outpatient facilities network, in line with our strategy.

**The increase in revenue from referral hospitals was driven by strong organic growth,** which was in turn driven by strong demand for our current services at our existing facilities, as well as renovation of our facilities and the launch of new services**.** Our renovation projects and our new services are described below under "Operating performance highlights and notable developments in 2016, healthcare services business".

We expect a significant portion of the future growth of our healthcare revenue to come from referral hospitals, in line with our strategy to further invest in facilities and services and improve the quality of care throughout the country. In 2016, referral hospitals contributed 86% to total revenue from healthcare services.

**Community hospitals also posted a strong growth in revenue, which was also driven organically**. Community hospitals play a feeder role for the referral hospitals, so we expect more moderate future growth of their revenue. In 2016, community hospitals contributed 9% to total revenue from healthcare services.

**Ambulatory clinics revenue has grown at triple digit rates, driven by our rapid launch of ambulatory clusters, in line with our strategy to enter this highly fragmented segment of the healthcare ecosystem in Georgia and become a large scale ambulatory player in Georgia**. In 2016, we opened six ambulatory clusters, in line with our initial plan. These launches brought the number of ambulatory clusters to ten, consisting of 13 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 to increase the number of ambulatory clusters and clinics from today's level to more than 15 and 40, respectively by the end of 2018. In 2016, ambulatory clinics contributed 5% to total revenue from healthcare services, compared to 3% in the previous year.

## Revenue by sources of payment

| *(GEL thousands, unless otherwise noted)* | **4Q16** | **4Q15** | **Change, Y-o-Y** | **3Q16** | **Change, Q-o-Q** | **FY16** | **FY15** | **Change, Y-o-Y** |
|---|---|---|---|---|---|---|---|---|
| **Healthcare services revenue, net** | **66,814** | **54,395** | **22.8%** | **58,543** | **14.1%** | **243,453** | **191,424** | **27.2%** |
| Government-funded healthcare programs | 47,262 | 43,130 | 9.6% | 42,194 | 12.0% | 176,668 | 145,732 | 21.2% |
| Out-of-pocket payments by patients | 14,189 | 8,813 | 61.0% | 11,197 | 26.7% | 48,991 | 34,802 | 40.8% |
| Private medical insurance companies, *of which* | 5,363 | 2,454 | 118.6% | 5,152 | 4.1% | 17,794 | 10,890 | 63.4% |
| *GHG medical insurance* | 3,614 | 1,306 | *176.7%* | *3,574* | *1.1%* | *10,453* | *7,431* | *40.7%* |

**Our 2016 healthcare services revenue growth came from all three sources set out above, with y-o-y revenue from out-of-pocket and private medical insurance outpacing the growth of revenue from government-funded healthcare programmes.**

Universal Healthcare Programme ("UHC") continued to be the main contributor to our healthcare services revenue growth in 4Q16 as well as in full year 2016, with the 4Q16 revenue increasing by GEL 4.1 million or 9.6% y-o-y and 12.0% q-o-q. The revenue increased by GEL 30.9 million or 21.2% in 2016. Since the full rollout of UHC in mid-2014, government expenditure on healthcare sector has grown considerably and is expected to be GEL 996.0 million in 2016 compared to GEL 487.9 million in 2013, 104.1% growth over the period.

Growth in out-of-pocket payments is driven by two main factors: The first is growth in healthcare spending which also drives co-payments which are funded out-of-pocket. UHC imposes coverage limits on medical treatments, establishes co-payments and has certain exclusions from coverage as well (i.e. charges that are not covered by UHC). Any charges in excess of the limits are covered by patients as co-payments on an out-of-pocket basis. With the increasing government financing of healthcare services and rollout of outpatient facilities, the number of patients in our hospitals is growing, resulting in a corresponding increase in revenue from out-of-pocket payments as well.

The second growth driver is the enhanced footprint of our ambulatory clinics, revenue from which is primarily out-of-pocket funded, as the government provides minimal coverage for outpatient services. We expect the share of out-of-pocket payments and revenue from private medical insurance companies to increase over the next few years. Our existing ambulatory clinics and the further roll out of our ambulatory clinic expansion strategy will capture patients seeking elective outpatient services, as the largest proportion of elective outpatient services are still financed by the patients themselves or through private insurance policies. In a system where patients have free choice of providers we are pleased to see so many choosing the high quality services in our ambulatory network. Our investments in new service developments are also expected to support growth in revenue from out-of-pocket payments as the services that we develop include those not financed by the State. Essentially, it is our priority to diversify the mix of payment sources contributing to our revenue, with an aim to decrease dependence on the revenue from the State, primarily UHC. Both the rollout of outpatient services and introduction of new services in hospitals not covered by UHC (e.g. IVF introduced earlier this year) deliver this goal.

The y-o-y growth of revenue from private medical insurance companies also continues to be supported by the rollout of the ambulatory clinics, which attract patients with private medical insurance. Our ambulatory clinics are brand new, modern and provide a diverse range of services in one location, unlike the majority of the competition, and therefore is an attractive proposition for the insured customers. Our medical insurance clients have also increased the utilisation levels at our ambulatory clinics, which is reflected in the increased revenue from our medical insurance to our healthcare services business (up 176.7% and 1.1% on y-o-y and q-o-q basis in 4Q16 and up 40.7% y-o-y in FY16). Consequently, we retain significantly more outpatient claims from our medical insurance business within the Group. The retention stood at 38.4% in FY16 (compared to 33.7% in FY15) and was 43.4% in 4Q16.

## Gross profit, healthcare services business

| *(GEL thousands, unless otherwise noted)* | **4Q16** | **4Q15** | **Change, Y-o-Y** | **3Q16** | **Change, Q-o-Q** | **FY16** | **FY15** | **Change, Y-o-Y** |
|---|---|---|---|---|---|---|---|---|
| **Cost of healthcare services** | **(34,802)** | **(30,007)** | **16.0%** | **(31,170)** | **11.7%** | **(130,369)** | **(107,291)** | **21.5%** |
| Cost of salaries and other employee benefits | (21,042) | (18,256) | 15.3% | (19,746) | 6.6% | (80,397) | (68,014) | 18.2% |
| Cost of materials and supplies | (10,616) | (8,871) | 19.7% | (8,602) | 23.4% | (38,059) | (29,097) | 30.8% |
| Cost of medical service providers | (550) | (593) | -7.3% | (463) | 18.8% | (1,842) | (2,423) | -24.0% |
| Cost of utilities and other | (2,594) | (2,287) | 13.4% | (2,359) | 10.0% | (10,071) | (7,757) | 29.8% |
| **Gross profit** | **32,012** | **24,388** | **31.3%** | **27,373** | **16.9%** | **113,084** | **84,133** | **34.4%** |
| ***Gross margin*** | **47.4%** | **44.0%** | | **46.2%** | | **45.9%** | **43.1%** | |
| | | | | | | | | |
| *Cost of healthcare services as % of revenue* | | | | | | | | |
| Direct salary rate | 31.1% | 32.9% | | 33.3% | | 32.7% | 34.9% | |
| Materials rate | 15.7% | 16.0% | | 14.5% | | 15.5% | 14.9% | |

The main cost drivers of our healthcare services business are the cost of salaries and other employee benefits and the cost of materials and supplies. The major drivers responsible for the increased costs in 2016 were the expansion of the hospital business, further to the acquisition of HTMC, filling the service gaps and the roll out of ambulatory clinics.

**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 4Q16 growth (up 15.3% y-o-y and up 6.6% q-o-q) in cost of salaries and other employee benefits was mainly driven by the roll out of new ambulatory clinics. The share of the cost of salaries and other employee benefits in the total cost of services decreased from 63.4% in 2015 to 61.7% in 2016. The direct salary rate in the healthcare services business (expense on direct salaries as a percentage of gross revenue) declined from 34.9% in 2015 to 32.7% in 2016; and to 31.1% in 4Q16 from 32.9% in 4Q15 and 33.3% in 3Q16. The direct salary rate improvement is a result of scale efficiency and the fact that part of our direct salaries are fixed. We expect these two factors should continue to result in revenue growth that outpaces growth in direct salaries.

The cost of materials and supplies was well controlled, reflecting the benefits of consolidated purchasing power following the acquisition of the pharma business, and grew almost in line with the revenue growth. However the increasing materials rate during 2016 over 2015 year, as well as the q-o-q increase, was a result of the reset of certain supplier prices on the back of Lari devaluation. The materials rate improved by 30 bps, compared to the same quarter in the last year (15.7% in 4Q16 and 16.0% in 4Q15).

The increase in cost of utilities in 4Q16, compared to 4Q15 is attributable to seasonality, while y-o-y change is mainly due to the increase in utilities tariffs in the country effective from 4Q15, 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 340 bps y-o-y to 47.4% for 4Q16 and by 280 bps y-o-y to 45.9% for 2016. Gross profit reached GEL 32.0 million for 4Q16 and GEL 113.1 million for 2016, up y-o-y by 31.3% and 34.4%, respectively.**

### EBITDA, healthcare services business

| (GEL thousands, unless otherwise noted) | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Operating expenses** | **(10,474)** | **(7,848)** | **33.5%** | **(9,579)** | **9.3%** | **(38,764)** | **(30,606)** | **26.7%** |
| Salaries and other employee benefits | (6,676) | (6,178) | 8.1% | (6,003) | 11.2% | (24,048) | (23,075) | 4.2% |
| General and administrative expenses | (4,212) | (2,219) | 89.8% | (3,708) | 13.6% | (13,920) | (7,860) | 77.1% |
| Impairment of receivables | 145 | (460) | NMF | (48) | NMF | (1,881) | (3,140) | -40.1% |
| Other operating income | 269 | 1,008 | -73.3% | 180 | 49.4% | 1,085 | 3,468 | -68.7% |
| **EBITDA** | **21,538** | **16,539** | **30.2%** | **17,794** | **21.0%** | **74,320** | **53,526** | **38.8%** |
| ***EBITDA margin*** | ***31.9%*** | ***29.8%*** | | ***30.0%*** | | ***30.2%*** | ***27.4%*** | |

**The healthcare services business achieved a strong positive operating leverage of 17.5% for the full year 2016 and 10.0% for the 4Q16. This is a result of the increasing economies of scale as we continue the consolidation exercise Group-wide, as well as the disciplined cost management process.** Salaries and other employee benefits and general and administrative expenses are the key drivers of our total operating expenses in healthcare services business. The FY16 y-o-y cost growth is a result of an overall expansion of the healthcare services business.

Administrative salaries and other employee benefits in FY16 were well contained and were up only 4.2% y-o-y. The modest increase in administrative salaries in 4Q16, compared to previous quarter as well as previous year, is mainly attributable to the overall expansion of the business and roll out of the new healthcare facilities. The y-o-y increase in general and administrative expenses for 4Q16 as well as for FY16 (up 89.8% and up 77.1% respectively) was primarily driven by the following factors: 1) increased governance-related expenses as a result of the IPO at the end of 2015; 2) rental costs of the newly launched ambulatory clinics, with all rental payments denominated in US$, which is a common practice in Georgia; and 3) the recently increased marketing activity alongside the rollout of our ambulatory clinics, compared to a low base of marketing activity in the previous year.

In 4Q16, we released part of the conservatively assessed provisions in respect of retail healthcare receivables, as a result of the improved recovery rate achieved by our recently launched bad debt collection unit. The full year 2016 impairment charge was GEL 1.9 million, down 40.1% from a year ago, as a result of the normalisation of the quality of the regular retail receivables.

**As a result, we reported record high quarterly EBITDA of GEL 21.5 million (up 30.2% y-o-y and up 21.0% q-o-q) and full year EBITDA of GEL 74.3 million (up 38.8% y-o-y)**. Our continued focus on efficiency and the integration of newly acquired facilities resulted in the robust healthcare services business EBITDA margins of 31.9% in 4Q16 and 30.2% in FY16, which exceed the target of c.30% we set to meet by 2018.

### Profit for the period, healthcare services business

| (GEL thousands, unless otherwise noted) | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| Depreciation and amortisation | (5,292) | (4,046) | 30.8% | (4,613) | 14.7% | (18,287) | (11,973) | 52.7% |
| Net interest income (expense) | (3,815) | (5,535) | -31.1% | (3,125) | 22.1% | (12,198) | (20,352) | -40.1% |
| Net gains/(losses) from foreign currencies | (2,053) | (1,586) | 29.5% | (95) | NMF | (4,270) | 1,312 | NMF |
| Net non-recurring income/(expense) | 2,704 | 484 | 458.3% | 22 | NMF | 2,883 | (960) | NMF |
| **Profit before income tax expense** | **13,082** | **5,856** | **123.4%** | **9,983** | **31.0%** | **42,448** | **21,553** | **96.9%** |
| Income tax benefit/(expense) | (5,439) | (206) | NMF | (612) | 788.7% | 22,054 | 307 | NMF |
| *of which: Deferred tax adjustments* | *(4,321)* | - | | - | | *24,990* | - | |
| **Profit for the period** | **7,643** | **5,650** | **35.3%** | **9,371** | **-18.4%** | **64,502** | **21,860** | **195.1%** |
| | | | | | | | | |
| ***Attributable to:*** | | | | | | | | |
| - shareholders of the Company | 6,714 | 4,421 | 51.9% | 6,721 | -0.1% | 53,374 | 17,894 | 198.3% |
| - non-controlling interests | 929 | 1,229 | -24.4% | 2,650 | -64.9% | 11,128 | 3,966 | 180.6% |
| *of which: Deferred tax adjustments* | *(516)* | - | | - | | *4,541* | - | |

The increase in depreciation expense in 4Q16 and in full year is a result of from the increased asset base from our expansion and respective capex pipeline execution. The decline in net interest expense reflects the reduction in our borrowing levels following the application of the IPO proceeds and replacement of the more expensive funding by a cheaper one. Finally, the GEL 2.0 million foreign currency loss in 4Q16 was a result of yet un-hedged short position which was subsequently fully closed at the end of December 2016. Total foreign currency loss of GEL 4.3 million for the FY16 was a result of depreciation of the local currency against US$. The loss was significantly mitigated by the currency forward (swaps) contracts with a total notional value of US$ 40 million that the Group entered into during 2016 (out of which US$9 million was formed by the end of December 2016), following the devaluation of the Lari.

Consequently, we reported a profit for 4Q16 of GEL 7.6 million and profit for FY16 reached GEL 64.5 million. Normalised 4Q16 profit (adjusted for the impact of deferred tax and the foreign currency translation loss) was GEL 12.0 million, an increase of 111.7% y-o-y and by 27.7% q-o-q. Normalised full year 2016 profit was GEL 41.6 million, up 145.2% y-o-y.

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

- As of 31 December 2016, our healthcare services business operated 15 referral hospitals, 20 community hospitals and 10 ambulatory clusters (consisting of 13 district ambulatory clinics and 28 express ambulatory clinics).
- As of 31 December 2016, total beds operated were 2,557 (down from 2,670 from 31 December 2015), of which 2,092 beds were at referral hospitals (down from 2,209 since YE15) and 465 beds (almost flat, at 461 at YE15) were at community hospitals. The change in total number of beds is primarily due to: 1). disposal of the 82-bed Tbilisi Maternity Hospital New Life, in exchange for the 33.3% minority shareholding in Iashvili that we acquired in February 2016. 2). The temporary reduction in the number of beds is due to the renovations underway at the Deka and Sunstone Hospitals.
- Our healthcare services market share by number of beds was 23.4% as of 31 December 2016. The change in market share by number of beds, from 26.7% a year ago to 23.4% at year-end 2016, is due to the reduced number of referral hospital beds as explained above and the increase in total number of beds in the market throughout the year.
- Our hospital bed occupancy rate[12] was 57.6% in 4Q16 (51.9% in 4Q15, 56.8% in 3Q16) and 55.7% in FY16 (51.7% in FY15).
    - Our referral hospital bed occupancy rate was 65.3% in 4Q16 (59.9% in 4Q15, 63.7% in 3Q16) and 63.0% in FY16 (59.3% in FY 15).
- The average length of stay[13] was 5.0 days in 4Q16 (4.7 days in 4Q15, 4.9 days in 3Q16) and 5.0 days in FY16 (4.6 days in FY15).
    - The average length of stay at referral hospitals was 5.2 days in 4Q16 (5.0 days in 4Q15, 5.1 days in 3Q16) and 5.2 days in FY16 (4.9 in FY15).
- During 2016, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 111.0 million on capital expenditures, primarily on the extensive renovations of Deka and Sunstone hospitals, which will together add c.600 beds, as well as enhancing our service mix and introducing new services to cater to the unmet patient needs. Of this, maintenance capex was GEL 9.4 million.
    - We expanded our fleet of ambulances and added 25 regular and 40 specialised ambulance vehicles (specialised ambulances are equipped with intensive care equipment and have paramedics on-board). We now operate 25 regular and 54 specialised ambulance vehicles. Our ambulances play a feeder role for our hospitals, as they facilitate the movement of patients to and between our hospitals, improving utilisation of our facilities and medical personnel. We are investing in more specialist ambulances and staff to enhance our patient referral services.
    - We started the process of launching new services at our referral hospitals. This includes some basic services like paediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynecology, cardio-surgery, traumatology, angio-surgery, intensive care, reproductive services. More sophisticated services we are launching include like oncology, transplantation of bone marrow and, paediatric kidney transplant. We have already launched neuro intensive care at Telavi hospital, laparoscopic surgery service at Batumi regional hospital and thoracoscopy service at Children's new hospital, which enables our patients to receive lung diagnostics and treatments in Tbilisi instead of going abroad. In total, during 2016, we have launched 64 new services in 14 different referral hospitals. The

[12] From calculation emergency beds are excluded
[13] This calculation excludes data for the emergency department

annualised revenue from these recently launched services, based on recent monthly run rates, is over GEL 18 million. In 2017 we further plan to launch a total of 67 new services in 14 of our hospitals.

- We launched an In Vitro Fertilisation service ("**IVF**") at Caraps Medline – an up-scale boutique hospital in Tbilisi, particularly renowned for gynaecology and plastic surgery services in Georgia. IVF services were undeveloped in the country and patients had to travel abroad for this service. The immediate goal for GHG was to offer this service to those patients travelling abroad and give the quality care, supporting development of the service gaps in the country. 193 patients have received treatment since the launch of the service. The annualised revenue from IVF services, based on recent monthly run rates, is over GEL 1 million.
- The renovation of Sunstone (c.334 beds) is ahead of the schedule and we expect the hospital will become fully operational in March 2017, over two months ahead of schedule. By launching the hospital, 30% of Georgia's population, representing East part, will get access to improved quality of care at their doorsteps, in Tbilisi.
- The renovation of Deka (c.320 beds) is largely in line with the initial schedule. In August 2016, we opened Deka's diagnostic centre, which is one of the largest in Tbilisi. The opening of the diagnostic centre was the first step toward developing Deka into a flagship multi-profile hospital in Georgia. We expect the full launch of Deka to be delayed by up to two months compared to our initial expectation. The delay was caused by a required State authorisation to remove a few trees in the hospital yard. We are in the final stage of obtaining this permission.
- We completed the renovation of our hospitals in the Samtskhe region (capex of GEL 9.3 million), which became fully operational in 1Q16.

- We also expanded the number of specialties offered in our residency programme in line with our strategy to develop a new generation of doctors. We obtained accreditation in an additional seven specialties bringing the total number of specialties to 20. This increased the total number of slots for admission to the programme by 65 residents, bringing the total number of slots for admission to 231 residents. We are currently in the process of obtaining accreditation in four additional specialties. Since the launch of residency programme at the end of 2015, we have 58 residents admitted in 12 specialties. To incentivise and support top talent to enroll in our residency programme (such as successful graduates from State or private universities), we offer grants, student loans and employment after graduating from our residency programme.

## Discussion of Pharma Business Results

*We entered the pharma business through the acquisition of GPC in May 2016, the third largest pharma retailer and wholesaler in Georgia, and our results of operations include GPC results since May 2016.Our pharma business (GPC) consists of retail and wholesale pharma distribution operations through 118 pharmacies mainly located in urban areas throughout Georgia, supported by two warehouses. 25 of these pharmacies also have express ambulatory clinics. We have approximately 1 million retail customer interactions per month in our pharmacies, with c.0.5 million loyalty card members. The number of our pharmacies located at our hospitals has now reached 20, up from four in May 2016.*

*In November 2016, we announced a second pharma acquisition, that of ABC, the fourth largest pharma retailer and wholesaler in Georgia. However, because we completed we completed the ABC transaction in January 2017 the 2016 results below do not include results of ABC operations - we will be consolidating ABC from 1 January 2017.*

Since the GPC acquisition was in May 2016, year-on-year comparisons are not yet meaningful. For the period May-December, our pharma business recorded total revenue of GEL 133.0 million, with 20.7% gross margin and 4.3% EBITDA margin. The pharma business recorded revenue of GEL 56.6 million for 4Q16, maintained gross margin of 21.4% during both 3Q16 and 4Q16, and improved EBITDA margin to 6.0% in 4Q16 from 3.9% in 3Q16.

**Income Statement, pharma business**

| *GEL thousands; unless otherwise noted* | **4Q16** | **3Q16** | **Change, Q-o-Q** | **YTD 2016** |
|---|---|---|---|---|
| **Pharma revenue** | **56,586** | **45,725** | **23.8%** | **133,002** |
| **Costs of pharma** | **(44,498)** | **(35,915)** | **23.9%** | **(105,472)** |
| **Gross profit** | **12,088** | **9,810** | **23.2%** | **27,530** |
| Salaries and other employee benefits | (4,561) | (4,106) | 11.1% | (11,357) |
| General and administrative expenses | (4,678) | (4,066) | 15.1% | (11,277) |
| Other operating income | 545 | 150 | 263.3% | 840 |
| **EBITDA** | **3,394** | **1,788** | **89.8%** | **5,736** |
| ***EBITDA margin*** | ***6.0%*** | ***3.9%*** | | ***4.3%*** |
| Depreciation and amortisation | 202 | (391) | -151.7% | (447) |
| Net interest income (expense) | (548) | (627) | -12.6% | (1,602) |
| Net gains/(losses) from foreign currencies | (928) | (77) | NMF | (1,277) |
| Net non-recurring income/(expense) | (17) | (71) | -76.1% | (88) |
| **Profit before income tax expense** | **2,103** | **622** | **238.1%** | **2,322** |
| Income tax benefit/(expense) | (398) | - | - | (398) |
| *Deferred tax adjustments* | *(200)* | - | - | *(200)* |
| **Profit for the period** | **1,705** | **622** | **174.1%** | **1,924** |
| | | | | |
| ***Attributable to:*** | | | | |
| *- shareholders of the Company* | 1,705 | 622 | 174.1% | 1,924 |
| *- non-controlling interests* | - | - | | - |

In 4Q16, revenue from our pharma business recorded strong q-o-q growth at 23.8%, which is attributable to a number of drivers, including the normally strong winter season, a new incentive plan for the management of pharma business and active marketing campaigns. The new incentive plan for the management is built around sales and efficiency KPIs. Most of the new marketing campaign have focused on sales initiatives. The revenue mix by sales channels was split between retail pharmacies and wholesale, at GEL 39.2 million (69% of total) and at GEL 17.4 million (31% of total), respectively. The share of para-pharmacies in retail revenue was c.32%.

Cost of pharma (cost of goods sold) increased almost in line with revenue, up 23.9% q-o-q, resulting in a resilient gross margin of 21.4% in 4Q16, compared to 21.5% in 3Q16. More importantly, 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 we announced the acquisition of the pharma business) to 23.8% in 3Q16 and 22.1% in 4Q16.

The increase in salaries and other employee benefits, up 11.1% q-o-q, is mainly attributable to performance bonus accrual, related to the overall good performance of the business as well as the expansion of the pharmacy footprint, which is also reflected in the increased revenue. Growth in general and administrative expenses by 15.1% is attributable to increased: marketing activities during 4Q16, and increased rental costs of pharmacies due to the declining value of the Georgian Lari (rental prices in Georgia are denominated in US$).

**Overall, we improved the performance and were disciplined on cost management, and as a result the pharma business delivered positive operating leverage of 10.2% q-o-q.**

The GEL 0.9 million foreign currency loss in 4Q16 was a result of un-hedged short dollar position arising from the trade accounts payable to foreign suppliers of goods.

**Since its acquisition in May 2016, we have integrated the pharma business into the Group. We have and are continuing to extract synergies in support functions and we are on track to deliver the initially expected cost savings and revenue enhancement.** We have rolled out a number of initiatives, as outlined at the time of the acquisition, which have had a positive effect on the pharma business and are partially reflected in 3Q16 and 4Q16 results. GEL 5.7 million EBITDA (4.3% EBITDA margin) for the full consolidated period of pharma business reflects the achievements and improvements of its performance in 3Q16 and 4Q16 described above, compared to the period of May – June 2016. We expect that the effects of our optimisation and integration efforts will continue to be reflected in the full year results of 2017.

**Operating highlights and notable developments in 2016, pharma business (includes only GPC, unless otherwise indicated)**

- We successfully continued the elimination of unnecessary costs. We have eliminated GEL 3.3 million compared to initial guidance of GEL 1.9 million, on an annualised basis.
- We are delivering better purchase pricing from our manufacturers. As a result of the consolidated purchasing power of our healthcare services and pharma business, we expected to deliver GEL 3.0 million cost savings from manufacturer discounts, which has been already achieved. We continue negotiations and expect to achieve further annualised savings of GEL 0.4 million, bringing the total annual effect to GEL 3.4 million

***Summary of synergies:***

| *Cost Synergies from:* | *(A)* *Original guidance* | *(B)* *Delivered through the end of 2016* | *(C)* *Further expected* | *(B)+(C)* *Total saving* |
|---|---|---|---|---|
| Elimination of unnecessary cost | GEL 1.9 million | GEL 3.3 million | - | GEL 3.3 million |
| Better purchase pricing | GEL 3.0 million | GEL 3.0 million | GEL 0.4 million | GEL 3.4 million |
| **Total:** | **GEL 4.9 million** | **GEL 6.3 million** | **GEL 0.4 million** | **GEL 6.7 million** |

- In total, we operate a country-wide distribution network of 118 pharmacies in major cities, 25 of which also have express ambulatory clinics, and the number of our pharmacies located at our hospitals and clinics reached 20. We also operate two warehouses for our pharma business as of 31 December 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. Since the launch of this product in 3Q16, c.3,000 unique customers, which have not used our ambulatory services before, were redirected from our pharmacies to our ambulatory clinics.
- We accelerated procurement of medical disposables for our healthcare services business through our pharma business. In 2016, we had GEL 3.8 million annualised intercompany purchases, compared to GEL 1.0 million in 2015.
- For the period of May-December 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 13.7
  - c.15% market share measured by sales (expected to be c.29.0% after the consolidation of ABC)
  - Total number of bills issued was 7.9 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 35.1% market share based on net insurance premiums earned as of 30 September 2016 and had approximately 211,000 insurance customers as at 31 December 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.*

**Income Statement, medical insurance business**

| *GEL thousands; unless otherwise noted* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Net insurance premiums earned** | **16,312** | **15,542** | **5.0%** | **16,054** | **1.6%** | **61,494** | **58,552** | **5.0%** |
| **Cost of insurance services** | **(14,997)** | **(13,928)** | **7.7%** | **(13,939)** | **7.6%** | **(55,772)** | **(49,372)** | **13.0%** |
| **Gross profit** | **1,315** | **1,615** | **-18.6%** | **2,115** | **-37.8%** | **5,722** | **9,180** | **-37.7%** |
| Salaries and other employee benefits | (1,320) | (636) | 107.6% | (1,196) | 10.4% | (4,663) | (3,642) | 28.0% |
| General and administrative expenses | (580) | (839) | -30.9% | (649) | -10.6% | (2,656) | (2,660) | -0.2% |
| Impairment of receivables | (89) | (152) | -41.4% | (124) | -28.2% | (451) | (308) | 46.2% |
| Other operating income | 31 | (5) | NMF | (1) | NMF | 19 | 43 | -55.8% |
| **EBITDA** | **(643)** | **(17)** | **NMF** | **145** | **NMF** | **(2,029)** | **2,613** | **-177.6%** |
| ***EBITDA margin*** | ***-3.9%*** | ***-0.1%*** | | ***0.9%*** | | ***-3.3%*** | ***4.5%*** | |
| Depreciation and amortisation | (226) | (249) | -9.2% | (211) | 7.1% | (843) | (692) | 21.7% |
| Net interest income (expense) | (242) | 158 | -253.5% | (86) | 181.4% | 232 | 71 | 227.8% |
| Net gains/(losses) from foreign currencies | (189) | (6) | NMF | (91) | 107.7% | (110) | 785 | -114.0% |
| Net non-recurring income/(expense) | (704) | (676) | NMF | - | NMF | (1,677) | (722) | NMF |
| **Profit before income tax expense** | **(2,004)** | **(790)** | **153.7%** | **(243)** | NMF | **(4,427)** | **2,055** | **-315.4%** |
| Income tax benefit/(expense) | (845) | 192 | -541.0% | 25 | NMF | (500) | (298) | 67.7% |
| *Deferred tax adjustments* | *(798)* | - | - | - | | *(798)* | - | - |
| **(Loss) / Profit for the period** | **(2,849)** | **(598)** | **376.4%** | **(218)** | **NMF** | **(4,927)** | **1,757** | **-380.4%** |
| | | | | | | | | |
| ***Attributable to:*** | | | | | | | | |
| *- shareholders of the Company* | (2,849) | (598) | 376.4% | (218) | NMF | (4,927) | 1,757 | -380.4% |
| *- non-controlling interests* | - | - | | - | | - | - | |

**Medical insurance business revenue.** In 4Q and FY 2016, our medical insurance business contributed GEL 16.3 million (up 5.0% y-o-y and up 1.6% q-o-q) and GEL 61.5 million (up 5.0% y-o-y), to total consolidated GHG revenue, respectively.

### Revenue by types of clients

| *(GEL thousands, unless otherwise noted)* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Net insurance premiums earned** | **16,312** | **15,542** | **5.0%** | **16,054** | **1.6%** | **61,494** | **58,552** | **5.0%** |
| Medical insurance products sold to retail clients | 2,280 | 1,896 | 20.2% | 2,438 | -6.5% | 8,796 | 6,693 | 31.4% |
| Medical insurance products sold to corporate clients | 14,032 | 13,645 | 2.8% | 13,616 | 3.1% | 52,698 | 51,858 | 1.6% |

**The y-o-y growth in medical insurance business revenue was driven primarily by sales to retail clients.** Sales to retail clients posted 20.2% and 31.4% y-o-y growth in 4Q16 and FY16, respectively, while sales to corporate clients grew only modestly. The medical insurance business has been focused on diversification of its revenue by sources, launching insurance products particularly targeted at retail customers and enhancing retail sales efforts. As a result, revenue from retail sales reached 14% of total revenues in 2016, compared to 11% last year. The quarter-on-quarter decline of retail revenue in 4Q16 was due to the seasonally high travel insurance package sales in 3Q16. We also increased our corporate client base and the number of insured individuals remained above 200,000 during 2016.

### Gross profit, medical insurance business

| *(GEL thousands, unless otherwise noted)* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Cost of insurance services** | **(14,997)** | **(13,928)** | **7.7%** | **(13,939)** | **7.6%** | **(55,772)** | **(49,372)** | **13.0%** |
| **Net insurance claims incurred:** | **(13,911)** | **(12,918)** | **7.7%** | **(12,834)** | **8.4%** | **(51,701)** | **(46,076)** | **12.2%** |
| Medical insurance products sold to retail clients | (1,376) | (1,232) | 11.7% | (1,512) | -9.0% | (5,773) | (3,700) | 56.0% |
| Medical insurance products sold to corporate clients | (12,535) | (11,686) | 7.3% | (11,322) | 10.7% | (45,928) | (42,376) | 8.4% |
| **Agents, brokers and employee commissions** | **(1,086)** | **(1,010)** | **7.5%** | **(1,105)** | **-1.7%** | **(4,071)** | **(3,296)** | **23.5%** |
| **Gross profit** | **1,315** | **1,614** | **-18.5%** | **2,115** | **-37.8%** | **5,722** | **9,180** | **-37.7%** |
| | | | | | | | | |
| *Loss ratio* | *85.3%* | *83.1%* | | *79.9%* | | *84.1%* | *78.7%* | |

**Our medical insurance costs have been adversely affected in 2016 by a loss-making contract with the Ministry of Defense (the MOD contract). The MOD contract has now expired, and with the improved loss ratio in corporate sales, we expect increased efficiency in 2017.**

In spite of the MOD contract losses, our medical insurance business continued to focus on efficiency improvements in 2016, which was reflected in the improved loss ratio (net insurance claims divided by net insurance revenue) in 3Q16. Overall, however, the medical insurance loss ratio increased from 83.1% in 4Q15 to 85.3% in 4Q16, mostly as a result of the 7.7% y-o-y increase in net insurance claims incurred, mostly from the MOD contract. The q-o-q growth in loss ratio, from 79.9% to 85.3% is attributable to seasonality. 4Q is seasonally heavy in terms of claims and was made more difficult by the MOD contract.

The MOD contract was historically loss-making with a very low tariff base. The contract became even more unfavorable on May 1, 2016, when MOD beneficiaries were excluded from UHC coverage by the State. In addition because the contract had a very limited possibility for Group-wide synergies – coverage did not include medicines and for outpatient services the insured used non-GHG clinics predominantly – the contract was allowed to expire in January 2017. In the absence of this contract going forward, we expect significant improvement of our loss ratio in 2017.

To reduce the risks associated with individual contracts (such as the MOD contract), diversifying our insurance portfolio is one of the key targets for our medical insurance business. By the end of 2016, we managed to reduce the concentration of our top five clients to 27.1%, down from 42.6% a year ago, measured by insurance revenue.

**We also improved the level of medical insurance claims retained within the Group.** In 2016, our medical insurance claims expense was GEL 51.7 million, of which GEL 22.7 million (43.9% of total) was inpatient, GEL 19.2 million (37.1% of total) was outpatient and GEL 9.8 million (19.0% of total) accounted for drugs. In 2016, GEL 12.1 million, or 23.3% of our total medical insurance claims were retained within the Group, of which GEL 10.4 million and GEL 1.6 million was retained in the healthcare services and pharma businesses, respectively. The feeder role of our medical insurance business is particularly important for our ambulatory services. In 2016, GEL 7.2 million, or 37.5% of our medical insurance claims on ambulatory clinics were retained within the Group, which represents an increase of 4.7 percentage points from 33.7% since FY15. 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 ambulatory clinics and ease of claim reimbursement procedures.

**Gross profit recorded during 4Q and FY 2016 was GEL 1.3 million and GEL 5.7 million respectively,** as a result of the increased revenues.

### EBITDA, medical insurance business

| *(GEL thousands, unless otherwise noted)* | 4Q16 | 4Q15 | Change, Y-o-Y | 3Q16 | Change, Q-o-Q | FY16 | FY15 | Change, Y-o-Y |
|---|---|---|---|---|---|---|---|---|
| **Operating expenses** | **(1,958)** | **(1,632)** | **20.0%** | **(1,970)** | **-0.6%** | **(7,751)** | **(6,567)** | **18.0%** |
| Salaries and other employee benefits | (1,320) | (636) | 107.6% | (1,196) | 10.4% | (4,663) | (3,642) | 28.0% |
| General and administrative expenses | (580) | (839) | -30.9% | (649) | -10.6% | (2,656) | (2,660) | -0.2% |
| Impairment of receivables | (89) | (152) | -41.4% | (124) | -28.2% | (451) | (308) | 46.2% |
| Other operating income | 31 | (5) | NMF | (1) | NMF | 19 | 43 | -55.8% |
| **EBITDA** | **(643)** | **(17)** | NMF | **145** | NMF | **(2,029)** | **2,613** | NMF |
| | | | | | | | | |
| *Expense ratio* | *20.0%* | *18.6%* | | *20.5%* | | *20.6%* | *18.0%* | |
| *Combined ratio* | *105.3%* | *101.7%* | | *100.4%* | | *104.7%* | *96.7%* | |

The Group continues to decrease its general and administrative expenses in medical insurance, as a result of the efficiency - focus under a new leadership. This resulted in a decline in general and administrative expenses in 4Q16. The full annualised impact of this efficiency exercise will be reflected in 2017.

Our medical insurance business had made good progress on stabilising its earnings in the third quarter, when it recorded a positive EBITDA. However, on the back of the previously discussed seasonality in 4Q claims, our medical insurance business recorded GEL 0.6 million negative EBITDA. With 4Q being seasonally the worst quarter and with the expiration of the MOD contract in January 2017, we expect further significant improvement of the medical insurance business EBITDA in 2017.

**Operating highlights and notable developments in 2016, medical insurance business**

- The number of insured clients was 211,000 as at 31 December 2016
- Our medical insurance market share was 35.1% based on net insurance premium revenue, as at 30 September 2016
- Our insurance renewal rate was 73.4% in 2016

# SELECTED FINANCIAL INFORMATION

| **Income Statement,** ***Full year*** | Healthcare services | | | Pharma | Medical insurance | | | Eliminations | | GHG | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands; unless otherwise noted* | **FY16** | **FY15** | **Change, Y-o-Y** | **YTD16** | **FY16** | **FY15** | **Change, Y-o-Y** | **FY16** | **FY15** | **FY16** | **FY15** | **Change, Y-o-Y** |
| **Revenue, gross** | **246,139** | **195,032** | **26.2%** | **133,002** | **61,494** | **58,552** | **5.0%** | **(14,196)** | **(7,615)** | **426,439** | **245,969** | **73.4%** |
| Corrections & rebates | (2,686) | (3,608) | -25.6% | - | - | - | - | - | - | (2,686) | (3,608) | -25.6% |
| **Revenue, net** | **243,453** | **191,424** | **27.2%** | **133,002** | **61,494** | **58,552** | **5.0%** | **(14,196)** | **(7,615)** | **423,753** | **242,361** | **74.8%** |
| **Costs of services** | **(130,369)** | **(107,291)** | **21.5%** | **(105,472)** | **(55,772)** | **(49,372)** | **13.0%** | **13,878** | **7,431** | **(277,735)** | **(149,232)** | **86.1%** |
| Cost of salaries and other employee benefits | (80,397) | (68,014) | 18.2% | - | - | - | - | 4,762 | 2,685 | (75,635) | (65,329) | 15.8% |
| Cost of materials and supplies | (38,059) | (29,097) | 30.8% | - | - | - | - | 2,254 | 1,149 | (35,805) | (27,949) | 28.1% |
| Cost of medical service providers | (1,842) | (2,423) | -24.0% | - | - | - | - | 109 | 96 | (1,733) | (2,328) | -25.6% |
| Cost of utilities and other | (10,071) | (7,757) | 29.8% | - | - | - | - | 596 | 306 | (9,475) | (7,451) | 27.2% |
| Net insurance claims incurred | - | - | - | - | (51,701) | (46,076) | 12.2% | 6,157 | 3,195 | (45,544) | (42,881) | 6.2% |
| Agents, brokers and employee commissions | - | - | - | - | (4,071) | (3,296) | 23.5% | | | (4,071) | (3,296) | 23.5% |
| Cost of pharma - wholesale | - | - | - | (30,332) | - | - | - | - | - | (30,332) | - | - |
| Cost of pharma - retail | - | - | - | (75,140) | - | - | - | - | - | (75,140) | - | - |
| **Gross profit** | **113,084** | **84,133** | **34.4%** | **27,530** | **5,722** | **9,180** | **-37.7%** | **(318)** | **(184)** | **146,018** | **93,129** | **56.8%** |
| Salaries and other employee benefits | (24,048) | (23,075) | 4.2% | (11,357) | (4,663) | (3,642) | 28.0% | 318 | 202 | (39,750) | (26,515) | 49.9% |
| General and administrative expenses | (13,920) | (7,860) | 77.1% | (11,277) | (2,656) | (2,660) | -0.2% | - | 3 | (27,853) | (10,517) | 164.8% |
| Impairment of receivables | (1,881) | (3,140) | -40.1% | - | (451) | (308) | 46.2% | - | - | (2,332) | (3,448) | -32.4% |
| Other operating income | 1,085 | 3,468 | -68.7% | 840 | 19 | 43 | NMF | - | (21) | 1,944 | 3,490 | -44.3% |
| **EBITDA** | **74,320** | **53,526** | **38.8%** | **5,736** | **(2,029)** | **2,613** | **NMF** | - | - | **78,027** | **56,139** | **39.0%** |
| ***EBITDA margin*** | ***30.2%*** | ***27.4%*** | | ***4.3%*** | ***-3.3%*** | ***4.5%*** | | - | - | ***18.3%*** | ***22.8%*** | |
| Depreciation and amortisation | (18,287) | (11,973) | 52.7% | (447) | (843) | (692) | 21.7% | - | - | (19,577) | (12,666) | 54.6% |
| Net interest income (expense) | (12,198) | (20,352) | -40.1% | (1,602) | 232 | 71 | NMF | (168) | - | (13,736) | (20,282) | -32.3% |
| Net gains/(losses) from foreign currencies | (4,270) | 1,312 | NMF | (1,277) | (110) | 785 | -114.0% | - | - | (5,657) | 2,098 | NMF |
| Net non-recurring income/(expense) | 2,883 | (960) | NMF | (88) | (1,677) | (722) | NMF | - | - | 1,118 | (1,682) | NMF |
| **Profit before income tax expense** | **42,448** | **21,553** | **96.9%** | **2,322** | **(4,427)** | **2,055** | **NMF** | **(168)** | **-** | **40,175** | **23,608** | **70.2%** |
| Income tax benefit/(expense) | 22,054 | 307 | NMF | (398) | (500) | (298) | NMF | - | - | 21,156 | 9 | NMF |
| *of which: Deferred tax adjustments* | *24,990* | - | - | *(200)* | (798) | - | - | - | - | *23,992* | - | - |
| **Profit for the period** | **64,502** | **21,860** | **195.1%** | **1,924** | **(4,927)** | **1,757** | **NMF** | (168) | - | **61,331** | **23,617** | **159.7%** |
| | | | | | | | | | | | | |
| ***Attributable to:*** | | | | | | | | | | | | |
| - shareholders of the Company | 53,374 | 17,894 | 198.3% | **1,924** | (4,927) | 1,757 | NMF | (168) | - | 50,203 | 19,651 | 155.5% |
| - non-controlling interests | 11,128 | 3,966 | 180.6% | - | - | - | - | - | - | 11,128 | 3,966 | 180.6% |
| *of which: Deferred tax adjustments* | *4,541* | - | - | - | - | - | - | - | - | *4,541* | - | - |

| **Income Statement,** ***Quarterly*** | **Healthcare services** | | | | | **Pharma** | | | **Medical insurance** | | | | | **Eliminations** | | | **GHG** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands; unless otherwise noted* | **4Q16** | **4Q15** | **Change, Y-o-Y** | **3Q16** | **Change, Q-o-Q** | **4Q16** | **3Q16** | **Change, Q-o-Q** | **4Q16** | **4Q15** | **Change, Y-o-Y** | **3Q16** | **Change, Q-o-Q** | **4Q16** | **4Q15** | **3Q16** | **4Q16** | **4Q15** | **Change, Y-o-Y** | **3Q16** | **Change, Q-o-Q** |
| **Revenue, gross** | **67,604** | **55,481** | **21.9%** | **59,305** | **14.0%** | **56,586** | **45,725** | **23.8%** | **16,312** | **15,542** | **5.0%** | **16,054** | **1.6%** | **(4,471)** | **(1,293)** | **(4,925)** | **136,031** | **69,730** | **95.1%** | **116,159** | **17.1%** |
| Corrections & rebates | (790) | (1,086) | -27.3% | (762) | 3.7% | - | - | | - | - | - | - | - | - | - | - | (790) | (1,086) | -27.3% | (762) | 3.7% |
| **Revenue, net** | **66,814** | **54,395** | **22.8%** | **58,543** | **14.1%** | **56,586** | **45,725** | **23.8%** | **16,312** | **15,542** | **5.0%** | **16,054** | **1.6%** | **(4,471)** | **(1,293)** | **(4,925)** | **135,241** | **68,644** | **97.0%** | **115,397** | **17.2%** |
| **Costs of services** | **(34,802)** | **(30,007)** | **16.0%** | **(31,170)** | **11.7%** | **(44,498)** | **(35,915)** | **23.9%** | **(14,997)** | **(13,928)** | **7.7%** | **(13,939)** | **7.6%** | **4,671** | **1,306** | **4,461** | **(89,626)** | **(42,629)** | **110.2%** | **(76,563)** | **17.1%** |
| Cost of salaries and other employee benefits | (21,042) | (18,256) | 15.3% | (19,746) | 6.6% | - | - | - | - | - | - | - | - | 1,534 | 449 | 1,569 | (19,508) | (17,807) | 9.6% | (18,177) | 7.3% |
| Cost of materials and supplies | (10,616) | (8,871) | 19.7% | (8,602) | 23.4% | - | - | - | - | - | - | - | - | 761 | 240 | 704 | (9,855) | (8,632) | 14.2% | (7,898) | 24.8% |
| Cost of medical service providers | (550) | (593) | -7.3% | (463) | 18.8% | - | - | - | - | - | - | - | - | 39 | 13 | 35 | (511) | (580) | -11.9% | (428) | 19.4% |
| Cost of utilities and other | (2,594) | (2,287) | 13.4% | (2,359) | 10.0% | - | - | - | - | - | - | - | - | 189 | 60 | 193 | (2,405) | (2,227) | 8.0% | (2,166) | 11.0% |
| Net insurance claims incurred | - | - | - | - | - | - | - | - | (13,911) | (12,918) | 7.7% | (12,834) | 8.4% | 2,148 | 544 | 1,960 | (11,763) | (12,374) | -4.9% | (10,874) | 8.2% |
| Agents, brokers and employee commissions | - | - | - | - | - | - | - | - | (1,086) | (1,010) | 7.5% | (1,105) | -1.7% | - | - | - | (1,086) | (1,010) | 7.5% | (1,105) | -1.7% |
| Cost of pharma - wholesale | - | - | - | - | - | (13,700) | (10,086) | 35.8% | - | - | - | - | - | - | - | - | (13,700) | - | - | (10,086) | - |
| Cost of pharma - retail | - | - | - | - | - | (30,797) | (25,829) | 19.2% | - | - | - | - | - | - | - | - | (30,797) | - | - | (25,829) | - |
| **Gross profit** | **32,012** | **24,389** | **31.3%** | **27,373** | **16.9%** | **12,088** | **9,810** | **23.2%** | **1,315** | **1,615** | **-18.6%** | **2,115** | **-37.8%** | **200** | **13** | **(464)** | **45,615** | **26,016** | **75.3%** | **38,834** | **17.5%** |
| Salaries and other employee benefits | (6,676) | (6,178) | 8.1% | (6,003) | 11.2% | (4,561) | (4,106) | 11.1% | (1,320) | (636) | 107.6% | (1,196) | 10.4% | (200) | 4 | 464 | (12,757) | (6,810) | 87.3% | (10,841) | 17.7% |
| General and administrative expenses | (4,212) | (2,219) | 89.8% | (3,708) | 13.6% | (4,678) | (4,066) | 15.1% | (580) | (839) | -30.9% | (649) | -10.6% | - | - | - | (9,470) | (3,058) | 209.7% | (8,423) | 12.4% |
| Impairment of other receivables | 145 | (460) | NMF | (48) | NMF | - | - | - | (89) | (152) | -41.4% | (124) | -28.2% | - | - | - | 56 | (612) | -109.1% | (172) | NMF |
| Other operating income | 269 | 1,008 | -73.3% | 180 | 49.4% | 545 | 150 | 263.3% | 31 | (5) | NMF | (1) | NMF | - | (17) | - | 845 | 986 | -14.3% | 329 | 156.8% |
| **EBITDA** | **21,538** | **16,540** | **30.2%** | **17,794** | **21.0%** | **3,394** | **1,788** | **89.8%** | **(643)** | **(17)** | NMF | **145** | **-543.4%** | - | - | - | **24,289** | **16,522** | **47.0%** | **19,727** | **23.1%** |
| ***EBITDA margin*** | ***31.9%*** | ***29.8%*** | | ***30.0%*** | | ***6.0%*** | ***3.9%*** | - | ***-3.9%*** | ***-0.1%*** | | ***0.9%*** | | - | - | - | ***17.9%*** | ***23.7%*** | | ***17.0%*** | |
| Depreciation and amortisation | (5,292) | (4,046) | 30.8% | (4,613) | 14.7% | 202 | (391) | -151.7% | (226) | (249) | -9.2% | (211) | 7.1% | - | - | - | (5,316) | (4,295) | 23.8% | (5,215) | 1.9% |
| Net interest income (expense) | (3,815) | (5,535) | -31.1% | (3,125) | 22.1% | (548) | (627) | -12.6% | (242) | 158 | NMF | (86) | NMF | (168) | - | - | (4,773) | (5,377) | -11.2% | (3,838) | 24.4% |
| Net gains/(losses) from foreign currencies | (2,053) | (1,586) | NMF | (95) | NMF | (928) | (77) | NMF | (189) | (6) | NMF | (91) | NMF | - | - | - | (3,170) | (1,592) | NMF | (263) | NMF |
| Net non-recurring income/(expense) | 2,704 | 484 | NMF | 22 | NMF | (17) | (71) | -76.1% | (704) | (676) | - | - | - | - | - | - | 1,982 | (192) | NMF | (49) | NMF |
| **Profit before income tax expense** | **13,082** | **5,856** | **123.4%** | **9,983** | **31.0%** | **2,103** | **622** | **238.1%** | **(2,004)** | **(790)** | **NMF** | **(243)** | **724.7%** | **(168)** | **-** | **-** | **13,012** | **5,066** | **156.9%** | **10,362** | **25.6%** |
| Income tax benefit/(expense) | (5,439) | (206) | NMF | (612) | NMF | (398) | - | - | (845) | 192 | NMF | 25 | NMF | - | - | - | (6,682) | (14) | NMF | (587) | NMF |
| *of which: Deferred tax adjustments* | *(4,321)* | - | - | - | - | *(200)* | - | - | *(798)* | - | - | - | - | - | - | - | *(5,319)* | - | - | - | - |
| **Profit for the period** | **7,643** | **5,650** | **35.3%** | **9,371** | **-18.4%** | **1,705** | **622** | **174.1%** | **(2,849)** | **(598)** | **NMF** | **(218)** | **NMF** | **(168)** | - | - | **6,330** | **5,052** | **25.3%** | **9,775** | **-35.2%** |
| | | | | | | | | | | | | | | | | | | | | | |
| ***Attributable to:*** | | | | | | | | | | | | | | | | | | | | | |
| - shareholders of the Company | 6,714 | 4,421 | 51.9% | 6,721 | -0.1% | 1,705 | 622 | 174.1% | (2,849) | (598) | NMF | (218) | NMF | (168) | - | - | 5,401 | 3,823 | 41.3% | 7,125 | -24.2% |
| - non-controlling interests | 929 | 1,229 | -24.4% | 2,650 | -64.9% | - | - | - | - | - | - | - | - | - | - | - | 929 | 1,229 | -24.4% | 2,650 | -64.9% |
| *of which: Deferred tax adjustments* | *(516)* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | *(516)* | - | - | - | - |

| Balance Sheet | Healthcare services | | | | | Pharma | | | Medical insurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *GEL thousands; unless otherwise noted* | 31-Dec-16 | 31-Dec-15 | Change, Y-o-Y | 30-Sep-16 | Change, Q-o-Q | 31-Dec-16 | 30-Sep-16 | Change, Q-o-Q | 31-Dec-16 | 31-Dec-15 | Change, Y-o-Y | 30-Sep-16 | Change, Q-o-Q |
| **Total assets, of which:** | **767,249** | **703,309** | **9.1%** | **738,935** | **3.8%** | **63,479** | **59,917** | **5.9%** | **61,667** | **67,371** | **-8.5%** | **67,643** | **-8.8%** |
| Cash and bank deposits | 30,242 | 139,085 | -78.3% | 34,699 | -12.8% | 2,498 | 1,109 | 125.2% | 14,375 | 18,313 | -21.5% | 12,259 | 17.3% |
| Receivables from healthcare services | 86,590 | 71,348 | 21.4% | 81,766 | 5.9% | - | - | - | - | - | - | - | |
| Receivables from sale of pharmaceuticals | - | - | - | - | - | 6,497 | 10,538 | -38.3% | - | - | - | - | - |
| Insurance premiums receivable | - | - | | - | | - | - | - | 25,588 | 20,948 | 22.2% | 31,852 | -19.7% |
| Property and equipment | 560,407 | 439,131 | 27.6% | 527,358 | 6.3% | 9,003 | 8,155 | 10.4% | 5,562 | 5,587 | -0.4% | 5,693 | -2.3% |
| Goodwill and other intangible assets | 34,516 | 19,708 | 75.1% | 28,415 | 21.5% | 783 | 823 | -4.9% | 6,015 | 6,079 | -1.1% | 6,057 | -0.7% |
| Inventory | 14,712 | 10,791 | 36.3% | 12,889 | 14.1% | 40,004 | 36,439 | 9.8% | 204 | 265 | -23.0% | 162 | 25.9% |
| Prepayments | 25,373 | 6,119 | 314.7% | 38,256 | -33.7% | 1,741 | 346 | 403.2% | 4,825 | 2,998 | 60.9% | 3,121 | 54.6% |
| Other assets | 15,409 | 17,127 | -10.0% | 15,553 | -0.9% | 2,953 | 2,507 | 17.8% | 5,098 | 13,181 | -61.3% | 8,499 | -40.0% |
| **Total liabilities, of which:** | **271,142** | **247,762** | **9.4%** | **271,726** | **-0.2%** | **59,972** | **58,273** | **2.9%** | **48,274** | **47,937** | **0.7%** | **51,291** | **-5.9%** |
| Borrowed Funds | 192,145 | 140,439 | 36.8% | 172,568 | 11.3% | 19,613 | 20,022 | -2.0% | 11,823 | 16,497 | -28.3% | 10,144 | 16.6% |
| Accounts payable | 33,969 | 34,455 | -1.4% | 24,709 | 37.5% | 34,193 | 33,224 | 2.9% | - | 1,016 | - | - | - |
| Insurance contract liabilities | - | - | - | - | - | - | - | - | 31,391 | 22,463 | 39.7% | 33,917 | -7.4% |
| Other liabilities | 45,028 | 72,868 | -38.2% | 74,450 | -39.5% | 6,166 | 5,027 | 22.7% | 5,060 | 7,961 | -36.4% | 7,230 | -30.0% |
| **Total shareholders' equity attributable to:** | **496,107** | **455,547** | **8.9%** | **467,209** | **6.2%** | **3,507** | **1,644** | **113.3%** | **13,393** | **19,434** | **-31.1%** | **16,352** | **-18.1%** |
| *Shareholders of the Company* | *439,963* | *399,547* | *10.1%* | *413,093* | *6.5%* | *3,507* | *1,644* | *113.3%* | *13,393* | *19,434* | *-31.1%* | *16,352* | *-18.1%* |
| *Non-controlling interest* | *56,144* | *56,000* | *0.3%* | *54,116* | *3.7%* | - | - | - | - | - | - | - | |

| Balance Sheet | Consolidation and eliminations | | | GHG | | | | |
|---|---|---|---|---|---|---|---|---|
| *GEL thousands; unless otherwise noted* | 31-Dec-16 | 31-Dec-15 | 30-Sep-16 | 31-Dec-16 | 31-Dec-15 | Change, Y-o-Y | 30-Sep-16 | Change, Q-o-Q |
| **Total assets, of which:** | **20,168** | **(12,400)** | **10,445** | **912,563** | **758,280** | **20.3%** | **876,940** | **4.1%** |
| Cash and bank deposits | - | - | - | 47,115 | 157,398 | -70.1% | 48,067 | -2.0% |
| Receivables from healthcare services | (4,663) | (5,485) | (7,871) | 81,927 | 65,863 | 24.4% | 73,895 | 10.9% |
| Receivables from sale of pharmaceuticals | (1,392) | - | (1,781) | 5,105 | - | - | 8,757 | - |
| Insurance premiums receivable | (1,381) | (285) | (705) | 24,207 | 20,663 | 17.2% | 31,147 | -22.3% |
| Property and equipment | - | - | - | 574,972 | 444,718 | 29.3% | 541,206 | 6.2% |
| Goodwill and other intangible assets | 29,025 | - | 29,758 | 70,339 | 25,787 | 172.8% | 65,053 | 8.1% |
| Inventory | - | - | - | 54,920 | 11,056 | 396.7% | 49,490 | 11.0% |
| Prepayments | (1,421) | - | (1,272) | 30,518 | 9,117 | 234.7% | 40,451 | -24.6% |
| Other assets | - | (6,630) | (7,685) | 23,460 | 23,678 | -0.9% | 18,874 | 24.3% |
| **Total liabilities, of which:** | **(8,857)** | **(12,400)** | **(19,314)** | **370,531** | **283,299** | **30.8%** | **361,976** | **2.4%** |
| Borrowed Funds | - | (4,173) | (7,546) | 223,581 | 152,762 | 46.4% | 195,188 | 14.5% |
| Accounts payable | (3,795) | - | (3,754) | 64,367 | 35,471 | 81.5% | 54,179 | 18.8% |
| Insurance contract liabilities | (4,604) | (1,112) | (2,850) | 26,787 | 21,351 | 25.5% | 31,067 | -13.8% |
| Other liabilities | (458) | (7,115) | (5,165) | 55,796 | 73,715 | -24.3% | 81,542 | -31.6% |
| **Total shareholders' equity attributable to:** | **29,025** | **-** | **29,759** | **542,032** | **474,981** | **14.1%** | **514,964** | **5.3%** |
| *Shareholders of the Company* | *29,025* | - | *29,759* | *485,888* | *418,981* | *16.0%* | *460,848* | *5.4%* |
| *Non-controlling interest* | - | - | - | *56,144* | *56,000* | *0.3%* | *54,116* | *3.7%* |

## Selected ratios and KPIs

| | 4Q16 | 4Q15 | 3Q16 | FY16 | FY15 |
|---|---|---|---|---|---|
| **GHG** | | | | | |
| EPS, GEL | 0.04 | 0.03 | 0.06 | 0.39 | 0.15 |
| EPS normalised, GEL | 0.08 | 0.03 | 0.06 | 0.24 | 0.15 |
| ROAE | 6.6% | 5.0% | 10.3% | 8.1% | 6.9% |
| ROAE, normalised | 12.5% | 7.8% | 12.0% | 11.5% | 11.4% |
| Group rent expenditure | 3,530 | 527 | 3,586 | 9,382 | 1,672 |
| *of which, Pharma* | *2,729* | - | *2,596* | *6,966* | - |
| Group capex (maintenance) | 2,471 | 1,469 | 2,375 | 9,436 | 7,214 |
| Group capex (growth) | 27,036 | 30,489 | 30,311 | 101,599 | 63,941 |
| Number of employees | 12,811 | 9,709 | 12,478 | 12,811 | 9,709 |
| Number of physicians | 3,218 | 2,705 | 3,140 | 3,218 | 2,705 |
| Number of nurses | 2,869 | 2,738 | 2,840 | 2,869 | 2,738 |
| Nurse to doctor ratio, referral hospitals | 0.93 | 0.93 | 0.93 | 0.93 | 0.93 |
| Total number of shares | | | | 131,681,820 | 131,681,820 |
| Less: Treasury shares | | | | (3,727,835) | (3,500,000) |
| Shares outstanding | | | | 127,953,985 | 128,181,820 |
| *Of which:* | | | | | |
| Total free float | | | | 42,550,000 | |
| Shares held by BGEO GROUP PLC | | | | 85,631,820 | |
| **Healthcare services** | | | | | |
| EBITDA margin of healthcare services | 31.9% | 29.8% | 30.0% | 30.2% | 27.4% |
| Direct salary rate (direct salary as % of revenue) | 31.1% | 32.9% | 33.3% | 32.7% | 34.9% |
| Materials rate (direct materials as % of revenue) | 15.7% | 16.0% | 14.5% | 15.5% | 14.9% |
| Administrative salary rate (administrative salaries as % of revenue) | 9.9% | 11.1% | 10.1% | 9.9% | 11.1% |
| SG&A rate (SG&A expenses as % of revenue) | 6.2% | 4.0% | 6.3% | 5.7% | 4.0% |
| Number of hospitals | 35 | 35 | 35 | 35 | 35 |
| Number of district outpatient clinics | 13 | 7 | 11 | 13 | 7 |
| Number of express ambulatory clinics | 28 | - | 28 | 28 | - |
| Number of beds | 2,557 | 2,670 | 2,474 | 2,557 | 2,670 |
| Number of referral hospital beds | 2,092 | 2,209 | 2,012 | 2,092 | 2,209 |
| Bed occupancy rate | 57.6% | 51.9% | 56.8% | 55.7% | 51.7% |
| *Bed occupancy rate, referral hospitals* | 65.3% | 59.9% | 63.7% | 63.0% | 59.3% |
| *Bed occupancy rate, community hospitals* | 21.1% | 18.4% | 24.5% | 22.9% | 19.3% |
| Average length of stay (days) | 5.0 | 4.7 | 4.9 | 5.0 | 4.6 |
| *Average length of stay (days), referral hospitals* | 5.2 | 5.0 | 5.1 | 5.2 | 4.9 |
| *Average length of stay (days), community hospitals* | 3.3 | 2.7 | 3.4 | 3.4 | 2.8 |
| **Pharma** | | | | | |
| EBITDA margin | 6.0% | - | 3.9% | 4.3% | - |
| Days sales outstanding | 16 | - | 21.0 | 16 | - |
| Number of bills issued | 3,11million | - | 2,84million | 7,87million[14] | - |
| Average bill size | 13.4 | - | 13.0 | 13.7 | - |
| Revenue from wholesale as a percentage of total revenue from pharma | 31% | - | 26% | 28% | - |
| Revenue from retail as a percentage of total revenue from pharma | 69% | - | 74% | 72% | - |
| Revenue from para-pharmacy as a percentage of retail revenue from pharma | 31.5% | - | 35.2% | 33.1% | - |
| Number of pharmacies | 118 | - | 110 | 112 | - |
| **Medical insurance** | | | | | |
| Loss ratio | 85.3% | 83.1% | 79.9% | 84.1% | 78.7% |
| Expense ratio, *of which* | 20.0% | 18.6% | 20.5% | 20.6% | 18.0% |
| *Commission ratio* | *6.7%* | *6.5%* | *6.9%* | *6.6%* | *5.6%* |
| Combined ratio | 105.3% | 101.7% | 100.4% | 104.7% | 96.7% |
| Renewal rate | 75.6% | 76.0% | 78.1% | 73.4% | 74.3% |

[14] For the eight month, from May till December

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 / net profit 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

Notes:

1. For currency translation purposes, in the entire document, the Group uses the National bank of Georgian official daily exchange rates, as of reporting period end.

2. The financial information contained herein do not constitute the Company's statutory accounts for the financial year ended 31 December 2016 within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the financial year ended 31 December 2015 have been reported on by the Company's auditor and delivered to the Registrar of Companies. The statutory accounts for the financial year ended 31 December 2016 will be delivered in due course. The report of the auditor for the financial year ended 31 December 2015 was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

# COMPANY INFORMATION

## Georgia Healthcare Group PLC

**Registered Address**
84 Brook Street
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Registered under number 09752452 in England and Wales
Incorporation date: 27 August 2015

**Stock Listing**
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Ticker: "GHG.LN"

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