3^{rd} quarter and 9 month 2017 Results

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

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Forward looking statements

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's third quarter and 9 month 2017 consolidated financial results. Unless otherwise mentioned, comparatives are for the third quarter of 2016. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted in the European Union ("**EU**"), are unaudited and extracted from management accounts.

PERFORMANCE HIGHLIGHTS

GHG announces today the Group's 3Q17 and 9M17 consolidated results, reporting a nine month profit of GEL 34.0 million (US$13.7 million/GBP 10.2 million) and earnings per share ("**EPS**") of GEL 0.17 (US$0.07 per share/GBP 0.05 per share).

GEL million; unless otherwise noted	**3Q17**	**Change, Y-o-Y**	**Change, Q-o-Q**	**9M17**	**Change, Y-o-Y**
GHG – ***the leading integrated player in the Georgian healthcare ecosystem***					
Revenue	179.1	54.2%	-3.0%	550.1	89.4%
EBITDA	26.1	32.4%	0.1%	77.3	43.8%
Profit before tax	9.8	-5.1%	-13.0%	34.2	25.8%
EPS, GEL	0.05	-1.1%	0.1%	0.17	-1.4%[1]
ROAE normalised[2]	10.0%	-2.0%	0.3%	11.5%	-0.9%[3]
Healthcare services business					
Revenue	64.0	7.9%	-3.9%	197.0	10.3%
Gross profit	26.7	-2.5%	-5.7%	82.9	2.3%
EBITDA	16.6	-6.6%	-9.2%	51.7	-2.0%
EBITDA margin *(%)*	26.0%	-4.0 ppts	-1.5 ppts	26.3%	-3.3 ppts
Profit before tax	5.9	-41.3%	-26.3%	21.0	-28.5%
Pharma business*[4]*					
Revenue	106.6	133.1%	-3.9%	328.9	330.5%
Revenue from retail sales	78.0	130.5%	-5.4%	245.7	331.8%
Gross profit	26.4	168.8%	1.0%	79.5	414.7%
Gross profit margin *(%)*	24.7%	+3.3 ppts	+1.2 ppts	24.2%	+4.0 ppts
EBITDA	8.8	393.1%	-1.2%	26.4	1028.3%
EBITDA margin *(%)*	8.3%	+4.4 ppts	+0.3 ppts	8.0%	+5.0 ppts
Profit before tax	3.7	499.5%	-17.6%	15.2	6846.6%
Medical insurance business					
Net insurance premiums earned	14.0	-13.0%	4.1%	41.3	-8.5%
Loss ratio *(%)*	80.0%	0.0 ppts	-9.0 ppts	84.5%	0.8 ppts
Expense ratio *(%)*	16.7%	-3.7 ppts	-1.9 ppts	18.5%	-2.3 ppts
Combined ratio *(%)*	96.7%	-3.7 ppts	-10.9 ppts	103.0%	-1.5 ppts
EBITDA	0.7	369.7%	NMF	(0.5)	-60.8%
Profit/ (Loss) before tax	0.2	NMF	NMF	(2.0)	-16.3%

[1] Comparison on a normalised basis – 9M16 (EPS) is calculated on adjusted net profit, with 9M16 net profit normalised for the one-off non-recurring gain due to deferred tax adjustments (in the amount of GEL 29.3 million for GHG, which was fully attributable to the Group's healthcare services business) and adjusted for a one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million), which resulted from the settlement of the US Dollar denominated payable for the acquisition of GPC, the Group's pharma business - divided by weighted average number of shares outstanding during the same period.

[2] Normalised ROAE is calculated as net profit for the period attributable to shareholders, net of non-recurring items, divided by average equity attributable to shareholders for the same period net of unutilised portion of IPO proceeds.

[3] Comparison on a normalised basis – 9M16 Return on equity (ROAE) is calculated on adjusted net profit (explained in footnote 1)

[4] We entered into the pharma business and started consolidating GPC's results from May 2016 and Pharmadepot's results from January 2017. Thus 3Q16 and 9M16 pharma business results only includes GPC's figures for May-September period only

CHIEF EXECUTIVE OFFICER's STATEMENT

During the first nine months of 2017, Georgia Healthcare Group has continued its significant investment and business roll-out in all key areas of the healthcare system of Georgia. In particular, this has involved in successful integration of recent pharma acquisitions and delivering key investment and growth priorities such as the Tbilisi Referral Hospital (previously called "Sunstone") and Deka hospital redevelopment projects – both of which are now nearing completion and full launch. All of this has been achieved whilst continuing to adapt to the significant changes made by the Government in May 2017 to Georgia's Universal Healthcare Programme ("**UHC**"), and seeking to develop a more diverse stream of revenues, particularly in the pharma and Polyclinic businesses.

For the first nine months of 2017, EBITDA of GEL 77.3 million represented a 43.8% increase year on year, and profit before tax increased by 25.8% over the same period, to GEL 34.2 million. In the seasonally quiet third quarter of 2017, Group EBITDA totalled GEL 26.1 million, an increase of 32.4% year-on-year and 0.1% quarter-on-quarter, whilst profit before tax totalled GEL 9.8 million, a 5.1% reduction year-on-year, largely reflecting the impact of the significant projects that remain in the early phase of their roll-out.

In the **healthcare services** business, our referral hospitals continued to deliver c.10% organic revenue growth during the first nine months of the year, at the same time as we continued to invest significantly in our two Tbilisi hospital redevelopment projects and a number of modernisation programmes. Following the partial opening of Tbilisi Referral Hospital in April, we are pleased to see strong levels of bed occupancy building to c.30% in September 2017. We expect to complete the building of Deka as a 320 bed multi-profile flagship hospital by the end of 2017, with full launch scheduled for January 2018. These significant redevelopment projects continue to impact the healthcare services EBITDA margin which was 26.3% in the first nine months of 2017, however, excluding the impact of these investments, the EBIDTA margin was 29.2% in the first nine months of 2017.

The structure of UHC has continued to evolve. With its May 2017 changes, the Government introduced new eligibility criteria based on the income level of citizens and introduced deductible amounts for planned and certain urgent services, details of which are discussed later in this report. In addition, the Government revised the reimbursement mechanism for the provision of intensive care, which has reduced reimbursement for these services. We are not expecting any further material changes to UHC; however, in the short-term, the recent changes to UHC are likely to reduce Group revenues in 2017 by c.GEL 6-7 million.

As we continue to adapt to the impact of these changes, our healthcare services business is prioritising efforts to broaden its sources of revenues and reduce its reliance on UHC. Government-funded healthcare programmes represented 67% of healthcare services revenues in the third quarter of 2017, compared to 72% in the third quarter of last year, mainly as a result of increased revenue from planned services and from the outpatient clinics we call "Polyclinics". Both are largely funded out-of-pocket by patients.

To support the further diversification of revenue streams and close medical service gaps in the country, we are planning to grow our position in planned services. We continued our programme of launching new medical services in our referral hospitals and during the first nine months of 2017 launched 33 new services. In the fourth quarter of the year we plan to launch more than 10 new services in 8 hospitals. We have also recently initiated a programme to increase the recruitment of doctors who, in Georgia, bring with them a portfolio of patients and consequently the associated revenues. This program has contributed to our ability to almost fully staff Deka hospital three months ahead of opening. In July 2017, we acquired two hospitals in the Khashuri and Kareli regions, which have added an additional 90 beds to our portfolio. These acquisitions support our plans to expand our presence throughout Georgia, particularly in the country's under-represented regions.

We continue to enhance the footprint of our Polyclinics and develop of a nationwide chain to provide quality outpatient services to a much larger part of Georgia's population. Following the opening of a new Polyclinic cluster in Marneuli, East Georgia in October 2017, the Group now operates a total of 11 Polyclinic clusters, of which 7 are located in Tbilisi, and 4 in the regions. Revenues from Polyclinics increased by 39.0% in the first nine months of 2017 and we are also currently experiencing a rapid increase in customer footfall into our Polyclinic network, with average footfall increasing by 47% since June. The Polyclinic EBITDA margin was 13.6% in the first nine months of 2017, reflecting the impact of the rapid roll-out, and we expect this margin to increase after the roll-out phase is completed towards the end of 2018.

In the **pharma business** we have now completed the integration of the Pharmadepot and GPC chains of pharmacies. We have 251 pharmacies in a country-wide distribution network, which also includes 21 pharmacies located in our hospitals and clinics. In October we acquired the international private label brand "Attirance" which will allow the pharma business to introduce private label personal care products. Private label products is an area we have identified as having strong potential to further improve the profitability of our pharmacies.

Our key focus during the 2017 has been to ensure the full integration of the two pharmacy chains with as little business disruption as possible. This has been successfully achieved. The process of eliminating unnecessary costs is ongoing and we remain on track to deliver all expected cost savings and revenue enhancements. As a result, the pharma business achieved a third quarter EBITDA margin of 8.3%, in excess of our medium-term target of more than 8%. Going forward, the strong performance of the combined pharma business will be an important growth opportunity for the Group and allow us to further diversify our earnings profile.

Our **medical insurance business** has made significant progress, and returned to profitability in the third quarter. We achieved this by re-negotiating pricing of existing contracts to reflect recent changes in the Government's UHC programme. As a result, the business delivered a gross profit of GEL 2.0 million, an increase of 187.7% quarter on quarter, in the seasonally strong Q3 for insurance business. Compared to the second quarter of 2017, the loss ratio improved from 89.0% to 80.0% and the expense ratio improved from 18.6% to 16.7%. This resulted in the combined ratio improving significantly to 96.7% in the third quarter.

The medical insurance business continues to play a strong feeder role in originating and directing patients to our healthcare facilities, mainly to our Polyclinics and pharmacies. In the first nine months of the 2017, 38.7% of our medical insurance claims on outpatient services were retained within the Group, a significant improvement from 25.7% in the first nine months of last year.

Georgia Healthcare Group remains the clear market leader in the fast-evolving and profitable Georgia healthcare system, and remains firmly on track to deliver strong and profitable growth over the next few years. The Group has two significant major hospital redevelopments being completed during 2017, and both Tbilisi Referral Hospital and Deka will provide substantial earnings impetus over the next few years. We have also quickly adapted to the recent changes to the UHC model. In addition, the successful integration of the Group's pharma businesses has created a combined business with a 29% market share and significant opportunities to improve cross-selling, particularly to Polyclinics, to develop customer loyalty and achieve further margin improvement. The medical insurance business has also managed to stabilise itself so quickly after the recent changes to UHC.

In a fast-changing healthcare services environment, we continue to build our business in all areas of the Georgian market, whilst ensuring we also focus on delivering a number of high profile investment projects. Underlying margins in the healthcare services business are much stronger than the reported margins, and I expect with the impact of the imminent full launch of the new hospitals and further rapid roll out of the Polyclinic chain, we will again approach our targeted returns during 2018.

Nikoloz Gamkrelidze,

CEO of Georgia Healthcare Group PLC

DISCUSSION OF GROUP RESULTS

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem of GEL 3.5 billion aggregated value. GHG is comprised of three main business lines: healthcare services business (consisting of hospital business and ambulatory business "Polyclinics"), pharma business and medical insurance business.

***GHG is the single largest market participant in the healthcare services industry in Georgia**, accounting for 23.8% of total hospital bed capacity of the country, as of 30 September 2017. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting the mass market segment, through its vertically integrated network of hospitals and Polyclinics (outpatient clinics). In 3Q17 we operated with 37 hospitals with a total of 2,893 beds, including 16 referral hospitals with a total of 2,398 beds, which provide secondary or tertiary level healthcare services and 21 community hospitals with a total of 495 beds, which provide basic outpatient and inpatient healthcare services. We operated with 11 Polyclinic clusters consisting of 14 district Polyclinics and 24 express outpatient clinics, which provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities.*

***GHG is the largest pharmaceuticals retailer and wholesaler in Georgia**, with 29% market share by revenue. We entered into the pharma business in 2016 and expanded in 2017, by purchasing the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia in May 2016 and January 2017, respectively. GHG's two pharmacy chains have now been merged, but continue to operate under their separate brand names, **Pharmadepot** and **GPC**. Our combined pharma business has 251 pharmacies, of which 24 also have express outpatient clinics. 21 of our pharmacies are located within our hospitals.*

***GHG is also the largest provider of medical insurance in Georgia** with a 29.6% market share based on 2Q17 net insurance premiums. Our medical insurance business consists of private medical insurance operations in Georgia, providing medical insurance products to corporate and retail clients. We have a wide distribution network and offer a variety of medical insurance products primarily to the Georgian corporate sector and also to retail clients. We had approximately 110,000 persons insured as at October 2017. The medical insurance business plays an important role in our business model, as it is a significant feeder for our pharma business and healthcare services business, particularly for the Polyclinics (outpatient clinics), and we believe that role will grow in the future as we roll out our Polyclinic growth strategy.*

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**9M17**	**9M16**	**Change, Y-o-Y**
Revenue, gross	**179,065**	**116,159**	**54.2%**	**184,601**	**-3.0%**	**550,113**	**290,408**	**89.4%**
Corrections & rebates	(407)	(762)	-46.6%	(660)	-38.3%	(1,690)	(1,896)	-10.9%
Revenue, net	**178,658**	**115,397**	**54.8%**	**183,941**	**-2.9%**	**548,423**	**288,512**	**90.1%**
Revenue from healthcare services	63,598	58,543	8.6%	65,940	-3.6%	195,263	176,639	10.5%
Revenue from pharma	106,607	45,725	133.1%	110,942	-3.9%	328,948	76,416	330.5%
Net insurance premiums earned	13,959	16,054	-13.0%	13,410	4.1%	41,334	45,182	-8.5%
Eliminations	(5,506)	(4,925)	11.8%	(6,351)	-13.3%	(17,122)	(9,725)	76.1%
Costs of services	**(123,467)**	**(76,563)**	**61.3%**	**(130,247)**	**-5.2%**	**(383,460)**	**(188,109)**	**103.8%**
Cost of healthcare services	(36,916)	(31,170)	18.4%	(37,652)	-2.0%	(112,345)	(95,567)	17.6%
Cost of pharma	(80,237)	(35,915)	123.4%	(84,822)	-5.4%	(249,467)	(60,974)	309.1%
Cost of insurance services	(11,968)	(13,939)	-14.1%	(12,718)	-5.9%	(37,420)	(40,775)	-8.2%
Eliminations	5,653	4,461	26.7%	4,945	14.3%	15,771	9,207	71.3%
Gross profit	**55,191**	**38,834**	**42.1%**	**53,694**	**2.8%**	**164,963**	**100,403**	**64.3%**
Salaries and other employee benefits	(18,759)	(10,841)	73.0%	(18,424)	1.8%	(54,911)	(26,993)	103.4%
General and administrative expenses	(11,600)	(7,985)	45.3%	(11,400)	1.8%	(36,352)	(17,253)	110.7%
Impairment of receivables	(918)	(172)	NMF	(1,003)	-8.5%	(3,042)	(2,388)	27.4%
Other operating income	2,200	(109)	NMF	3,229	-31.9%	6,611	(31)	NMF
EBITDA	**26,114**	**19,727**	**32.4%**	**26,096**	**0.1%**	**77,269**	**53,738**	**43.8%**
Depreciation and amortisation	(6,384)	(5,215)	22.4%	(6,481)	-1.5%	(18,737)	(14,261)	31.4%
Net interest expense	(7,691)	(3,838)	100.4%	(7,828)	-1.8%	(22,638)	(8,963)	152.6%
Net gains/(losses) from foreign currencies	(1,336)	(263)	NMF	986	NMF	2,428	(2,487)	NMF
Net non-recurring income/(expense)	(872)	(49)	NMF	(1,478)	-41.0%	(4,142)	(864)	379.4%
Profit before income tax expense	**9,831**	**10,362**	**-5.1%**	**11,295**	**-13.0%**	**34,180**	**27,163**	**25.8%**
Income tax benefit/(expense)	(92)	(587)	-84.3%	(88)	4.5%	(199)	27,838	NMF
of which: Deferred tax adjustments	-	*2,198*		-			*29,311*	
Profit for the period	**9,739**	**9,775**	**-0.4%**	**11,207**	**-13.1%**	**33,981**	**55,001**	**-38.2%**
Attributable to:								
- shareholders of the Company	6,261	7,125	-12.1%	6,172	1.4%	21,265	44,801	-52.5%
- non-controlling interests	3,478	2,650	31.2%	5,035	-30.9%	12,716	10,200	24.7%
of which: Deferred tax adjustments	-	*352*		-			*5,057*	

Revenue. We delivered revenue of GEL 179.1 million in 3Q17 (up 54.2% y-o-y and down 3.0% q-o-q), and GEL 550.1 million in 9M17 (up 89.4% y-o-y). The y-o-y revenue growth in 3Q17 and 9M17 was mainly attributable to the pharma acquisitions, with GPC consolidated from May 2016 and Pharmadepot consolidated from January 2017. The primary driver of organic growth is our healthcare services business, up 7.9% and 10.3% respectively. The q-o-q revenue decline is mainly attributable to the usual seasonality associated with the summer holiday season.

Delivering on our strategy to diversify Group revenue. With our acquisitions of the pharmacy businesses we have further diversified our revenue base. Total Group revenue from out of pocket payments now stands at 54%[5] in 9M17, with only 24% from the Government (UHC) and 22% from other sources.

Gross Profit. We delivered gross profit of GEL 55.2 million in 3Q17 (up 42.1% y-o-y and up 2.8% q-o-q), and GEL 165.0 million in 9M17 (up 64.3% y-o-y). Our Group gross margin improved by 170 bps q-o-q. The q-o-q increase is mainly due to actions we have taken to improve the gross profit margins in the Pharma and medical insurance businesses. The gross margin of the pharma business increased by 120 bps q-o-q mainly as a result of realising previously announced procurement synergies as the largest purchaser of pharmaceuticals in Georgia. Our medical insurance business has also improved its margins due to a seasonally strong quarter for the insurance business, as well as by successful implementation of new initiatives to adapt to changes in the Government's Universal Healthcare Programme by adjusting contract pricing with existing clients and the termination of certain loss-making contracts. These resulted in an improved loss ratio of 80.0% in 3Q17, down from 89.0% in 2Q17. We are making strong progress on our strategy of improving the loss ratio towards our target level of under 80%. As expected the gross margin of our healthcare services business remains temporarily subdued by the significant launches of new healthcare facilities and services which are currently in their initial roll-out phase.

EBITDA. We reported EBITDA of GEL 26.1 million in 3Q17 (up 32.4% y-o-y and up 0.1% q-o-q) and GEL 77.3 million in 9M17 (up 43.8% y-o-y). The healthcare services business was the main contributor to the Group's 3Q17 EBITDA, contributing 64% in total, with a 26.0% EBITDA margin. The next largest contributor was the pharma business with 34% contribution, while achieving an 8.3% EBITDA margin. The pharma business is already exceeding our target of more than 8% EBITDA margin. As a result of the previously described actions, the medical insurance business has also posted positive EBITDA, contributing 3% to the Group's 3Q17 EBITDA.

Depreciation and amortisation. The Group's depreciation and amortisation expense remained stable q-o-q. Y-o-y growth reflects the Group's active investing phase mainly in healthcare facilities and development projects throughout 2017, as well as the consolidation of the pharma businesses.

Financing costs. Our net interest expense decreased by 1.8% q-o-q despite an increase in net debt. We achieved this by issuing local currency denominated bonds to refinance relatively expensive legacy loans. The remaining proceeds were allocated to finance planned ongoing capital expenditures.

The increase in net interest expense y-o-y is mainly due to our acquisitions and planned capital expenditure to launch new healthcare facilities. Also, we recognised interest expense of GEL 0.9 million in 3Q17 and GEL 2.7 million in 9M17 on Pharmadepot's put option that does not result in actual cash outflow.

Profit. As a result, the our profit totaled GEL 9.7 million in 3Q17 (down 0.4% y-o-y on and down 13.1% q-o-q) and GEL 34.0 million in 9M17 (up 21.7% y-o-y on a normalised basis[6]). The healthcare services business was the main driver of the 3Q17 Group profit, contributing GEL 5.9 million, followed by the pharma and medical insurance businesses contributing GEL 3.6 million and GEL 0.2 million respectively.

[5] Includes: healthcare services out of pocket revenue, pharma and medical insurance businesses revenue from retail
[6] Normalised as explained in footnote 1 on page 3

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**30-Sep-17**	**30-Sep-16**	**Change, Y-o-Y**	**30-Jun-17**	**Change, Q-o-Q**
Total assets, of which:	**1,123,735**	**876,940**	**28.1%**	**1,065,527**	**5.5%**
Cash and bank deposits	42,790	48,067	-11.0%	37,052	15.5%
Receivables from healthcare services	99,387	73,895	34.5%	96,784	2.7%
Receivables from sale of pharmaceuticals	20,224	8,757	130.9%	15,550	30.1%
Insurance premiums receivable	26,085	31,147	-16.3%	26,936	-3.2%
Property and equipment	637,328	541,206	17.8%	612,159	4.1%
Goodwill and other intangible assets	125,550	65,053	93.0%	124,490	0.9%
Inventory	117,111	49,490	136.6%	107,169	9.3%
Prepayments	34,118	40,451	-15.7%	25,350	34.6%
Other assets	21,142	18,874	12.0%	20,037	5.5%
Total liabilities, of which:	**579,822**	**361,976**	**60.2%**	**530,879**	**9.2%**
Borrowed funds	329,199	195,188	68.7%	280,483	17.4%
Accounts payable	92,597	54,179	70.9%	87,691	5.6%
Insurance contract liabilities	25,128	31,067	-19.1%	26,429	-4.9%
Other liabilities	132,898	81,542	63.0%	136,276	-2.5%
Total shareholders' equity attributable to:	**543,913**	**514,964**	**5.6%**	**534,648**	**1.7%**
Shareholders of the Company	*479,854*	*460,848*	*4.1%*	*471,491*	*1.8%*
Non-controlling interest	*64,059*	*54,116*	*18.4%*	*63,157*	*1.4%*

The 28.1% y-o-y growth in total assets reflects the significant investments in hospital renovations, Polyclinic roll-outs and the consolidation of the two pharma business acquisitions.

- The higher level of cash and bank deposits at the end of 3Q17 compared to 2Q17, reflects the receipt of proceeds from the issuance of local currency bonds explained above.
- The significant increase y-o-y in both inventory and goodwill is mainly attributable to the consolidation of the acquired pharma business, Pharmadepot. The pharma business makes up major part of inventory and goodwill - GEL 97.8 million and GEL 77.8 million of the respective totals in these assets as at the end of 3Q17.
- The increase in our prepayments balance by 34.6% q-o-q is due to the ongoing construction phase of our two flagship hospitals in Tbilisi, both completing in 4Q17.
- Borrowed funds have increased y-o-y as well as q-o-q as a result of the drivers explained above.
- The y-o-y increase in accounts payable is also attributable to consolidating the pharma business. Out of the GEL 92.6 million accounts payable balance, GEL 64.5 million relates to the pharma business.

Governance Update. In the Company’s Annual General Meeting of 1 June 2017, 39% of independent shareholders voted against the re-election of Jacques Richier, an independent Non-Executive Director. As stated in the Results of AGM release of that date, the Board understands the vote reflected certain investors' views on Mr Richier's record of attendance at Board meetings in 2016. The Board listens to shareholders’ concerns and as an update, informs shareholders that the attendance of the whole Board at Board meetings has been 100% since that date. The Board will continue to engage with shareholders on all matters of corporate governance.

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Main operating performance highlights and notable developments, healthcare services business

New Government initiatives

- Effective from May 2017, the Government introduced a revised reimbursement mechanism relating to the provision of intensive care, reducing the UHC reimbursement of these services. We estimate that the revised level of reimbursement will reduce revenues by approximately GEL 4 million in 2017.
- Effective from May 2017, the Government also adopted a new regulation which bases UHC coverage eligibility on the income level of citizens and introduced deductible amounts for planned and certain urgent services:
  - Citizens with monthly income below GEL 1,000 (other than: children under 5, students, pensioners, veterans and socially vulnerable groups), continue to receive the same coverage from UHC, with reimbursement of most of their healthcare service needs. The main change is for planned treatments and for certain urgent services, for which the state defined a deductible amount of GEL 500 per case and/or minimum 30% copay whichever is greater;
  - Citizens with income of more than GEL 1,000 per month, but below GEL 40,000 annually are partially covered by UHC and the extent of the coverage is close to what they received under UHC prior to the new regulation. The main change is for planned treatments and for certain urgent services, for which State also defined a deductible amount of GEL 1,000 per case and/or minimum 30% copay whichever is greater;
  - Citizens with more than GEL 40,000 annual income are now completely excluded from UHC coverage.

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

  The initiative is intended to make UHC spending more efficient and shift part of the spending from Government funded healthcare programmes to out-of-pocket payments by patients and private medical insurance companies. The initiative will support our strategy to further diversify our healthcare services business revenue mix and should also benefit our insurance business.

Hospital acquisitions

- **In July 2017, the healthcare services business acquired one referral hospital in Khashuri and a nearby community hospital in Kareli**. This is in line with our strategy to expand the healthcare services business' presence across the country, especially in under-represented regions of Georgia. Following these acquisitions, the number of referral and community hospitals in the Group has increased to 16 and 21, respectively.
  The two hospitals are located in the center of the country in an area with a combined population of c.100,000 people, and they operate with 65 and 25 beds respectively. Both hospitals are the sole healthcare services providers in their respective areas and are located next to the new central highway connecting East and West Georgia. Khashuri referral hospital is also the referral centre for three other nearby towns. The integration of both hospitals is already completed.

Continued investment in facilities and services

- During 3Q17, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 27.4 million on capital expenditures, primarily on the extensive renovations of Deka and Tbilisi Referral Hospital (Sunstone), as well as enhancing our service mix and introducing new services to cater to previously unmet patient needs. Of this, maintenance capex was GEL 2.3 million.
  - We have now fully completed renovation of Tbilisi Referral Hospital (c.332 beds) within initial schedule and within budget. In April 2017, we opened the hospital with 220 beds and in September the hospital already reached c.30% occupancy rate. The full launch of the 332-bed hospital, with remaining 112 beds is planned by the end of November.
  - The renovation of Deka (c.320 beds) is targeted for completion by year-end, within schedule and budget. 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. The full launch of the hospital is scheduled for January 2018.
  - We continued the process of launching new services at our referral hospitals. This includes services like paediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynaecology, cardio-surgery, traumatology, angio-surgery, intensive care and reproductive services. More sophisticated services launched include: oncology, transplantation of bone marrow and paediatric kidney transplant. During 3Q17, we have launched 12 new services in 7 different referral hospitals. In total during 9M17 we have launched 33 new services. In 4Q17, we plan to launch more than 10 new services in 8 hospitals.
  - After significant reconstruction works, we have launched an onco-hematological department at Iashvili Paediatric Tertiary Referral Hospital with 30 renovated and 14 new beds. The department was equipped with the latest medical equipment and also enables us to receive paediatric patients with solid tumors. The new infrastructure at the hospital allows us to maximise the accuracy of first diagnoses and improve the quality for children suffering from cancer. Currently 26 patients are undergoing treatment in the department.
  - In June 2017 we launched our Polyclinics campaign – rebranding our outpatient centres into Polyclinics- to achieve a better patient recognition and awareness. As part of our campaign, we also began actively recruiting doctors who previously worked at Soviet-era polyclinics, and have recruited 67 such. Through these activities the number of registered customers increased up to 37,000. In total we plan to gain c.200,000 registered patients within a year, through organic growth and potential acquisitions of existing clinics.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**9M17**	**9M16**	**Change, Y-o-Y**
Healthcare service revenue, gross	**64,004**	**59,305**	**7.9%**	**66,600**	**-3.9%**	**196,952**	**178,535**	**10.3%**
Corrections & rebates	(407)	(762)	-46.6%	(660)	-38.3%	(1,690)	(1,896)	-10.9%
Healthcare services revenue, net	**63,598**	**58,543**	**8.6%**	**65,940**	**-3.6%**	**195,263**	**176,639**	**10.5%**
Costs of healthcare services	**(36,916)**	**(31,170)**	**18.4%**	**(37,652)**	**-2.0%**	**(112,345)**	**(95,567)**	**17.6%**
Gross profit	**26,682**	**27,373**	**-2.5%**	**28,288**	**-5.7%**	**82,918**	**81,072**	**2.3%**
Salaries and other employee benefits	(7,881)	(6,003)	31.3%	(7,996)	-1.4%	(23,056)	(17,372)	32.7%
General and administrative expenses	(4,071)	(3,385)	20.3%	(4,154)	-2.0%	(12,307)	(8,864)	38.8%
Impairment of receivables	(979)	(48)	NMF	(1,033)	-5.2%	(2,992)	(2,026)	47.7%
Other operating income	2,865	(143)	NMF	3,190	-10.2%	7,167	(28)	NMF
EBITDA	**16,616**	**17,794**	**-6.6%**	**18,295**	**-9.2%**	**51,730**	**52,782**	**-2.0%**
EBITDA margin	***26.0%***	***30.0%***		***27.5%***		***26.3%***	***29.6%***	
Depreciation and amortisation	(5,691)	(4,613)	23.4%	(5,774)	-1.4%	(16,404)	(12,995)	26.2%
Net interest income (expense)	(4,474)	(3,125)	43.2%	(4,435)	0.9%	(13,025)	(8,383)	55.4%
Net gains/(losses) from foreign currencies	(209)	(95)	120.0%	1,118	NMF	1,604	(2,217)	NMF
Net non-recurring income/(expense)	(381)	22	NMF	(1,255)	-69.6%	(2,912)	179	NMF
Profit before income tax expense	**5,861**	**9,983**	**-41.3%**	**7,949**	**-26.3%**	**20,993**	**29,366**	**-28.5%**
Income tax benefit/(expense)	-	(612)	NMF	-	NMF	(11)	27,493	NMF
of which: Deferred tax adjustments	-	*2,198*		-		-	*29,311*	
Profit for the period	**5,861**	**9,371**	**-37.5%**	**7,949**	**-26.3%**	**20,982**	**56,859**	**-63.1%**
Attributable to:								
- shareholders of the Company	4,965	6,721	-26.1%	5,636	-11.9%	16,365	46,660	-64.9%
- non-controlling interests	896	2,650	-66.2%	2,313	-61.3%	4,617	10,199	-54.7%
of which: Deferred tax adjustments	-	*352*		-		-	5,057	

Our healthcare services business recorded quarterly revenue of GEL 64.0 million (up 7.9% y-o-y and down 3.9% q-o-q) and 9M17 revenue of GEL 197.0 million (up 10.3% y-o-y). In 9M17 the healthcare services business posted strong y-o-y organic revenue growth of c.10%. The q-o-q decrease in revenue is a result of usual quarterly seasonality due to the summer holidays, and the Government's two new UHC initiatives effective from May 2017, which are described in more details above.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Healthcare services revenue, net	**63,598**	**58,543**	**8.6%**	**65,940**	**-3.6%**	**195,263**	**176,639**	**10.5%**
Referral hospitals	53,604	49,850	7.5%	57,358	-6.5%	167,408	151,543	10.5%
Community hospitals	5,943	5,601	6.1%	4,876	21.9%	16,480	16,910	-2.5%
Polyclinics	4,051	3,092	31.0%	3,706	9.3%	11,375	8,186	39.0%

The y-o-y increase in revenue from referral hospitals is a result of launching new medical services, renovation of our facilities and the acquisition of Khashuri hospital. In 9M17, referral hospitals contributed 86% to total revenue from our healthcare services. We expect a significant portion of the future growth of our healthcare services revenue to come from referral hospitals, in line with our strategy to improve the quality of care throughout the country by further investing in facilities and developing new, high-quality elective care services in Georgia, to cover existing medical service gaps.

In addition to the q-o-q decline in revenue due to seasonality and the Government's new initiatives, some referral hospital revenues shifted in 3Q to community hospitals due to vacations, contributing to the overall q-o-q decrease in referral hospital revenues of 6.5%.

In 9M17 community hospitals contributed 8% to total revenue from healthcare services. The increase in community hospitals revenue, up 21.9% q-o-q, is in part attributable to our acquisition of the Kareli hospital described above. Organic revenue growth of 13.0% q-o-q, was mainly due to the vacation effect explained above. Community hospitals play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

In 9M17, Polyclinics contribution to total revenue from healthcare services was 6% compared to 5% in 9M16. The y-o-y growth in Polyclinics revenue is driven by an increase in the number of Polyclinics in our network, in line with our strategy to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia. Currently we operate with 11 Polyclinic clusters consisting of 14 district Polyclinics (of which three were launched in 4Q16) and 24 express outpatient clinics (mostly integrated into our pharmacies and playing a facilitating role for our pharma and district Polyclinic patients). The q-o-q revenue growth is mainly attributable to the Polyclinics campaign described above. Since we launched our "Polyclinics" campaign in June, the average monthly number of patient visits is up 47%.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Healthcare services revenue, net	**63,598**	**58,543**	**8.6%**	**65,940**	**-3.6%**	**195,263**	**176,639**	**10.5%**
Government-funded healthcare programmes	42,535	42,194	0.8%	43,527	-2.3%	131,893	129,406	1.9%
Out-of-pocket payments by patients	16,461	11,197	47.0%	16,308	0.9%	47,817	34,802	37.4%
Private medical insurance companies, *of which*	4,602	5,152	-10.7%	6,105	-24.6%	15,553	12,431	25.1%
GHG medical insurance	*2,133*	*2,540*	*-16.0%*	*2,710*	*-21.3%*	*7,536*	*7,820*	*-3.6%*

We further diversified our revenue stream. While UHC continues to be the main contributor to our healthcare services revenues, the share of the Government financing in the healthcare services business revenue decreased by 5.7 percentage points, from 73.3% in 9M16 to 67.5% in 9M17.

The slight decrease of 2.3% Government-funded healthcare programmes on a q-o-q basis is due to both, seasonality and the two new Government initiatives described above, in "Main operating performance highlights and notable developments"

The goal to diversify our earnings is also furthered by growing out-of-pocket payments by patients q-o-q as well as y-o-y. This is driven by two main factors: 1) growth in the number of elective services we provide and which are partially or fully funded out-of-pocket; 2) the enhanced footprint of our Polyclinics, the revenue from which is primarily out-of-pocket, as the government provides minimal coverage for outpatient services.

The growth of revenue from private medical insurance in 9M17 compared to the previous year, also continues to be supported by the roll-out of Polyclinics as well as an enhanced relationship with other insurance companies who redirect their customers to our hospitals. Our Polyclinics stand out from the competition being brand new, modern and providing a diverse range of services in one location, unlike the majority of our competitors, and therefore represent an increasingly attractive proposition for insured customers. In 3Q17 revenue from insurance companies decreased mainly due to seasonality, as well as reflecting our own medical insurance business's initiatives to terminate loss-making contracts.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Cost of healthcare services	**(36,916)**	**(31,170)**	**18.4%**	**(37,652)**	**-2.0%**	**(112,345)**	**(95,567)**	**17.6%**
Cost of salaries and other employee benefits	(23,777)	(19,746)	20.4%	(24,343)	-2.3%	(71,215)	(59,355)	20.0%
Cost of materials and supplies	(9,817)	(8,602)	14.1%	(10,240)	-4.1%	(30,524)	(27,443)	11.2%
Cost of medical service providers	(651)	(463)	40.6%	(434)	50.0%	(1,457)	(1,292)	12.8%
Cost of utilities and other	(2,671)	(2,359)	13.2%	(2,635)	1.4%	(9,149)	(7,477)	22.4%
Gross profit	**26,682**	**27,373**	**-2.5%**	**28,288**	**-5.7%**	**82,918**	**81,072**	**2.3%**
Gross margin	**41.7%**	**46.2%**		**42.5%**		**42.1%**	**45.4%**	
Cost of healthcare services as % of revenue								
Direct salary rate	37.1%	33.3%		36.6%		36.2%	33.2%	
Materials rate	15.3%	14.5%		15.4%		15.5%	15.4%	

The y-o-y growth in the cost of salaries and other employee benefits was driven by the expansion of the hospital business, the roll-out of new healthcare facilities and the launch of new medical services, some of which are in the early roll-out phase resulting in revenue generation lagging behind the respective salary expense growth. The decrease in salaries expense q-o-q is mainly due to the effect of 3Q revenue seasonality on direct variable salary expense. Once the ramp-up phase of the newly launched healthcare facilities and services is completed, we expect a normalisation of the direct salaries rate.

We achieved a slight q-o-q reduction in the materials rate from our increased purchasing power.

The increase in the cost of utilities on a y-o-y basis reflects the growth in some utility tariffs in the country, effective from 4Q16.

As a result, the healthcare services business reported gross profit of GEL 26.7 million in 3Q17 (down 2.5% y-o-y and down 5.7% q-o-q), and GEL 82.9 million in 9M17 (up 2.3% y-o-y). Our healthcare services gross margins remain under pressure due to the roll-out of new healthcare facilities and services. The gross margin was 41.7% in 3Q17 (down 80 bps q-o-q) and 42.1% in 9M17 (down 330 bps y-o-y).

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Operating expenses	**(10,066)**	**(9,579)**	**5.1%**	**(9,993)**	**0.7%**	**(31,188)**	**(28,290)**	**10.2%**
Salaries and other employee benefits	(7,881)	(6,003)	31.3%	(7,996)	-1.4%	(23,056)	(17,372)	32.7%
General and administrative expenses	(4,071)	(3,385)	20.3%	(4,154)	-2.0%	(12,307)	(8,864)	38.8%
Impairment of receivables	(979)	(48)	NMF	(1,033)	-5.2%	(2,992)	(2,026)	47.7%
Other operating income	2,865	(143)	NMF	3,190	-10.2%	7,167	(28)	NMF
EBITDA	**16,616**	**17,794**	**-6.6%**	**18,295**	**-9.2%**	**51,730**	**52,782**	**-2.0%**
EBITDA margin	***26.0%***	***30.0%***		***27.5%***		***26.3%***	***29.6%***	

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

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

Other operating income mainly comprises rental income, gain/losses from: call option, share of profit of associate and the sale of property and equipment.

We reported quarterly EBITDA of GEL 16.6 million, down 6.6% y-o-y and down 9.2% q-o-q. The EBITDA margin still remains below last year's margin as a result of the hospital and Polyclinic roll-outs at 26.0% in 3Q17 and at 26.3% in 9M17. Excluding the dilutive effects of roll-outs, the EBITDA margin was 28.9% in 3Q17 and 29.2% in 9M17.

The EBITDA margin for our hospitals (both referral and community) in 9M17 was 27.0% compared to 30.5% in 9M16, primarily due to the roll-out of our two new flagship hospitals in Tbilisi and the effect of the Government's UHC initiatives which reduced our revenue since May 2017. The healthcare facilities and services, which are still in roll-out phase, posted negative EBITDA of GEL 0.9 million in 3Q17 and GEL 3.6 million in 9M17.

The EBITDA margin of our Polyclinics stood at 13.6% in 9M17 compared to 22.3% in 9M16. After the roll-out phase is completed, towards the end of 2018, we expect the run rate EBITDA margin for our Polyclinics to increase.

Overall, we expect our healthcare services EBITDA margin to rebound gradually.

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**9M17**	**9M16**	**Change, Y-o-Y**
Depreciation and amortisation	(5,691)	(4,613)	23.4%	(5,774)	-1.4%	(16,404)	(12,995)	26.2%
Net interest income (expense)	(4,474)	(3,125)	43.2%	(4,435)	0.9%	(13,025)	(8,383)	55.4%
Net gains/(losses) from foreign currencies	(209)	(95)	120.0%	1,118	NMF	1,604	(2,217)	NMF
Net non-recurring income/(expense)	(381)	22	NMF	(1,255)	-69.6%	(2,912)	179	NMF
Profit before income tax expense	**5,861**	**9,983**	**-41.3%**	**7,949**	**-26.3%**	**20,993**	**29,366**	**-28.5%**
Income tax benefit/(expense)	-	(612)	NMF	-	-	(11)	27,493	NMF
of which: Deferred tax adjustments	-	*2,198*		-		-	*29,311*	
Profit for the period	**5,861**	**9,371**	**-37.5%**	**7,949**	**-26.3%**	**20,982**	**56,859**	**-63.1%**
Attributable to:								
- shareholders of the Company	4,965	6,721	-26.1%	5,636	-11.9%	16,365	46,660	-64.9%
- non-controlling interests	896	2,650	-66.2%	2,313	-61.3%	4,617	10,199	-54.7%
of which: Deferred tax adjustments	-	*352*		-		-	*5,057*	

The y-o-y increase in depreciation expense in 3Q17 and 9M17 is a result of the increased asset base from our expansion and the associated capital expenditures.

The y-o-y increase in net interest expense reflects the increase in our total borrowing as explained earlier in this report, on page 7.

The healthcare services business reported profit before income tax expense of GEL 5.9 million, down by 26.3% q-o-q. Compared to last year, the trend continued to reflect the pressure on margins from the newly launched healthcare facilities and services as well as the increased interest and depreciation expenses.

Other performance highlights and notable developments, healthcare services business

- Our healthcare services market share by number of beds was 23.8% as of 30 September 2017.
- Our hospital bed occupancy rate[7] was 49.7% in 3Q17 (56.8% in 3Q16, 55.6% in 2Q17) and 55.7% in 9M17 (58.1% in 9M16). Our hospital bed occupancy rate excluding the newly opened Tbilisi Referral Hospital (Sunstone) was 51.8% and 57.5% in 3Q17 and 9M17, respectively
    - Our referral hospital bed occupancy rate was 55.4% in 3Q17 (63.7% in 3Q16, 62.2% in 2Q17) and 62.1% in 9M17 (66.4% in 9M16). Our referral hospital bed occupancy rate excluding Tbilisi Referral Hospital was 58.7% and 64.9% in 3Q17 and 9M17 respectively
- The average length of stay[8] was 5.2 days in 3Q17 (4.9 in 3Q16, 5.3 in 2Q17) and 5.3 in 9M17 (4.8 in 9M16)
    - The average length of stay at referral hospitals was 5.4 days in 3Q17 (5.1 days in 3Q16, 5.5 days in 2Q17) and 5.5 in 9M17 (5.0 in 9M16)
- We also continue to expand the number of specialties offered in our residency programme in line with our strategy to develop and train the next generation of doctors. In 3Q17 we obtained accreditation in an additional two specialties bringing the total number of specialties to 24. This increased the scope of our programme by 23 residents, bringing the total number of slots for admission to 263 residents. Currently 112 residents are involved in our residency programme. To incentivise and support the enrolment of the country’s top talent, we offer grants, student loans and employment after graduation from our residency programme.

[7] This calculation excludes emergency beds
[8] This calculation excludes data for the emergency department

Discussion of Pharma Business Results

Our results of operations for the 3Q16 and 9M16 include only GPC results, which we have been consolidating since May 2016. Starting from 1Q17 our results include GPC's and Pharmadepot's combined results (consolidation of Pharmadepot started from January 2017). Accordingly, only 3Q17 and 2Q17 figures are comparable.

Income Statement, pharma business

GEL thousands; unless otherwise noted	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	May-Sep 2016
Pharma revenue	**106,607**	**45,725**	**133.1%**	**110,942**	**-3.9%**	**328,948**	**76,416**
Costs of pharma	**(80,237)**	**(35,915)**	**123.4%**	**(84,822)**	**-5.4%**	**(249,467)**	**(60,974)**
Gross profit	**26,370**	**9,810**	**168.8%**	**26,120**	**1.0%**	**79,481**	**15,442**
Salaries and other employee benefits	(10,350)	(4,106)	152.1%	(9,684)	6.9%	(29,650)	(6,796)
General and administrative expenses	(7,192)	(4,005)	79.6%	(7,229)	-0.5%	(23,183)	(6,485)
Impairment of receivables	92	-	NMF	(103)	NMF	(39)	-
Other operating income	(103)	89	-215.7%	(183)	NMF	(185)	181
EBITDA	**8,817**	**1,788**	**393.1%**	**8,921**	**-1.2%**	**26,424**	**2,342**
EBITDA margin	***8.3%***	***3.9%***		***8.0%***		***8.0%***	***3.1%***
Depreciation and amortisation	(475)	(391)	21.5%	(465)	2.2%	(1,651)	(649)
Net interest income (expense)	(3,015)	(627)	380.9%	(3,187)	-5.4%	(8,995)	(1,054)
Net gains/(losses) from foreign currencies	(1,109)	(77)	NMF	(180)	NMF	806	(349)
Net non-recurring income/(expense)	(489)	(71)	NMF	(566)	-13.6%	(1,371)	(71)
Profit before income tax expense	**3,729**	**622**	**499.5%**	**4,523**	**-17.6%**	**15,213**	**219**
Income tax benefit/(expense)	(92)	-	NMF	222	NMF	122	-
Profit for the period	**3,637**	**622**	**484.7%**	**4,745**	**-23.4%**	**15,335**	**219**

The integration of the two pharmacy chains has been successfully achieved, including the full IT platform integration, which completed in 2Q17.

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	May- Sep 2016
Pharma revenue	**106,607**	**45,725**	**133.1%**	**110,942**	**-3.9%**	**328,948**	**76,416**
Pharma business revenue from Retail	78,010	33,842	130.5%	82,466	-5.4%	245,712	56,908
Pharma business revenue from wholesale	28,596	11,883	140.6%	28,476	0.4%	83,236	19,509

The pharma business posted revenue of GEL 106.6 million in 3Q17, a reduction of 3.9% q-o-q. The quarterly reduction was mainly due to usual seasonality, which is more pronounced in retail sales. The same store growth rate on a pro-forma consolidated basis[9] was 8.6% in 3Q17 compared to 3Q16. The share of para-pharmacy sales in retail revenue was 32.8% in 3Q17 and 30.3% in 9M17. The revenue from wholesale remained stable q-o-q.

The realisation of further procurement synergies, in addition to certain one-off costs in the previous quarter, have resulted in a decrease in the costs of pharma (cost of goods sold) by 5.4% q-o-q. After the acquisition of Pharmadepot and further strengthening our position this year as the largest purchaser of pharmaceuticals in Georgia, we have intensified renegotiations with manufacturers for additional discounts and have already realised GEL 7.6 million procurement synergies on an annualised basis. We have also started the process of introducing higher-margin private label medicines at our pharmacies, while introducing personal care private label products is expected from 2018. In 3Q17 we added six new private label medicines and the process to introduce more products will continue throughout the year.

Consequently, the pharma business gross profit was GEL 26.4 million up 1.0% q-o-q, improving its gross margin by 120 bps to 24.7% in 3Q17, compared to 23.5% in 2Q17.

The growth in salaries and other employee benefits reflects the expansion of the business and the addition of new pharmacies. Our general and administrative expenses remain well controlled and almost stable q-o-q.

[9] 3Q16 same store revenue includes both pharma companies, GPC and Pharmadepot results

The pharma business reported EBITDA of GEL 8.8 million and GEL 26.4 million in 3Q17 and 9M17 respectively. We delivered quarterly and nine months EBITDA margins of 8.3% and 8.0% respectively, with quarterly EBITDA margin exceeding our "more than 8%" medium term target.

Foreign currency losses reduced pharma business profits by c.GEL 1 million in 3Q17. Consequently, the pharma business reported a net profit of GEL 3.7 million in 3Q17, down by 23.4% q-o-q. Excluding the foreign currency losses in 3Q17, net profit remained largely flat q-o-q. Net profit reached GEL 15.3 million in 9M17.

Other operating highlights and notable developments in the pharma business:

- The pharma business acquired the international private label brand - "**Attirance**" in October 2017. Attirance specialises in natural cosmetics and has developed more than 400 of its own unique products. The acquisition enables us to present private label personal care products in our pharmacies, further improving our margins and profitability. It also facilitates establishing our position as a market leader in this segment.
- After the acquisition of Pharmadepot we continued negotiations with manufacturers for additional discounts, as a result of the increased consolidated purchasing power of our healthcare services and pharma businesses. In line with our initial guidance, we have already delivered GEL 7.6 million procurement synergies on an annualised basis out of an expected GEL 7.9 million on an annualised basis in 2017.
- After the acquisition of Pharmadepot we successfully continued to eliminate unnecessary costs. We have already eliminated GEL 2.0 million compared to initial guidance of GEL 3.9 million, on an annualised basis.
- We also accelerated the procurement of medical disposables for our healthcare services business through our pharma business. In 3Q17, we had GEL 1.7 million in intercompany purchases, compared to GEL 1.0 million in 3Q16.
- In total, we operate a country-wide distribution network of 251 pharmacies in major cities. The number of our pharmacies located in our hospitals and clinics totals 21.
- In 3Q17, the pharma business had:
  - c.2.1 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.2
  - 29% market share measured by sales
  - Total number of bills issued was 6.0 million

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Net insurance premiums earned	**13,959**	**16,054**	**-13.0%**	**13,410**	**4.1%**	**41,334**	**45,182**	**-8.5%**
Cost of insurance services	**(11,968)**	**(13,939)**	**-14.1%**	**(12,718)**	**-5.9%**	**(37,420)**	**(40,775)**	**-8.2%**
Gross profit	**1,991**	**2,115**	**-5.9%**	**692**	**187.7%**	**3,914**	**4,407**	**-11.2%**
Salaries and other employee benefits	(834)	(1,196)	-30.3%	(972)	-14.2%	(2,854)	(3,343)	-14.6%
General and administrative expenses	(369)	(595)	-38.0%	(366)	0.8%	(1,242)	(1,904)	-34.8%
Impairment of receivables	(138)	(124)	11.3%	(117)	17.9%	(368)	(362)	1.7%
Other operating income	31	(55)	NMF	(18)	NMF	6	(184)	NMF
EBITDA	**681**	**145**	**369.7%**	**(781)**	**NMF**	**(544)**	**(1,386)**	**-60.8%**
EBITDA margin	***4.9%***	***0.9%***		***-5.8%***		***-1.3%***	***-3.1%***	
Depreciation and amortisation	(219)	(211)	3.8%	(242)	-9.5%	(683)	(617)	10.7%
Net interest income (expense)	(202)	(86)	134.9%	(206)	-1.9%	(618)	474	NMF
Net gains/(losses) from foreign currencies	(18)	(91)	-80.2%	48	NMF	18	79	-77.2%
Net non-recurring income/(expense)	(2)	-	NMF	2	NMF	(200)	(973)	NMF
Profit before income tax expense	**240**	**(243)**	**-198.8%**	**(1,179)**	**NMF**	**(2,027)**	**(2,423)**	**-16.3%**
Income tax benefit/(expense)	-	25	NMF	(310)	NMF	(310)	345	NMF
Profit / (Loss) for the period	**240**	**(218)**	**-210.1%**	**(1,489)**	**NMF**	**(2,337)**	**(2,078)**	**12.5%**

Our medical insurance business has posted strong quarterly results, achieving positive EBITDA and profit in 3Q17. The performance was a result of usual seasonality, as well as the new initiatives the business started to implement from 2Q17. From 2Q17, the medical insurance business started to adjust the pricing of existing contracts that had become loss-making as a result of the Government's recent changes in UHC (described in detail in the healthcare services section). This also resulted in the termination of certain loss-making contracts.

As a result, our medical insurance business contributed GEL 14.0 million to the Group's revenue in 3Q17 up 4.1% q-o-q. The y-o-y decrease in insurance premiums earned is due to the expiration of the Ministry of Defence (MOD) contract which was allowed to expire in January 2017 as a result of its high loss ratio.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	3Q17	3Q16	Change, Y-o-Y	2Q17	Change, Q-o-Q	9M17	9M16	Change, Y-o-Y
Cost of insurance services	**(11,968)**	**(13,939)**	**-14.1%**	**(12,718)**	**-5.9%**	**(37,420)**	**(40,775)**	**-8.2%**
Net insurance claims incurred	(11,162)	(12,834)	-13.0%	(11,936)	-6.5%	(34,910)	(37,790)	-7.6%
Agents, brokers and employee commissions	(806)	(1,105)	-27.1%	(782)	3.1%	(2,510)	(2,985)	-15.9%
Gross profit	**1,991**	**2,115**	-5.9%	**692**	187.7%	**3,914**	**4,407**	-11.2%
Loss ratio	**80.0%**	**79.9%**		**89.0%**		**84.5%**	**83.6%**	

The cost of insurance services was reduced by 5.9% q-o-q while the revenue for the same period increased. This resulted in an improvement in the loss ratio of 9.0 ppts to 80% and the business nearly reached its targeted loss ratio of ("less than 80%") in 3Q17.

Our insurance business plays a good feeder role in originating and directing patients to our healthcare facilities, mainly to Polyclinics and to pharmacies. In 3Q17, our medical insurance claims expense was GEL 11.2 million, of which GEL 4.6 million (41.2% of total) was inpatient, GEL 3.8 million (33.7 % of total) was outpatient and GEL 2.8 million (25.0 % of total) accounted for drugs. In 3Q17, GEL 3.9 million, or 35.2 % (31.2% in 3Q16) of our total medical insurance claims were retained within the Group, of which GEL 2.1 million and GEL 1.8 million were retained in the healthcare services and pharma businesses respectively. The feeder role of our medical insurance business is particularly important for the Group's outpatient services. In 9M17, GEL 4.8 million, or 38.7%, of our medical insurance claims on outpatient services were retained within the Group, which represents an increase of 13.1 ppts.

With our recently launched Polyclinics initiative and 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, as we fully launch the renovated 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 our inpatient services. Our facilities are increasingly favoured by these customers over competitor facilities due to the quality and convenience of our service, access to one-stop-shop style Polyclinics and the ease of claim reimbursement procedures.

Our Medical insurance business posted gross profit of GEL 2.0 million in 3Q17, up 187.7% q-o-q.

The medical insurance business also continues to optimise its operating expenses, reflected in y-o-y and q-o-q decreases in salaries and other employee benefits. The optimisation in general and administrative expenses is a result of savings in rent expenses, as well as decreasing administrative expenses due to the re-negotiation of terms and conditions with different service providers.

The quarterly expense ratio for our medical insurance business improved to 16.7% in 3Q17 from 18.6% in 2Q17. The ratio also improved for 9M17 to 18.5% from 20.8% a year ago.

Consequently, the combined ratio showed a favorable decline to 96.7% in 3Q17, and the business contributed positively to EBITDA for the first time in 2017. Our medical insurance business recorded positive EBITDA of GEL 0.7 million in 3Q17, compared to negative EBITDA of GEL 0.8 in 2Q17. The profit totaled GEL 0.2 million in third quarter, compared to negative profit of GEL 1.5 million in 2Q17.

Other operating highlights and notable developments, medical insurance business

- The number of persons insured was approximately 110,000 as at October 2017
- Our medical insurance market share was 29.6% based on net insurance premium revenue, as at 30 June 2017
- Our insurance renewal rate was 71.8% in 3Q17

SELECTED FINANCIAL INFORMATION

Income Statement, ***YTD***	**Healthcare services**			**Pharma**		**Medical insurance**			**Eliminations**		**GHG**		
GEL thousands; unless otherwise noted	**9M17**	**9M16**	**Change, Y-o-Y**	**9M17**	**(May-Sep) 9M16[10]**	**9M17**	**9M16**	**Change, Y-o-Y**	**9M17**	**9M16**	**9M17**	**9M16**	**Change, Y-o-Y**
Revenue, gross	**196,952**	**178,535**	**10.3%**	**328,948**	**76,416**	**41,334**	**45,182**	**-8.5%**	**(17,122)**	**(9,725)**	**550,113**	**290,408**	**89.4%**
Corrections & rebates	(1,690)	(1,896)	-10.9%	-	-	-	-	-	-	-	(1,690)	(1,896)	-10.9%
Revenue, net	**195,263**	**176,639**	**10.5%**	**328,948**	**76,416**	**41,334**	**45,182**	**-8.5%**	**(17,122)**	**(9,725)**	**548,423**	**288,512**	**90.1%**
Costs of services	**(112,345)**	**(95,567)**	**17.6%**	**(249,467)**	**(60,974)**	**(37,420)**	**(40,775)**	**-8.2%**	**15,771**	**9,207**	**(383,460)**	**(188,109)**	**103.8%**
Cost of salaries and other employee benefits	(71,215)	(59,355)	20.0%	-	-	-	-	-	2,582	3,228	(68,633)	(56,127)	22.3%
Cost of materials and supplies	(30,524)	(27,443)	11.2%	-	-	-	-	-	4,866	1,493	(25,658)	(25,950)	-1.1%
Cost of medical service providers	(1,457)	(1,292)	12.8%	-	-	-	-	-	53	70	(1,404)	(1,222)	14.9%
Cost of utilities and other	(9,149)	(7,477)	22.4%	-	-	-	-	-	332	407	(8,817)	(7,070)	24.7%
Net insurance claims incurred	-	-	-	-	-	(34,910)	(37,790)	-7.6%	7,938	4,009	(26,972)	(33,781)	-20.2%
Agents, brokers and employee commissions	-	-	-	-	-	(2,510)	(2,985)	-15.9%	-	-	(2,510)	(2,985)	-15.9%
Cost of pharma - wholesale	-	-	-	(68,656)	(16,631)	-	-	-	-	-	(68,656)	(16,631)	312.8%
Cost of pharma - retail	-	-	-	(180,811)	(44,343)	-	-	-	-	-	(180,811)	(44,343)	307.8%
Gross profit	**82,918**	**81,072**	**2.3%**	**79,481**	**15,442**	**3,914**	**4,407**	**-11.2%**	**(1,351)**	**(518)**	**164,963**	**100,403**	**64.3%**
Salaries and other employee benefits	(23,056)	(17,372)	32.7%	(29,650)	(6,796)	(2,854)	(3,343)	-14.6%	649	518	(54,911)	(26,993)	103.4%
General and administrative expenses	(12,307)	(8,864)	38.8%	(23,183)	(6,485)	(1,242)	(1,904)	-34.8%	380	-	(36,352)	(17,253)	110.7%
Impairment of receivables	(2,992)	(2,026)	47.7%	(39)	-	(368)	(362)	1.7%	358	-	(3,042)	(2,388)	27.4%
Other operating income	7,167	(28)	NMF	(185)	181	6	(184)	NMF	(377)	-	6,611	(31)	NMF
EBITDA	**51,730**	**52,782**	**-2.0%**	**26,424**	**2,342**	**(544)**	**(1,386)**	**-60.8%**	**(341)**	**-**	**77,269**	**53,738**	**43.8%**
EBITDA margin	***26.3%***	***29.6%***		***8.0%***	***3.1%***	***-1.3%***	***-3.1%***				***14.0%***	***18.5%***	
Depreciation and amortisation	(16,404)	(12,995)	26.2%	(1,651)	(649)	(683)	(617)	10.7%	-	-	(18,737)	(14,261)	31.4%
Net interest income (expense)	(13,025)	(8,383)	55.4%	(8,995)	(1,054)	(618)	474	NMF	-	-	(22,638)	(8,963)	152.6%
Net gains/(losses) from foreign currencies	1,604	(2,217)	NMF	806	(349)	18	79	-77.2%	-	-	2,428	(2,487)	NMF
Net non-recurring income/(expense)	(2,912)	179	NMF	(1,371)	(71)	(200)	(973)	-79.4%	341	-	(4,142)	(864)	NMF
Profit before income tax expense	**20,993**	**29,366**	**-28.5%**	**15,213**	**219**	**(2,027)**	**(2,423)**	**-16.3%**	**-**	**-**	**34,180**	**27,163**	**25.8%**
Income tax benefit/(expense)	(11)	27,493	NMF	122	-	(310)	345	NMF	-	-	(199)	27,838	NMF
of which: Deferred tax adjustments	-	*29,311*	NMF	-	-	-	-	-	-	-	-	*29,311*	NMF
Profit for the period	**20,982**	**56,859**	**-63.1%**	**15,335**	**219**	**(2,337)**	**(2,078)**	**12.5%**	**-**	**-**	**33,981**	**55,001**	**-38.2%**
Attributable to:													
- shareholders of the Company	16,365	46,660	-64.9%	7,235	219	(2,337)	(2,078)	12.5%	-	-	21,265	44,801	-52.5%
- non-controlling interests	4,617	10,199	-54.7%	8,100	-	-	-	-	-	-	12,716	10,200	24.7%
of which: Deferred tax adjustments	-	*5,057*	*NMF*	-	-	-	-		-	-	-	*5,057*	*NMF*

[10] 9M16 includes only May-Sep GPC's results

Income Statement, ***Quarterly***	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**3Q17**	**3Q16[11]**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**	**3Q17**	**3Q16**	**2Q17**	**3Q17**	**3Q16**	**Change, Y-o-Y**	**2Q17**	**Change, Q-o-Q**
Revenue, gross	**64,004**	**59,305**	**7.9%**	**66,600**	**-3.9%**	**106,607**	**45,725**	**133.1%**	**110,942**	**-3.9%**	**13,959**	**16,054**	**-13.0%**	**13,410**	**4.1%**	**(5,506)**	**(4,925)**	**(6,351)**	**179,065**	**116,159**	**54.2%**	**184,601**	**-3.0%**
Corrections & rebates	(407)	(762)	-46.6%	(660)	-38.3%	-	-		-		-	-	-	-	-	-	-	-	(407)	(762)	-46.6%	(660)	-38.3%
Revenue, net	**63,598**	**58,543**	**8.6%**	**65,940**	**-3.6%**	**106,607**	**45,725**	**133.1%**	**110,942**	**-3.9%**	**13,959**	**16,054**	**-13.0%**	**13,410**	**4.1%**	**(5,506)**	**(4,925)**	**(6,351)**	**178,658**	**115,397**	**54.8%**	**183,941**	**-2.9%**
Costs of services	**(36,916)**	**(31,170)**	**18.4%**	**(37,652)**	**-2.0%**	**(80,237)**	**(35,915)**	**123.4%**	**(84,822)**	**-5.4%**	**(11,968)**	**(13,939)**	**-14.1%**	**(12,718)**	**-5.9%**	**5,653**	**4,461**	**4,945**	**(123,467)**	**(76,563)**	**61.3%**	**(130,247)**	**-5.2%**
Cost of salaries and other employee benefits	(23,777)	(19,746)	20.4%	(24,343)	-2.3%	-	-	-	-	-	-	-	-	-	-	798	1,569	929	(22,979)	(18,177)	26.4%	(23,414)	-1.9%
Cost of materials and supplies	(9,817)	(8,602)	14.1%	(10,240)	-4.1%	-	-	-	-	-	-	-	-	-	-	1,921	704	1,582	(7,896)	(7,898)	0.0%	(8,658)	-8.8%
Cost of medical service providers	(651)	(463)	40.6%	(434)	50.0%	-	-	-	-	-	-	-	-	-	-	22	35	17	(629)	(428)	47.0%	(417)	50.8%
Cost of utilities and other	(2,671)	(2,359)	13.2%	(2,635)	1.4%	-	-	-	-	-	-	-	-	-	-	88	193	102	(2,583)	(2,166)	19.3%	(2,533)	2.0%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(11,162)	(12,834)	-13.0%	(11,936)	-6.5%	2,824	1,960	2,315	(8,338)	(10,874)	-23.3%	(9,621)	-13.3%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(806)	(1,105)	-27.1%	(782)	3.1%	-	-	-	(806)	(1,105)	-27.1%	(782)	3.1%
Cost of pharma - wholesale	-	-	-	-	-	(23,171)	(10,086)	129.7%	(22,989)	0.8%	-	-	-	-	-	-	-	-	(23,171)	(10,086)	129.7%	(22,989)	0.8%
Cost of pharma - retail	-	-	-	-	-	(57,066)	(25,829)	120.9%	(61,833)	**-7.7%**	-	-	-	-	-	-	-	-	(57,066)	(25,829)	120.9%	(61,833)	-7.7%
Gross profit	**26,682**	**27,373**	**-2.5%**	**28,288**	**-5.7%**	**26,370**	**9,810**	**168.8%**	**26,120**	**1.0%**	**1,991**	**2,115**	**-5.9%**	**692**	**187.7%**	**147**	**(464)**	**(1,406)**	**55,191**	**38,834**	**42.1%**	**53,694**	**2.8%**
Salaries and other employee benefits	(7,881)	(6,003)	31.3%	(7,996)	-1.4%	(10,350)	(4,106)	152.1%	(9,684)	6.9%	(834)	(1,196)	-30.3%	(972)	-14.2%	306	464	227	(18,759)	(10,841)	73.0%	(18,424)	1.8%
General and administrative expenses	(4,071)	(3,385)	20.3%	(4,154)	-2.0%	(7,192)	(4,005)	79.6%	(7,229)	-0.5%	(369)	(595)	-38.0%	(366)	0.8%	32	-	348	(11,600)	(7,985)	45.3%	(11,400)	1.8%
Impairment of other receivables	(979)	(48)	NMF	(1,033)	-5.2%	92	-	NMF	(103)	-189.3%	(138)	(124)	11.3%	(117)	17.9%	108	-	250	(918)	(172)	NMF	(1,003)	-8.5%
Other operating income	2,865	(143)	NMF	3,190	-10.2%	(103)	89	-215.7%	(183)	-43.7%	31	(55)	NMF	(18)	NMF	(593)	-	240	2,200	(109)	NMF	3,229	-31.9%
EBITDA	**16,616**	**17,794**	**-6.6%**	**18,295**	**-9.2%**	**8,817**	**1,788**	**393.1%**	**8,921**	**-1.2%**	**681**	**145**	**369.7%**	**(781)**	**NMF**	**-**	**-**	**(341)**	**26,114**	**19,727**	**32.4%**	**26,096**	**0.1%**
EBITDA margin	***26.0%***	***30.0%***		***27.5%***		***8.3%***	***3.9%***		***8.0%***		***4.9%***	***0.9%***		***-5.8%***		-	-		***14.6%***	***17.0%***		***14.1%***	
Depreciation and amortisation	(5,691)	(4,613)	23.4%	(5,774)	-1.4%	(475)	(391)	21.5%	(465)	2.2%	(219)	(211)	3.8%	(242)	-9.5%	-	-	-	(6,384)	(5,215)	22.4%	(6,481)	-1.5%
Net interest income (expense)	(4,474)	(3,125)	43.2%	(4,435)	0.9%	(3,015)	(627)	380.9%	(3,187)	-5.4%	(202)	(86)	134.9%	(206)	-1.9%	-	-	-	(7,691)	(3,838)	100.4%	(7,828)	-1.8%
Net gains/(losses) from foreign currencies	(209)	(95)	NMF	1,118	-118.7%	(1,109)	(77)	NMF	(180)	NMF	(18)	(91)	-80.2%	48	NMF	-	-	-	(1,336)	(263)	NMF	986	NMF
Net non-recurring income/(expense)	(381)	22	NMF	(1,255)	-69.6%	(489)	(71)	NMF	(566)	-13.6%	(2)	-	-	2	NMF	-	-	341	(872)	(49)	NMF	(1,478)	-41.0%
Profit before income tax expense	**5,861**	**9,983**	**-41.3%**	**7,949**	**-26.3%**	**3,729**	**622**	**499.5%**	**4,523**	**-17.6%**	**240**	**(243)**	**NMF**	**(1,179)**	**NMF**	-	-	-	**9,831**	**10,362**	**-5.1%**	**11,295**	**-13.0%**
Income tax benefit/(expense)	-	(612)	NMF	-	NMF	(92)	-	-	222	**NMF**	-	25	NMF	(310)	NMF	-	-	-	(92)	(587)	-84.3%	(88)	4.5%
of which: Deferred tax adjustments	-	*2,198*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*2,198*	-	-	-
Profit for the period	**5,861**	**9,371**	**-37.5%**	**7,949**	**-26.3%**	**3,637**	**622**	**484.7%**	**4,745**	**-23.4%**	**240**	**(218)**	**NMF**	**(1,489)**	**NMF**	**-**	**-**	**-**	**9,739**	**9,775**	**-0.4%**	**11,207**	**-13.1%**
Attributable to:																							
- shareholders of the Company	4,965	6,721	-26.1%	5,636	-11.9%	1,054	622	69.5%	2,024	-47.9%	240	(218)	NMF	(1,489)	NMF	-	-	-	6,261	7,125	-12.1%	6,172	1.4%
- non-controlling interests	896	2,650	-66.2%	2,313	-61.3%	2,583	-	NMF	2,721	-5.1%	-	-	-	-	-	-	-	-	3,478	2,650	31.2%	5,035	-30.9%
of which: Deferred tax adjustments	-	*352*		-		-	-		-		-	-		-		-	-	-	-	*352*		-	

[11] 3Q16 includes only May-Sep GPC's results

Selected Balance Sheet items	Healthcare services					Pharma					Medical insurance				
GEL thousands; unless otherwise noted	**30-Sep-17**	**30-Sep-16**	**Change, Y-o-Y**	**30-Jun-17**	**Change, Q-o-Q**	**30-Sep-17**	**30-Sep-16**	**Change, Y-o-Y**	**30-Jun-17**	**Change, Q-o-Q**	**30-Sep-17**	**30-Sep-16**	**Change, Y-o-Y**	**30-Jun-17**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	25,894	34,699	-25.4%	21,741	19.1%	7,423	1,109	569.3%	5,548	33.8%	9,474	12,259	-22.7%	9,763	-3.0%
Property and equipment	606,492	527,358	15.0%	582,437	4.1%	24,955	8,155	206.0%	23,746	5.1%	5,881	5,693	3.3%	5,976	-1.6%
Inventory	19,119	12,889	48.3%	14,787	29.3%	97,754	36,439	168.3%	92,167	6.1%	237	162	46.3%	215	10.2%
Liabilities:															
Borrowed Funds	232,002	172,568	34.4%	189,600	22.4%	88,263	20,022	340.8%	81,764	7.9%	8,935	10,144	-11.9%	9,120	-2.0%
Accounts payable	33,407	24,709	35.2%	34,616	-3.5%	64,497	33,224	94.1%	58,015	11.2%	-	-	-	-	-

Selected Balance Sheet items	Consolidation and eliminations			GHG				
GEL thousands; unless otherwise noted	**30-Sep-17**	**30-Sep-16**	**30-Jun-17**	**30-Sep-17**	**30-Sep-16**	**Change, Y-o-Y**	**30-Jun-17**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	42,790	48,067	*-11.0%*	37,052	15.5%
Property and equipment	-	-	-	637,328	541,206	*17.8%*	612,159	4.1%
Inventory	-	-	-	117,111	49,490	*136.6%*	107,169	9.3%
Liabilities:								
Borrowed Funds	-	(7,546)	-	329,199	195,188	*68.7%*	280,483	17.4%
Accounts payable	(5,308)	(3,754)	(4,939)	92,597	54,179	*70.9%*	87,691	5.6%

Selected ratios and KPIs

	3Q17	3Q16	2Q17	9M17	9M16
GHG					
EPS, GEL	0.05	0.06	0.05	0.17	0.18[12]
ROAE	5.3%	10.3%	5.3%	6.0%	15.2%
ROAE, normalised[13]	10.0%	12.0%	9.7%	11.5%	12.4%
Group rent expenditure	4,564	3,586	4,728	14,311	5,851
of which, Pharma	*4,036*	*2,596*	*4,216*	*12,738*	*4,237*
Group capex (maintenance)	2,307	2,375	2,586	7,523	6,965
Group capex (growth)	25,104	30,311	21,071	64,041	74,563
Number of employees	15,151	12,478	14,759	15,151	12,478
Number of physicians	3,505	3,140	3,352	3,505	3,140
Number of nurses	3,224	2,840	3,101	3,224	2,840
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	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(3,379,629)	(3,727,835)	(3,452,534)	(3,379,629)	(3,727,835)
Shares outstanding	128,302,191	127,953,985	128,229,286	128,302,191	127,953,985
Of which:					
Total free float	53,183,688	42,322,165	53,110,783	53,183,688	42,322,165
Shares held by BGEO GROUP PLC	75,118,503	85,631,820	75,118,503	75,118,503	85,631,820
Healthcare services					
EBITDA margin of healthcare services	26.0%	30.0%	27.5%	26.3%	29.6%
Direct salary rate (direct salary as % of revenue)	37.1%	33.3%	36.6%	36.2%	33.2%
Materials rate (direct materials as % of revenue)	15.3%	14.5%	15.4%	15.5%	15.4%
Administrative salary rate (administrative salaries as % of revenue)	12.3%	10.1%	12.0%	11.7%	9.7%
SG&A rate (SG&A expenses as % of revenue)	6.4%	5.7%	6.2%	6.2%	5.0%
Number of hospitals	37	35	35	37	35
Number of Polyclinics	14	11	13	14	11
Number of express outpatient clinics	24	28	24	24	28
Number of beds	2,893	2,474	2,731	2,893	2,474
Number of referral hospital beds	2,398	2,012	2,266	2,398	2,012
Bed occupancy rate	49.7%[14]	56.8%	55.6%	55.7%[14]	58.1%
Bed occupancy rate, referral hospitals	55.4%[15]	63.7%	62.2%	62.1%[15]	66.4%
Bed occupancy rate, community hospitals	21.3%	24.5%	23.5%	24.6%	25.2%
Average length of stay (days)	5.2	4.9	5.3	5.3	4.8
Average length of stay (days), referral hospitals	5.4	5.1	5.5	5.5	5.0
Average length of stay (days), community hospitals	3.5	3.4	4.0	3.8	3.5
Pharma					
EBITDA margin	8.3%	3.9%	8.0%	8.0%	3.1%
Number of bills issued	6.03mln	2.84mln	6,29mln	18.71mln	4.76mln
Average bill size	13.2	12.0	13.3	13.1	12.4
Revenue from wholesale as a percentage of total revenue from pharma	26.8%	26.0%	25.7%	25.3%	25.5%
Revenue from retail as a percentage of total revenue from pharma	73.2%	74.0%	74.3%	74.7%	74.5%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	32.8%	35.0%	28.2%	30.3%	34.0%
Number of pharmacies	251	112	247	251	112
Medical insurance					
Loss ratio	80.0%	79.9%	89.0%	84.5%	83.6%
Expense ratio, *of which*	16.7%	20.5%	18.6%	18.5%	20.8%
Commission ratio	*5.8%*	*6.9%*	*5.8%*	*6.1%*	*6.6%*
Combined ratio	96.7%	100.4%	107.6%	103.0%	104.4%
Renewal rate	71.8%	78.1%	73.4%	74.5%	77.4%

[12] Normalised as explained in footnote 1 on page

[13] Normalised as explained in footnote 2 on page 3

[14] Bed occupancy rate, excluding Tbilisi Referral Hospital was 51.8% and 57.5% in 3Q17 and 9M17 respectively

[15] Referral hospital bed occupancy rate, excluding Tbilisi Referral Hospital was 58.7% and 64.9% in 3Q17 and 9M17 respectively

Annexes:

- Corrections and rebates are corrections of invoices due to errors or faults by third parties
- Eliminations are intercompany transactions between medical insurance and healthcare services Gross margin – Gross margin equals gross profit divided by gross revenue excluding corrections and rebates
- Materials rate equals cost of materials and supplies divided by gross revenue excluding corrections and rebates
- Direct salary rate equals cost of salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Admin salary rate equals administrative Salaries and other employee benefits divided by gross revenue excluding corrections and rebates
- Selling, general and administrative expenses rate (SG&A rate) equals General and administrative expenses divided by gross revenue excluding corrections and rebates
- Other operating expenses are operating expenses which are not included in cost of sales and administrative expenses, which primarily include the cost of medicines sold, any losses from the sale of property and equipment, expenses on factoring, write-offs of fixed assets and other
- Operating leverage is calculated as the difference between percentage increase in gross profit and percentage increase in total operating costs and other operating incomes
- EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income
- EBITDA margin equals EBITDA divided by gross revenue excluding corrections and rebates
- The Group's rent expense comprises of operating lease contracts
- The Group's maintenance capital expenditure are short-term expenditures
- The Group's expansion capital expenditures are longer term by nature and include acquisition of properties with longer useful lives
- Net Debt to EBITDA equals Borrowings less Cash and bank deposits divided by EBITDA
- Earnings per share (EPS) equals profit for the period / net profit attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period
- Bed occupancy rate is calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year
- Average length of stay is calculated as number of inpatient days divided by number of patients. This calculation excludes data for the emergency department
- Renewal rate is calculated by dividing number of clients who renewed insurance contracts during given period by total number of clients
- Commission ratio equals agents, brokers and employee commissions divided by net insurance premiums earned
- Loss ratio is defined as net insurance claims divided by net insurance revenue
- Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue
- Combined ratio is the sum of loss ratio and expense ratio
- Day's sales outstanding ratio ("**DSO**") equals receivables from sales of pharmaceuticals divided by wholesale revenue of pharma business, multiplied by number of days in a given period
- Revenue cash conversion equals revenue received from all business lines divided by net revenue.
- EBITDA cash conversion cycle equals Net cash flows from / (used in) operating activities before income tax divided by EBITDA
- Other operating income is presented on a net basis and is derived from financial statements after subtracting other operating expense
- Net interest income (expense) and cost of currency derivatives includes interest expense as well as cost of currency derivatives as presented in the financial statements

COMPANY INFORMATION

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