2nd quarter and half-year 2018 Results

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

An investor/analyst conference call, organised by GHG, will be held on Wednesday, 15 August 2018, at 14:00 UK / 15:00 CET / 09:00 U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

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Forward looking statements

This announcement contains forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Healthcare Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things: business integration risk; compliance risk; recruitment and retention of skilled medical practitioners risk: clinical risk; concentration of revenue and the Universal Healthcare Programme; currency and macroeconomic; information technology and operational risk; regional tensions and political risk; and other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including the "Principal Risks and Uncertainties" included in Georgia Healthcare Group PLC's Annual Report and Accounts 2017 and in this announcement. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Healthcare Group PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Healthcare Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's second quarter and half year 2018 consolidated financial results. Unless otherwise mentioned, comparatives are for the second quarter of 2017. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted in the European Union ("**EU**"), are unaudited and extracted from management accounts.

PERFORMANCE HIGHLIGHTS

GHG announces today the Group's 2Q18 and 1H18 consolidated results, reporting a half year profit of GEL 28.4 million (US$11.6 million/GBP 8.8 million) and earnings per share ("**EPS**") of GEL 0.14 (US$0.06 per share/GBP 0.04 per share).

GEL million; unless otherwise noted	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
GHG *– the leading integrated player in the Georgian healthcare ecosystem*						
Revenue, gross	211.8	184.6	14.7%	419.5	371.0	13.1%
EBITDA	31.2	26.1	19.7%	62.6	51.2	22.4%
Net Profit	12.4	11.2	10.4%	28.4	24.2	17.1%
EPS, GEL	0.06	0.05	18.7%	0.14	0.12	17.8%
ROIC *(%)*	10.2%	9.3%	+0.9 ppts	10.4%	9.2%	+1.2 ppts
ROIC adjusted[1] *(%)*	13.8%	12.6%	+1.2 ppts	13.7%	12.5%	+1.2 ppts
Healthcare services business						
Revenue, gross	77.5	66.6	16.3%	151.0	132.9	13.6%
Gross profit	32.4	28.3	14.5%	63.7	56.2	13.3%
EBITDA	18.8	18.3	2.8%	37.4	35.1	6.4%
EBITDA margin *(%)*	24.3%	27.5%	-3.2 ppts	24.7%	26.4%	-1.7 ppts
Net Profit	3.6	7.9	-54.6%	8.9	15.1	-41.3%
Pharmacy and distribution business						
Revenue	127.3	110.9	14.8%	254.2	222.3	14.3%
Revenue from retail sales	93.3	85.2	9.6%	188.4	167.7	12.3%
Gross profit	31.5	26.1	20.4%	62.8	53.1	18.2%
Gross profit margin *(%)*	24.7%	23.5%	+1.2 ppts	24.7%	23.9%	+0.8 ppts
EBITDA	11.9	8.9	33.6%	24.6	17.6	39.5%
EBITDA margin *(%)*	9.4%	8.0%	+1.4 ppts	9.7%	7.9%	+1.8 ppts
Net Profit	8.5	4.7	78.1%	19.3	11.7	64.7%
Medical insurance business						
Net insurance premiums earned	13.7	13.4	2.2%	27.0	27.4	-1.4%
Loss ratio *(%)*	82.4%	89.0%	-6.6 ppts	83.4%	86.8%	-3.4 ppts
Expense ratio *(%)*	15.2%	18.6%	-3.4 ppts	15.4%	19.4%	-4.0 ppts
Combined ratio *(%)*	97.6%	107.6%	-10.0 ppts	98.8%	106.2%	-7.4 ppts
EBITDA	0.5	(0.8)	NMF	0.7	(1.2)	NMF
Net Profit/ (Loss)	0.3	(1.5)	NMF	0.2	(2.6)	NMF

[1] Return on invested capital ("ROIC") adjusted to exclude newly launched Regional Hospital (previously called "Deka") and Tbilisi Referral Hospital

CHIEF EXECUTIVE OFFICER's STATEMENT

The Group has continued the delivery of its key strategic priorities in the first half of 2018, with double-digit revenue growth in both the healthcare services and pharmacy and distribution businesses. Building on last year's significant investment, each business has achieved good levels of franchise growth in the first half of 2018.

The Group delivered EBITDA of GEL 62.6 million in the first half of 2018, an increase of 22% compared to the first half of last year. Both Regional Hospital (previously known as Deka) and the Tbilisi Referral Hospital (previously known as Sunstone) are now fully open and are seeing strongly improving revenue trends on a quarterly basis, reflecting consistently increasing bed occupancy rates as we continue to build both hospitals' presence in their communities. The number of registered patients in our Tbilisi polyclinics continues to grow, in support of our target of 200,000 patients. Strong sales growth and the completion of the integration of the pharmacy and distribution businesses have resulted in continued strong EBITDA margins and earnings growth; and the medical insurance business has returned to positive EBITDA following last year's repricing of the portfolio and termination of certain loss-making client contracts.

Revenues totalled GEL 419.5 million for the half, an increase of 13% y-o-y. Group EBITDA was GEL 31.2 million in the second quarter, a 20% increase year-on-year, despite the additional expense of the cost of roll-out of a number of hospital and polyclinic facilities. In addition to the normal hospital operational expenses incurred in our newly opened hospitals, the cost of healthcare services and operating expenses also includes a number of one-off expenses related to the hospital roll-outs. These expenses were mainly associated with the Regional Hospital opening and totalled GEL 1.2 million in the first half of 2018. In 1H18, the healthcare services business EBITDA increased 6% y-o-y and the EBITDA margin was 24.7% (the EBITDA margin for referral hospitals and community clinics stood at 28.4% excluding the roll-out impact). The pharma business EBITDA increased almost 40% half-on-half to GEL 24.6 million, and its EBITDA margin increased 180 basis points to 9.7% over the same period, substantially in excess of our targeted "more than 8%" margin.

In our healthcare services business, we have now completed our investment in the development of both Regional Hospital and Tbilisi Referral Hospital, and are focused on building capacity utilisation in both hospitals. The occupancy rate at our 306-bed Regional Hospital (opened in March 2018) reached 15% in the first three months after opening and the occupancy rate at Tbilisi Referral Hospital (fully-opened in December 2017) was around 40%. In our referral hospitals we have also continued to launch new services, with four new in hospital services plus a new Home Care service launched in the second quarter. We are the only provider in the Georgian healthcare market to offer an organised home care service – which enables our qualified nurses to provide professional healthcare assistance at home.

Our polyclinic network has continued to expand (revenue up 42% h-o-h), and these polyclinics now clearly stand out from their competition as new, modern facilities that provide a diverse range of high-quality services in one location. The number of our registered patients in Tbilisi has grown substantially in last 12 months and reached c.116,000 in 2Q18, from c.6,000 in 2Q17. We are targeting to reach c.200,000 registered patients by early 2019. The polyclinics posted 16.1% EBITDA margin in 2Q18, up 20 bps year-on-year.

As we have completed our major investment programme, this year's quarterly results now fully reflects depreciation and interest expenses. Over the last six months, they have affected our healthcare services business profitability, as newly opened facilities have been in the initial rollout phase. Going forward we do not expect depreciation expense to increase significantly; and our interest expense is expected to gradually reduce as business leverage decreases.

Our pharmacy and distribution business posted record first half revenues of GEL 254.2 million, with 14% year-on-year growth supported by various sales initiatives implemented across the two combined pharmacy chains, as well as the further expansion in the number of pharmacies - which now total 259 pharmacies in major cities. We plan to further expand this network to over 300 pharmacies over the next couple of years. Our wholesale distribution business also showed promising growth. Our position as the largest pharmaceuticals purchaser in the country has allowed us to further improve our operating cost efficiency and obtain higher product discounts from manufacturers. Consequently, it helped us to share the synergies with the Georgian population by providing affordable pricing on key products. The business posted 65% growth in profit, reaching GEL 19.3 million in the half.

Our medical insurance business has stabilised its earnings, following the cancellation of a number of loss-making contracts during 2017. As a result, the business delivered positive EBITDA of GEL 0.7 million in the first half, compared to an EBITDA loss of GEL 1.2 million in the same period last year. Both the expense ratio and loss ratio of the business continue to improve substantially, with the resulting combined ratio improving to 98.8% in the first half of 2018, compared to 106.2% a year ago.

As mentioned above, from a capital expenditure perspective, we have now completed the vast majority of our major development projects - the only significant project left is the Mega Lab project, which will become operational over the next couple of months. Accordingly, we are now focusing on improving our return on invested capital, which has already improved by 120 basis points over the last 12 months.

Investing in human capital and talent development continues to be high on our agenda. In 1H18 we spent GEL 1 million on development training programmes for our staff. GHG's leadership programme for middle level managers to improve their leadership and managerial skills, has become extremely popular among our employees. Currently 110 executives from our mid-level management team are engaged in a tailored six-month programme. We have also launched a Leadership Development Executive Coaching programme for top and middle level managers. It provides an individual approach towards developing leadership skills and benefits its participants with a personally tailored development experience. Currently 65 managers are involved in the programme, gaining a greater awareness of their leadership strengths and opportunities for future growth.

We remain focused on improving the knowledge and expertise of our doctors and nurses through education and practical development. Our residency programme, which improves the quality of postgraduate preparation and facilitates an increase in the number of qualified employed doctors in the country, continues to grow. It is the most popular residency programme in the country and we currently have 171 talented residents involved in the programme. Next year we will have the first graduates from this programme, who will start to work at GHG's healthcare facilities.

We continue to develop and implement quality management measures throughout our healthcare facilities. After successfully implementing a high quality clinical key performance indicator monitoring system in our referral hospitals, in 2018 we have initiated different projects which address clinical quality issues including clinical pathway improvement projects related to sepsis, pneumonia and rational antibiotic therapy.

From an IT perspective we have continued the process of digitalisation. In 2017 we implemented e-prescriptions in our healthcare facilities in Tbilisi and now we are moving to the next stage of development - implementing an Electronic Medical Record ("EMR") system in our polyclinics. This is another step towards our goal of having a have fully integrated health information system that will help us to manage more efficiently and deliver better care to our customers. GHG will be the first healthcare company in the country that will electronically store patient records. We have already started training our employees and the system will be launched before the end of this year.

Over the last three years we have been in a significant business roll-out phase in all areas of our operations, and we are now starting to see the benefits materialise: in the healthcare services business with two major new hospital renovations and launches, and the development of a nationwide chain of polyclinics; and in the pharmacy business with significant benefits achieved from the acquisitions and integration of what is now the largest pharmacy and distribution business in the country. The first half performance reflects the significant recent progress against the Group's strategic priorities, and we are well positioned to continue this progress during the second half of 2018 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 integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem of GEL 3.5 billion aggregated value. GHG comprises three main business lines: healthcare services business, pharmacy and distribution business and medical insurance business.

GHG is the single largest market participant in the healthcare services industry in Georgia*, accounting for 24.9% of the country's total hospital bed capacity, as of 30 June 2018. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting virtually all segments of the Georgian market, through its vertically integrated network of hospitals and clinics. In 2Q18 we operated:*

- *16 referral hospitals with a total of 2,825 beds, which provide secondary or tertiary level healthcare services*
- *21 community clinics with a total of 495 beds, which provide outpatient and basic inpatient healthcare services*
- *17 district polyclinics and 24 express outpatient clinics, which provide outpatient diagnostic and treatment services. Polyclinics are located in Tbilisi and major regional cities.*

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia*, with a 30% market share by revenue. Our pharmacy and distribution business consists of a retail pharmacy chain and a wholesale business selling pharmaceuticals and medical supplies to hospitals and other pharmacies. The pharmacy chain operates under two separate brand names,* ***Pharmadepot*** *and* ***GPC****, with a total of 259 pharmacies, of which 24 also have express outpatient clinics. 21 of our pharmacies are located within our healthcare facilities.*

GHG is also the second largest provider of medical insurance in Georgia *with a 27.2% market share based on 1Q18 net insurance premiums. Our medical insurance business consists of private medical insurance operations in Georgia. We have a wide distribution network and offer a variety of medical insurance products primarily to the Georgian corporate sector and also to retail clients. We have approximately 157,000 persons insured as of 30 June 2018. The medical insurance business plays an important role in our business model, as it is a significant feeder for our pharmacy and distribution business and healthcare services business, particularly for the polyclinics, 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	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Revenue, gross	**211,791**	**184,601**	**14.7%**	**419,480**	**371,048**	**13.1%**
Corrections & rebates	(1,087)	(660)	64.7%	(1,780)	(1,283)	38.7%
Revenue, net	**210,704**	**183,941**	**14.5%**	**417,700**	**369,765**	**13.0%**
Revenue from healthcare services	76,389	65,940	15.8%	149,244	131,665	13.4%
Revenue from pharma	127,323	110,942	14.8%	254,191	222,341	14.3%
Net insurance premiums earned	13,703	13,410	2.2%	27,005	27,375	-1.4%
Eliminations	(6,711)	(6,351)	5.7%	(12,740)	(11,616)	9.7%
Costs of services	**(145,694)**	**(130,247)**	**11.9%**	**(288,847)**	**(259,993)**	**11.1%**
Cost of healthcare services	(44,002)	(37,652)	16.9%	(85,549)	(75,429)	13.4%
Cost of pharma	(95,862)	(84,822)	13.0%	(191,412)	(169,230)	13.1%
Cost of insurance services	(11,898)	(12,718)	-6.4%	(23,792)	(25,452)	-6.5%
Eliminations	6,068	4,945	22.7%	11,906	10,118	17.7%
Gross profit	**65,010**	**53,694**	**21.1%**	**128,853**	**109,772**	**17.4%**
Salaries and other employee benefits	(20,793)	(18,424)	12.9%	(41,232)	(36,152)	14.1%
General and administrative expenses	(13,565)	(11,400)	19.0%	(26,202)	(24,752)	5.9%
Impairment of receivables	(1,213)	(1,003)	20.9%	(2,401)	(2,124)	13.0%
Other operating income	1,793	3,229	-44.5%	3,613	4,411	-18.1%
EBITDA	**31,232**	**26,096**	**19.7%**	**62,631**	**51,155**	**22.4%**
Depreciation and amortisation	(8,847)	(6,481)	36.5%	(16,562)	(12,353)	34.1%
Net interest expense	(9,587)	(7,828)	22.5%	(18,150)	(14,947)	21.4%
Net gains/(losses) from foreign currencies	351	986	-64.4%	2,250	3,764	-40.2%
Net non-recurring income/(expense)	(656)	(1,478)	-55.6%	(1,662)	(3,270)	-49.2%
Profit before income tax expense	**12,493**	**11,295**	**10.6%**	**28,507**	**24,349**	**17.1%**
Income tax benefit/(expense)	(115)	(88)	30.7%	(117)	(107)	9.3%
Profit for the period	**12,378**	**11,207**	**10.4%**	**28,390**	**24,242**	**17.1%**
Attributable to:						
- shareholders of the Company	7,647	6,172	23.9%	18,189	15,004	21.2%
- non-controlling interests	4,731	5,035	-6.0%	10,201	9,238	10.4%

Gross Revenue. We delivered quarterly revenue of GEL 211.8 million (up 14.7% y-o-y) and half year revenue of GEL 419.5 million (up 13.1% y-o-y). In 2Q18 y-o-y revenue growth was driven by double-digit growth in both the pharmacy and distribution and healthcare services businesses, up 14.8% and 16.3% respectively. The Group's revenue was up 2.0% q-o-q.

In 1H18, 60% of our revenues came from the pharmacy and distribution business, 34% from the healthcare services business, and the remaining 6% from the medical insurance business. This translated in 54%[2] of Group's total revenue from out-of-pocket payments; from Universal Healthcare Programme ("UHC") payments 24%; and from other sources 22%.

Gross Profit. We delivered gross profit of GEL 65.0 million in 2Q18 (up 21.1% y-o-y) and GEL 128.9 million in 1H18 (up 17.4% y-o-y). The Group's gross margin improved y-o-y mainly due to the growth in the pharmacy and distribution business' margin, which was up 120 bps y-o-y in 2Q18 and up 80 bps y-o-y in 1H18. The primary reason for the growth remains extracted procurement synergies, as the largest pharmaceuticals purchaser in the country, as well as improved product mix in our pharmacies. The healthcare services business gross margin remains in the range of 42%, despite the impact of the flagship hospitals' roll-out costs and the Government's changes to UHC in May 2017. Adapting to last year's UHC changes by implementing new initiatives described later in this report, the medical insurance business continued to improve its loss ratio (down 660 bps y-o-y in 2Q18 and down 340 bps y-o-y in 1H18). The Group's gross margin remained flat q-o-q.

EBITDA. We reported EBITDA of GEL 31.2 million in 2Q18 (up 19.7% y-o-y) and GEL 62.6 million in 1H18 (up 22.4% y-o-y). The healthcare services business was the main contributor to the Group's 2Q18 EBITDA, contributing 60% in total, with a 24.3% EBITDA margin. The next largest contributor was the pharmacy and distribution business with 38% contribution, while posting a 9.4% EBITDA margin. Our medical insurance business also posted positive EBITDA of GEL 0.5 million, compared to the negative GEL 0.8 million EBITDA posted in 2Q17.

This year's depreciation and amortisation expense now fully reflects the Group's recent investment in sizeable development projects in our healthcare business. The y-o-y increase in net interest expense was in line with the increased balance of borrowed funds to finance planned capital expenditure. Going forward we expect Group's leverage to decrease gradually in line with the debt principal payment schedule, reducing interest expense respectively.

After launching Regional Hospital, the Group has now largely completed its major investment programme in to create high-quality care facilities with the necessary capacity to serve our patients. Going forward our main focus will be on the successful roll-out of our newly launched hospitals and broadening our continuous improvement work on costs and quality.

Profit. Our profit totalled GEL 12.4 million in 2Q18 (up 10.4% y-o-y) and GEL 28.4 million in 1H18 (up 17.1% y-o-y). The pharmacy and distribution business was the main driver of the 2Q18 Group profit, contributing GEL 8.5 million, followed by the healthcare services and medical insurance businesses contributing GEL 3.6 million and GEL 0.3 million, respectively.

[2] Includes: healthcare services out-of-pocket revenue, pharma and medical insurance businesses' revenue from retail

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**30-Jun-18**	**31-Mar-18**	**Change, Q-o-Q**
Total assets, of which:	**1,180,979**	**1,181,113**	**0.0%**
Cash and bank deposits	26,695	45,667	-41.5%
Receivables from healthcare services	107,608	97,520	10.3%
Receivables from sale of pharmaceuticals	18,844	19,873	-5.2%
Insurance premiums receivable	31,271	33,561	-6.8%
Property and equipment	681,667	662,026	3.0%
Goodwill and other intangible assets	147,520	144,196	2.3%
Inventory	114,182	109,836	4.0%
Prepayments	21,843	37,710	-42.1%
Other assets	31,349	30,724	2.0%
Total liabilities, of which:	**622,869**	**628,301**	**-0.9%**
Borrowed funds	363,361	367,921	-1.2%
Accounts payable	83,307	86,492	-3.7%
Insurance contract liabilities	31,228	31,940	-2.2%
Other liabilities	144,973	141,948	2.1%
Total shareholders' equity attributable to:	**558,110**	**552,812**	**1.0%**
Shareholders of the Company	*491,189*	*487,013*	*0.9%*
Non-controlling interest	*66,921*	*65,799*	*1.7%*

Overall, our asset base has grown substantially over the last few years reflecting investment in the renovation of hospitals, elective care services and new polyclinic roll-outs. As noted above, the Group has now completed its intensive capital expenditure phase and the only large project remaining is the construction of the Mega Lab which we plan to open in 2018 as discussed below.

Going forward our focus remains on the successful roll-out of newly launched hospitals and services, improving return on invested capital through improved utilsation and growing productivity. We will also capture more of the value of synergies across the Group.

Our balance sheet remained flat q-o-q, with no major deviation except for prepayments, the decrease of which is related to the completion and launch of flagship hospitals.

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Operating performance highlights and notable developments, healthcare services business

Continued investment in facilities and services

- During 2018, we are continuing to invest in the development of our healthcare facilities and services. In 2Q18 we spent a total of GEL 15.7 million on capital expenditures ("capex"), of which maintenance capex was GEL 2.1 million. Overall, in 1H18, capital expenditures totalled GEL 40.5 million, of which maintenance capex was GEL 4.4 million. The primary capex use was to finalise the renovation works on our Regional Hospital.
  - We continue to launch new services at our referral hospitals to fill medical service gaps in Georgia. During 2Q18, we launched four new services in four different referral hospitals plus a Home Care service. In total, we launched eight new services in 1H18 and the process will continue throughout the year.
    - In 2Q18 we launched our Home Care service in Tbilisi. We are the first provider in the Georgian healthcare market to offer this service in an organised way. Our qualified nurses will provide professional healthcare assistance at home, covering services such as transfusion, inhalation and oxygen delivery. People of all ages can benefit from Home Care, including those who have been recently discharged from a hospital, those who are recovering from surgery or major illness, or those who have received a new diagnosis or a complication arising from a chronic illness. All of these services are co-ordinated by an operating centre open 24 hours a day.
  - The complete renovation of 306-bed Regional Hospital was finished and the hospital opened at the end of February 2018; its occupancy rate reached c.15% in 2Q18.
  - At Tbilisi Referral Hospital – another of our flagships which was opened in April 2017, and where additional capacity was added in December 2017 - the occupancy rate stood at around 40% in 2Q18.
- Our adjusted referral hospital bed occupancy rate[3] was 63.4% in 2Q18 (67.1% in 2Q17).
- Our healthcare services market share by number of beds stood at 24.9% as of 30 June 2018. According to recently published 2017 data by National Centre for Disease Control and Public Health ("NCDC") the number of beds continues to grow in the market. Apart from GHG, the increase mainly comes from hospitals with a relatively small market share.

Market beds dynamic:	2016[4]	2017[5]	1H18[6]
Total number of beds	**10,948**	**12,284**	**13,352**
Competitors	8,391	9,270	10,032
GHG	2,557	3,014	3,320
GHG market share	*23.4%*	*24.5%*	*24.9%*

- The number of registered patients in Tbilisi polyclinics reached c.116,000 as of June 2018, up from c.6,000 in 2Q17 and up from c.66,000 at the beginning of the year. We plan to further grow our polyclinic business both organically and through further acquisitions. Our target is to reach c.200,000 registered patients by early 2019.
- The construction of the largest laboratory in Georgia as well as in whole Caucasus region ("Mega Lab") is progressing rapidly and expected to become operational over the next couple of months. The multi-profile

[3] Adjusted to exclude the Tbilisi Referral Hospital and Regional Hospital; the calculation also excludes emergency beds
[4] NCDC, data as of December 2015, updated by GHG to include the changes before December 2016
[5] NCDC, data as of December 2016, updated by GHG to include the changes before December 2017
[6] NCDC, data as of December 2017, updated by GHG to include the changes before June 2018

laboratory will be equipped with the most up-to-date infrastructure and high-capacity automated systems. The laboratory will cover basic as well as sophisticated tests such as: clinical microbiology, immunology, bacteriology, pathology, molecular genetics, etc. We plan to get Joint Commission International accreditation for Mega Lab.

Government changes to UHC implemented from May 2017

- As reported last year, effective from May 2017 the Government introduced two significant changes to UHC: 1) revised reimbursement mechanism relating to the provision of intensive care, reducing the UHC reimbursement of these services; and 2) a new regulation which bases UHC coverage eligibility on the income level of citizens and introduced deductible amounts (patient co-payments) for planned and certain urgent services. The first change has slightly suppressed our hospitals margins, and the second may have slightly suppressed demand for our services.

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Healthcare service revenue, gross	**77,476**	**66,600**	**16.3%**	**151,024**	**132,948**	**13.6%**
Corrections & rebates	(1,087)	(660)	64.7%	(1,780)	(1,283)	38.7%
Healthcare services revenue, net	**76,389**	**65,940**	**15.8%**	**149,244**	**131,665**	**13.4%**
Costs of healthcare services	**(44,002)**	**(37,652)**	**16.9%**	**(85,549)**	**(75,429)**	**13.4%**
Gross profit	**32,387**	**28,288**	**14.5%**	**63,695**	**56,236**	**13.3%**
Salaries and other employee benefits	(8,927)	(7,996)	11.6%	(17,446)	(15,175)	15.0%
General and administrative expenses	(4,890)	(4,154)	17.7%	(9,175)	(8,236)	11.4%
Impairment of receivables	(1,299)	(1,033)	25.8%	(2,501)	(2,013)	24.2%
Other operating income	1,532	3,190	-52.0%	2,781	4,302	-35.4%
EBITDA	**18,803**	**18,295**	**2.8%**	**37,354**	**35,114**	**6.4%**
EBITDA margin	***24.3%***	***27.5%***		***24.7%***	***26.4%***	
Depreciation and amortisation	(8,084)	(5,774)	40.0%	(15,047)	(10,713)	40.5%
Net interest income (expense)	(6,818)	(4,435)	53.7%	(12,510)	(8,551)	46.3%
Net gains/(losses) from foreign currencies	58	1,118	-94.8%	33	1,813	-98.2%
Net non-recurring income/(expense)	(282)	(1,255)	-77.5%	(877)	(2,531)	-65.3%
Profit before income tax expense	**3,677**	**7,949**	**-53.7%**	**8,953**	**15,132**	**-40.8%**
Income tax benefit/(expense)	(72)	-	NMF	(74)	(11)	NMF
Profit for the period	**3,605**	**7,949**	**-54.6%**	**8,879**	**15,121**	**-41.3%**
Attributable to:						
- shareholders of the Company	2,826	5,636	-49.9%	6,710	11,400	-41.1%
- non-controlling interests	779	2,313	-66.3%	2,169	3,721	-41.7%

The healthcare services business recorded a record high quarterly and half year revenue of GEL 77.5 million (up 16.3% y-o-y) and GEL 151.0 million (up 13.6% y-o-y), respectively.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Healthcare services revenue, net	**76,389**	**65,940**	**15.8%**	**149,244**	**131,665**	**13.4%**
Referral hospitals	64,960	57,358	13.3%	126,649	113,804	11.3%
Clinics:	11,429	8,583	33.2%	22,595	17,862	26.5%
Community	*6,045*	*4,876*	*24.0%*	*12,210*	*10,537*	*15.9%*
Polyclinics	*5,385*	*3,706*	*45.3%*	*10,386*	*7,324*	*41.8%*

In 2Q18, referral hospitals contributed 85% of the total revenue from our healthcare services. The y-o-y and q-o-q revenue growth is mainly a result of a successful ramp-up of the newly launched hospitals. The quarterly revenues in Tbilisi Referral Hospital (fully opened in December 2017) and Regional Hospital (diagnostic part opened in 3Q16 and inpatient part in March 2018) reached GEL 4.1 million and GEL 5.3 million respectively. Quarterly revenue dynamics for both hospitals is shown below.

Revenue dynamics of Tbilisi Referral Hospital

GEL millions	**2Q18**	**1Q18**
Gross Revenue	4.1	3.7
Change Q-o-Q	*10.6%*	*34.4%*

Revenue dynamics of Regional Hospital

GEL millions	**2Q18**	**1Q18**
Gross Revenue	5.3	1.2
Q-o-Q change%	*340.9%*	*23.7%*

Apart from the contribution from our newly launched hospitals, the y-o-y revenue increase is attributable to the demand for current services at our existing facilities where we are continuously adding new medical services. In recent years we have developed a number of new, high-quality elective care services in Georgia, in line with our strategy to improve the quality of care throughout the country.

In 2Q18, clinics contributed 15% of the total revenue from healthcare services, out of which 7% came from polyclinics and 8% from community clinics.

The growth in revenue from polyclinics in 2Q18 (up 45.3% y-o-y and up 7.7% q-o-q) as well as in 1H18 (up 41.8% y-o-y) has been driven by: 1) an increase in the number of polyclinics in our network (we added four new polyclinics in the last 12 months), in line with our strategy to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia; and 2) an increased number of registered patients, that reached c.116,000 in 2Q18 (up from c.6,000 in 2Q17).

Revenue from community clinics was also up y-o-y due to the introduction of new medical services. These clinics play a feeder role for the referral hospitals, so we expect their revenue growth to be slower going forward compared to the growth of referral hospital revenue.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Healthcare services revenue, net	**76,389**	**65,940**	**15.8%**	**149,244**	**131,665**	**13.4%**
Government-funded healthcare programmes	50,824	43,527	16.8%	98,974	89,358	10.8%
Out-of-pocket payments by patients	19,766	16,308	21.2%	38,626	31,356	23.2%
Private medical insurance companies, *of which*	5,799	6,105	-5.0%	11,644	10,951	6.3%
GHG medical insurance	*2,806*	*2,710*	*3.6%*	*5,461*	*5,403*	*1.1%*

All payment sources contributed to our revenue growth. Despite the Government initiatives described above, the revenue from Government-funded healthcare programmes increased y-o-y as well as q-o-q and it remains the main contributor to our healthcare services revenues. Notwithstanding this, in line with our strategy, the share of Government financing in the healthcare services business revenue decreased to 66.3% in 1H18 from 67.9% in 1H17.

The goal to diversify our earnings is furthered by growing out-of-pocket payments by patients (up 21.2% y-o-y and up 4.8% q-o-q in 2Q18; up 23.2% y-o-y in 1H18). This is driven both by growth in the number of elective services we provide in our hospitals as well as by the enhanced footprint of our polyclinics, which are partially or fully funded out of pocket. The recent launch of Regional Hospital (the main focus of which is on providing elective care services) and the continued expansion of our polyclinics business will continue to increase the share of out-of-pocket revenue in the overall mix.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Cost of healthcare services	**(44,002)**	**(37,652)**	**16.9%**	**(85,549)**	**(75,429)**	**13.4%**
Cost of salaries and other employee benefits	(27,920)	(24,343)	14.7%	(53,559)	(47,438)	12.9%
Cost of materials and supplies	(12,108)	(10,240)	18.2%	(23,549)	(20,707)	13.7%
Cost of medical service providers	(780)	(434)	79.7%	(1,541)	(806)	91.2%
Cost of utilities and other	(3,194)	(2,635)	21.2%	(6,900)	(6,478)	6.5%
Gross profit	**32,387**	**28,288**	**14.5%**	**63,695**	**56,236**	**13.3%**
Gross margin	**41.8%**	**42.5%**		**42.2%**	**42.3%**	
Cost of healthcare services as % of revenue						
Direct salary rate	36.0%	36.6%		35.5%	35.7%	
Materials rate	15.6%	15.4%		15.6%	15.6%	

The recent launches of hospitals naturally increased our cost base including the cost of salary and other employee benefits, cost of materials and supplies as well as cost of utilities. As these facilities are in their early roll-out phase, revenue generation lags behind the respective salary and materials expense growth. Despite this, as a result of focused efficiency initiatives, we have managed to maintain the materials rate while decreasing the direct salary rate (down 60 bps in 2Q18 y-o-y and down 20 bps in 1H18 y-o-y).

We continue to focus on the successful roll out of the newly launched hospitals and services, with the main goal to drive efficiencies across our healthcare facilities and improve our margins. As a result, we expect the direct salary rate to improve further as we complete the ramp-up phase of the newly launched healthcare facilities and services.

The healthcare services business reported gross profit of GEL 32.4 million in 2Q18 (up 14.5% y-o-y) and GEL 63.7 million in 1H18 (up 13.3% y-o-y). The gross margin in 2Q18 and 1H18 stood at 41.8% and 42.2%, respectively.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Operating expenses	**(13,584)**	**(9,993)**	**35.9%**	**(26,341)**	**(21,122)**	**24.7%**
Salaries and other employee benefits	(8,927)	(7,996)	11.6%	(17,446)	(15,175)	15.0%
General and administrative expenses	(4,890)	(4,154)	17.7%	(9,175)	(8,236)	11.4%
Impairment of receivables	(1,299)	(1,033)	25.8%	(2,501)	(2,013)	24.2%
Other operating income	1,532	3,190	-52.0%	2,781	4,302	-35.4%
EBITDA	**18,803**	**18,295**	**2.8%**	**37,354**	**35,114**	**6.4%**
EBITDA margin	***24.3%***	***27.5%***		***24.7%***	***26.4%***	

The increase in operating expenses on a y-o-y basis is primarily driven by the expansion of the business as well as the new openings. In HY18 revenue growth outpaced operating general and administrative expense growth and by introducing cost control measures we expect further optimisation of these expenses.

We reported quarterly and half year EBITDA of GEL 18.8 million (up 2.8% y-o-y) and GEL 37.4 million (up 6.4% y-o-y), respectively. Margins remain suppressed due to the roll-out of our two new flagship hospitals and polyclinics. Another reason for the margin reduction in 2018 is the Government's UHC changes which reduced our revenue from May 2017 and that have full effect in 2018. The EBITDA margin for referral hospitals and community clinics in 2Q18 was 24.9% (26.2% in 1Q18). Excluding the dilutive effect of roll-outs, the EBITDA margin was 28.4% in 2Q18 (28.6% in 1Q18). The EBITDA margin of our polyclinics improved quarter over quarter by 260 bps and stood at 16.1% in 2Q18.

With the gradual ramp-up of the newly opened healthcare facilities we expect the healthcare services EBITDA margin to improve throughout the remainder of 2018.

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**
Depreciation and amortisation	(8,084)	(5,774)	40.0%	(15,047)	(10,713)	40.5%
Net interest income (expense)	(6,818)	(4,435)	53.7%	(12,510)	(8,551)	46.3%
Net gains/(losses) from foreign currencies	58	1,118	-94.8%	33	1,813	-98.2%
Net non-recurring income/(expense)	(282)	(1,255)	-77.5%	(877)	(2,531)	-65.3%
Profit before income tax expense	**3,677**	**7,949**	**-53.7%**	**8,953**	**15,132**	**-40.8%**
Income tax benefit/(expense)	(72)	-	NMF	(74)	(11)	NMF
Profit for the period	**3,605**	**7,949**	**-54.6%**	**8,879**	**15,121**	**-41.3%**

Recent openings affected our healthcare services business profitability, as newly launched hospitals remain in their initial roll-out phase, and the accounting impact on the Group's depreciation and amortisation expense from these investments is now fully reflected in 2Q18 results. The increase in net interest expense reflects the increase in our total borrowing balance to finance planned capital expenditure. As the business has now mainly completed its investment programme, we expect only modest increases in depreciation and amortisation reflecting the completion of our Mega Lab and smaller investments in new equipment mainly in connection with the roll out of new services. Interest expense is expected to decline as we reduce our debt. Consequently, the healthcare services business' profit totalled GEL 3.6 million in 2Q18 and GEL 8.9 million 1H18.

Discussion of Pharmacy and Distribution Business Results

Income Statement, pharmacy and distribution business

GEL thousands; unless otherwise noted	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Pharma revenue	**127,323**	**110,942**	**14.8%**	**254,191**	**222,341**	**14.3%**
Costs of pharma	**(95,862)**	**(84,822)**	**13.0%**	**(191,412)**	**(169,230)**	**13.1%**
Gross profit	**31,461**	**26,120**	**20.4%**	**62,779**	**53,111**	**18.2%**
Salaries and other employee benefits	(11,299)	(9,684)	16.7%	(22,493)	(19,300)	16.5%
General and administrative expenses	(8,473)	(7,229)	17.2%	(16,723)	(15,991)	4.6%
Impairment of receivables	(5)	(103)	-95.1%	(25)	(131)	-80.9%
Other operating income	233	(183)	NMF	1,023	(82)	NMF
EBITDA	**11,917**	**8,921**	**33.6%**	**24,561**	**17,607**	**39.5%**
EBITDA margin	***9.4%***	***8.0%***		***9.7%***	***7.9%***	
Depreciation and amortisation	(576)	(465)	23.9%	(1,124)	(1,176)	-4.4%
Net interest income (expense)	(2,758)	(3,187)	-13.5%	(5,515)	(5,980)	-7.8%
Net gains/(losses) from foreign currencies	243	(180)	NMF	2,129	1,915	11.2%
Net non-recurring income/(expense)	(374)	(566)	-33.9%	(785)	(882)	-11.0%
Profit before income tax expense	**8,452**	**4,523**	**86.9%**	**19,266**	**11,484**	**67.8%**
Income tax benefit/(expense)	-	222	NMF	-	214	NMF
Profit for the period	**8,452**	**4,745**	**78.1%**	**19,266**	**11,698**	**64.7%**

Our pharmacy and distribution business had another strong quarter, posting record quarterly and half year revenues of GEL 127.3 million (up 14.8% y-o-y) and GEL 254.2 million (up 14.3% y-o-y), respectively.

(GEL thousands, unless otherwise noted)	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Pharmacy and distribution revenue	**127,323**	**110,942**	**14.8%**	**254,191**	**222,341**	**14.3%**
Revenue from Retail	93,309	85,157	9.6%	188,389	167,702	12.3%
Revenue from Distribution	34,014	25,785	31.9%	65,802	54,640	20.4%

The increase in y-o-y revenues from retail is attributable to the expansion of the business and the various sales initiatives that our pharmacy and distribution business continues to implement. Over the last year we have added 12 new pharmacies in our chain and the number of pharmacies in 2Q18 reached 259. Over the next few years we are projecting to have 300 pharmacies in total. Due to active marketing campaigns, promotions and other sales initiatives that our business continues to implement throughout the year, in 1H18 the number of bills issued and the average bill size increased by 5.8% and 4.5% y-o-y, respectively. This resulted in revenue growth from retail, up 12.3%. In 2Q18 seasonal promotions increased the numbers of bills issued by 7.2% y-o-y, while the average bill size was reduced by 2.3%. Overall the impact on our quarterly revenue from retail, up 9.6% y-o-y, was positive. In 1H18 the business posted strong same-store growth rate of 7.7% y-o-y and the share of para-pharmacy sales in retail revenue stood at 29.4% (28.4% in 1H17).

In 2018, in line with our strategy to grow wholesale revenue, we started to acquire new corporate accounts and actively engaged in state programmes. This resulted in the quarterly record high distribution revenue of more than GEL 34 million and y-o-y revenue growth of almost 32%.

As the largest purchaser of pharmaceuticals in Georgia, we are well-positioned in our ongoing negotiations with manufacturers for price discounts. As a result, the increase in cost of pharma favourably lags behind the respective revenue growth in all periods. Going forward, apart from continuously seeking additional manufacturer discounts, we expect margins to benefit from the introduction of higher-margin private label products at our pharmacies. We introduced private label medicines and private label personal care products are expected to follow this year.

As a result of the above, our gross profit margin has improved y-o-y, up 120 bps in 2Q18 and up 80 bps in 1H18. Gross profit reached GEL 31.5 million in 2Q18 (up 20.4% y-o-y) and GEL 62.8 million in 1H18 (up 18.2% y-o-y), respectively.

EBITDA, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Operating expenses	**(19,544)**	**(17,199)**	**13.6%**	**(38,218)**	**(35,504)**	**7.6%**
Salaries and other employee benefits	(11,299)	(9,684)	16.7%	(22,493)	(19,300)	16.5%
General and administrative expenses	(8,473)	(7,229)	17.2%	(16,723)	(15,991)	4.6%
Impairment of receivables	(5)	(103)	-95.1%	(25)	(131)	-80.9%
Other operating income	233	(183)	NMF	1,023	(82)	NMF
EBITDA	**11,917**	**8,921**	**33.6%**	**24,561**	**17,607**	**39.5%**
EBITDA margin	***9.4%***	***8.0%***		***9.7%***	***7.9%***	

Business posted y-o-y positive operating leverage of 6.8 ppts and 10.6 ppts in 2Q18 and in 1H18, respectively.

Salaries and other employee benefits increased in line with the respective revenue growth, as the staff bonus motivation scheme is built around sales KPIs in our pharmacies. Another reason for the increase is the expansion of the business and the addition of new pharmacies. The increase in general and administrative expenses in 2Q18 is mainly attributable to marketing activities to support respective revenue growth.

The business reported EBITDA of GEL 11.9 in 2Q18 (up 33.6% y-o-y) and GEL 24.6 million in 1H18 (up 39.5% y-o-y). We continued to deliver strong quarterly and half year EBITDA margin, both still exceeding our "more than 8%" medium term target.

Profit for the period, pharmacy and distribution business

(GEL thousands, unless otherwise noted)	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Depreciation and amortisation	(576)	(465)	23.9%	(1,124)	(1,176)	-4.4%
Net interest income (expense)	(2,758)	(3,187)	-13.5%	(5,515)	(5,980)	-7.8%
Net gains/(losses) from foreign currencies	243	(180)	NMF	2,129	1,915	11.2%
Net non-recurring income/(expense)	(374)	(566)	-33.9%	(785)	(882)	-11.0%
Profit before income tax expense	**8,452**	**4,523**	**86.9%**	**19,266**	**11,484**	**67.8%**
Income tax benefit/(expense)	-	222	NMF	-	214	NMF
Profit for the period	**8,452**	**4,745**	**78.1%**	**19,268**	**11,698**	**64.7%**

In 1H18 interest expense included GEL 0.6 million on the mark to market of the Pharmadepot put option, compared to GEL 0.9 million in 1H17, which is a non-cash expense.

The foreign currency gain reflects the decrease in the GEL value of US Dollar and EUR denominated payables to suppliers due to the appreciation of GEL in 2Q18.

Consequently, the pharmacy and distribution business reported a net profit of GEL 8.5 million in 2Q18 (up 78.1% y-o-y) and GEL 19.3 million (up 64.7% y-o-y).

Other operating highlights and notable developments, pharmacy and distribution business

- In total, we operate a country-wide network of 259 pharmacies. We have 21 pharmacies located in our hospitals and clinics.

- In 2Q18, the pharmacy and distribution business had:
  - c.2.2 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.0
  - Total number of bills issued was 6.74 million

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Net insurance premiums earned	**13,703**	**13,410**	**2.2%**	**27,005**	**27,375**	**-1.4%**
Cost of insurance services	**(11,898)**	**(12,718)**	**-6.4%**	**(23,792)**	**(25,452)**	**-6.5%**
Gross profit	**1,805**	**692**	**160.8%**	**3,213**	**1,923**	**67.1%**
Salaries and other employee benefits	(1,063)	(972)	9.4%	(1,846)	(2,020)	-8.6%
General and administrative expenses	(332)	(366)	-9.3%	(682)	(873)	-21.9%
Impairment of receivables	(61)	(117)	-47.9%	(159)	(230)	-30.9%
Other operating income	163	(18)	NMF	190	(25)	NMF
EBITDA	**512**	**(781)**	**NMF**	**716**	**(1,225)**	**NMF**
EBITDA margin	***3.7%***	***-5.8%***		***2.7%***	***-4.5%***	
Depreciation and amortisation	(187)	(242)	-22.7%	(391)	(464)	-15.7%
Net interest income (expense)	(11)	(206)	-94.7%	(125)	(416)	-70.0%
Net gains/(losses) from foreign currencies	50	48	4.2%	88	36	144.4%
Net non-recurring income/(expense)	-	2	NMF	-	(198)	NMF
Profit before income tax expense	**364**	**(1,179)**	NMF	**288**	**(2,267)**	**NMF**
Income tax benefit/(expense)	(43)	(310)	-86.1%	(43)	(310)	-86.1%
Profit / (Loss) for the period	**321**	**(1,489)**	NMF	**245**	**(2,577)**	**NMF**

Since the implementation of new measures (described below) following last year's UHC changes, our medical insurance business has continued to contribute positively to the Group's EBITDA, increasing its revenue while improving the loss ratio towards its targeted level.

The medical insurance business posted GEL 13.7 million revenue in 2Q18 (up 2.2% y-o-y) and contributed GEL 0.5 million to the Group's EBITDA. In 2Q17, medical insurance business started to adjust prices or terminate loss making contracts that had become loss-making as a result of Government's changes to UHC. From 2018 the business started to attract new clients with adjusted pricing that resulted in revenue growth in 2Q18 (up 2.2% y-o-y and up 3.0% q-o-q).

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	2Q18	2Q17	Change, Y-o-Y	1H18	1H17	Change, Y-o-Y
Cost of insurance services	**(11,898)**	**(12,718)**	**-6.4%**	**(23,792)**	**(25,452)**	**-6.5%**
Net insurance claims incurred	(11,294)	(11,936)	-5.4%	(22,512)	(23,748)	-5.2%
Agents, brokers and employee commissions	(604)	(782)	-22.8%	(1,280)	(1,704)	-24.9%
Gross profit	**1,805**	**692**	160.8%	**3,213**	**1,923**	67.1%
Loss ratio	**82.4%**	**89.0%**		**83.4%**	**86.8%**	

As a result of the measures described above, in 2Q18 we managed to decrease the loss ratio towards our targeted level (c.80%), down 660 bps y-o-y to 82.4%. The loss ratio improved on a quarterly basis as well, by 190 bps.

Our insurance business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies. In 2Q18, our medical insurance claims expense was GEL 11.3 million, of which GEL 4.6 million (40.4% of total) was inpatient, GEL 4.4 million (39.1 % of total) was outpatient and GEL 2.3 million (20.5% of total) accounted for drugs. In 2Q18, GEL 4.3 million, or 38.1% (38.1% in 2Q17) of our total medical insurance claims were retained within the Group, of which GEL 2.8 million and GEL 1.5 million were retained in the healthcare services and pharmacy and distribution businesses, respectively. The feeder role of our medical insurance business is particularly important for the Group's outpatient services. In 2Q18, GEL 1.7 million, or 38.4% (32.6% in 2Q17), of our medical insurance claims on outpatient services were retained within the Group.

Due to the new flagship hospitals launches in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising our inpatient services. At the same time, with our polyclinics expansion strategy, we expect the retention rate to improve further in the future, on a larger base, providing a significant revenue boost for our healthcare services business. Our facilities are increasingly favoured by these customers over competitor facilities due to the quality and convenience of our service, access to one-stop-shop style polyclinics and the ease of claim reimbursement procedures.

The business posted gross profit of GEL 1.8 million in 2Q18 (up 160.8% y-o-y and up 28.2% q-o-q) and GEL 3.2 million in 1H18 (up 67.1% y-o-y).

Optimisation of operating expenses, mainly through re-negotiation of terms and conditions with different service providers, drove general and administrative expenses down y-o-y as well as q-o-q. Salaries and other employee benefits are also down 8.6% in 1H18.

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

As a result, the y-o-y expense ratio improved in 2Q18 by 340 bps and in 1H18 by 400 bps. The ratio was also improved q-o-q basis by 50 bps.

The business contributed GEL 0.5 million to EBITDA in 2Q18 and GEL 0.7 million in 1H18, compared to negative contributions in the same periods last year.

In 1Q18, the medical insurance business refinanced a foreign currency denominated loan by sourcing less expensive funding from a local commercial bank, decreasing its net interest expense as a result.

Other operating highlights and notable developments, medical insurance business

- The number of persons insured was approximately 157,000 as of June 2018.
- Our medical insurance market share was 27.2% based on net insurance premium revenue, as at 31 March 2018.
- Our insurance renewal rate was 70.1% in 2Q18.

SELECTED FINANCIAL INFORMATION

Income Statement, ***half- year***	**Healthcare services**			**Pharma**			**Medical insurance**			**Eliminations**		**GHG**		
GEL thousands; unless otherwise noted	**1H18**	**1H17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**	**1H18**	**1H17**	**Change, Y-o-Y**	**1H18**	**1H18**	**1H18**	**1H17**	**Change, Y-o-Y**
Revenue, gross	**151,024**	**132,948**	**13.6%**	**254,191**	**222,341**	**14.3%**	**27,005**	**27,375**	**-1.4%**	**(12,740)**	**(11,616)**	**419,480**	**371,048**	**13.1%**
Corrections & rebates	(1,780)	(1,283)	38.7%	-	-	-	-	-	-	-	-	(1,780)	(1,283)	38.7%
Revenue, net	**149,244**	**131,665**	**13.4%**	**254,191**	**222,341**	**14.3%**	**27,005**	**27,375**	**-1.4%**	**(12,740)**	**(11,616)**	**417,700**	**369,765**	**13.0%**
Costs of services	**(85,549)**	**(75,429)**	**13.4%**	**(191,412)**	**(169,230)**	**13.1%**	**(23,792)**	**(25,452)**	**-6.5%**	**11,906**	**10,118**	**(288,847)**	**(259,993)**	**11.1%**
Cost of salaries and other employee benefits	(53,559)	(47,438)	12.9%	-	-	-	-	-	-	2,015	1,784	(51,544)	(45,654)	12.9%
Cost of materials and supplies	(23,549)	(20,707)	13.7%	-	-	-	-	-	-	4,726	2,945	(18,823)	(17,762)	6.0%
Cost of medical service providers	(1,541)	(806)	91.2%	-	-	-	-	-	-	58	31	(1,483)	(775)	91.4%
Cost of utilities and other	(6,900)	(6,478)	6.5%	-	-	-	-	-	-	260	244	(6,640)	(6,234)	6.5%
Net insurance claims incurred	-	-	-	-	-	-	(22,512)	(23,748)	-5.2%	4,847	5,114	(17,665)	(18,634)	-5.2%
Agents, brokers and employee commissions	-	-	-	-	-	-	(1,280)	(1,704)	-24.9%	-	-	(1,280)	(1,704)	-24.9%
Cost of pharma - wholesale	-	-	-	(53,303)	(45,485)	17.2%	-	-	-	-	-	(53,303)	(45,485)	17.2%
Cost of pharma - retail	-	-	-	(138,109)	(123,745)	11.6%	-	-	-	-	-	(138,109)	(123,745)	11.6%
Gross profit	**63,695**	**56,236**	**13.3%**	**62,779**	**53,111**	**18.2%**	**3,213**	**1,923**	**67.1%**	**(834)**	**(1,498)**	**128,853**	**109,772**	**17.4%**
Salaries and other employee benefits	(17,446)	(15,175)	15.0%	(22,493)	(19,300)	16.5%	(1,846)	(2,020)	-8.6%	553	343	(41,232)	(36,152)	14.1%
General and administrative expenses	(9,175)	(8,236)	11.4%	(16,723)	(15,991)	4.6%	(682)	(873)	-21.9%	378	348	(26,202)	(24,752)	5.9%
Impairment of receivables	(2,501)	(2,013)	24.2%	(25)	(131)	-80.9%	(159)	(230)	-30.9%	284	250	(2,401)	(2,124)	13.0%
Other operating income	2,781	4,302	-35.4%	1,023	(82)	NMF	190	(25)	NMF	(381)	216	3,613	4,411	-18.1%
EBITDA	**37,354**	**35,114**	**6.4%**	**24,561**	**17,607**	**39.5%**	**716**	**(1,225)**	**NMF**	**-**	**(341)**	**62,631**	**51,155**	**22.4%**
EBITDA margin	***24.7%***	***26.4%***		***9.7%***	***7.9%***		***2.7%***	***-4.5%***				***14.9%***	***13.8%***	
Depreciation and amortisation	(15,047)	(10,713)	40.5%	(1,124)	(1,176)	-4.4%	(391)	(464)	-15.7%	-	-	(16,562)	(12,353)	34.1%
Net interest income (expense)	(12,510)	(8,551)	46.3%	(5,515)	(5,980)	-7.8%	(125)	(416)	-70.0%	-	-	(18,150)	(14,947)	21.4%
Net gains/(losses) from foreign currencies	33	1,813	-98.2%	2,129	1,915	11.2%	88	36	144.4%	-	-	2,250	3,764	-40.2%
Net non-recurring income/(expense)	(877)	(2,531)	-65.3%	(785)	(882)	-11.0%	-	(198)	NMF	-	341	(1,662)	(3,270)	-49.2%
Profit before income tax expense	**8,953**	**15,132**	**-40.8%**	**19,266**	**11,484**	**67.8%**	**288**	**(2,267)**	**NMF**	**-**	**-**	**28,507**	**24,349**	**17.1%**
Income tax benefit/(expense)	(74)	(11)	NMF	-	214	NMF	(43)	(310)	-86.1%	-	-	(117)	(107)	9.3%
Profit for the period	**8,879**	**15,121**	**-41.3%**	**19,266**	**11,698**	**64.7%**	**245**	**(2,577)**	**NMF**	**-**	**-**	**28,390**	**24,242**	**17.1%**
Attributable to:														
- shareholders of the Company	6,710	11,400	-41.1%	11,234	6,181	81.8%	245	(2,577)	NMF	-	-	18,189	15,004	21.2%
- non-controlling interests	2,169	3,721	-41.7%	8,032	5,517	45.6%	-	-	-	-	-	10,201	9,238	10.4%

Income Statement, ***Quarterly***	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1Q18**	**Change, Q-o-Q**	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1Q18**	**Change, Q-o-Q**	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1Q18**	**Change, Q-o-Q**	**2Q18**	**2Q17**	**1Q18**	**2Q18**	**2Q17**	**Change, Y-o-Y**	**1Q18**	**Change, Q-o-Q**
Revenue, gross	**77,476**	**66,600**	**16.3%**	**73,548**	**5.3%**	**127,323**	**110,942**	**14.8%**	**126,868**	**0.4%**	**13,703**	**13,410**	**2.2%**	**13,302**	**3.0%**	**(6,711)**	**(6,351)**	**(6,029)**	**211,791**	**184,601**	**14.7%**	**207,689**	**2.0%**
Corrections & rebates	(1,087)	(660)	64.7%	(693)	56.9%	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,087)	(660)	64.7%	(693)	56.9%
Revenue, net	**76,389**	**65,940**	**15.8%**	**72,855**	**4.9%**	**127,323**	**110,942**	**14.8%**	**126,868**	**0.4%**	**13,703**	**13,410**	**2.2%**	**13,302**	**3.0%**	**(6,711)**	**(6,351)**	**(6,029)**	**210,704**	**183,941**	**14.5%**	**206,996**	**1.8%**
Costs of services	**(44,002)**	**(37,652)**	**16.9%**	**(41,547)**	**5.9%**	**(95,862)**	**(84,822)**	**13.0%**	**(95,550)**	**0.3%**	**(11,898)**	**(12,718)**	**-6.4%**	**(11,894)**	**0.0%**	**6,068**	**4,945**	**5,840**	**(145,694)**	**(130,247)**	**11.9%**	**(143,153)**	**1.8%**
Cost of salaries and other employee benefits	(27,920)	(24,343)	14.7%	(25,639)	8.9%	-	-	-	-	-	-	-	-	-	-	1,078	929	938	(26,842)	(23,414)	14.6%	(24,702)	8.7%
Cost of materials and supplies	(12,108)	(10,240)	18.2%	(11,441)	5.8%	-	-	-	-	-	-	-	-	-	-	2,622	1,582	2,104	(9,486)	(8,658)	9.6%	(9,337)	1.6%
Cost of medical service providers	(780)	(434)	79.7%	(761)	2.5%	-	-	-	-	-	-	-	-	-	-	30	17	28	(750)	(417)	79.9%	(733)	2.3%
Cost of utilities and other	(3,194)	(2,635)	21.2%	(3,706)	-13.8%	-	-	-	-	-	-	-	-	-	-	124	102	137	(3,070)	(2,533)	21.2%	(3,570)	-14.0%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(11,294)	(11,936)	-5.4%	(11,218)	0.7%	2,214	2,315	2,633	(9,080)	(9,621)	-5.6%	(8,585)	5.8%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(604)	(782)	-22.8%	(676)	-10.7%	-	-	-	(604)	(782)	-22.8%	(676)	-10.7%
Cost of pharma - wholesale	-	-	-	-	-	(27,206)	(22,989)	18.3%	(26,097)	4.2%	-	-	-	-	-	-	-	-	(27,206)	(22,989)	18.3%	(26,097)	4.2%
Cost of pharma - retail	-	-	-	-	-	(68,656)	(61,833)	11.0%	(69,453)	-1.1%	-	-	-	-	-	-	-	-	(68,656)	(61,833)	11.0%	(69,453)	-1.1%
Gross profit	**32,387**	**28,288**	**14.5%**	**31,308**	**3.4%**	**31,461**	**26,120**	**20.4%**	**31,318**	**0.5%**	**1,805**	**692**	**160.8%**	**1,408**	**28.2%**	**(643)**	**(1,406)**	**(189)**	**65,010**	**53,694**	**21.1%**	**63,843**	**1.8%**
Salaries and other employee benefits	(8,927)	(7,996)	11.6%	(8,519)	4.8%	(11,299)	(9,684)	16.7%	(11,194)	0.9%	(1,063)	(972)	9.4%	(783)	35.8%	496	227	57	(20,793)	(18,424)	12.9%	(20,439)	1.7%
General and administrative expenses	(4,890)	(4,154)	17.7%	(4,285)	14.1%	(8,473)	(7,229)	17.2%	(8,250)	2.7%	(332)	(366)	-9.3%	(350)	-5.1%	130	348	248	(13,565)	(11,400)	19.0%	(12,637)	7.3%
Impairment of other receivables	(1,299)	(1,033)	25.8%	(1,202)	8.1%	(5)	(103)	-95.1%	(20)	-75.0%	(61)	(117)	-47.9%	(98)	-37.8%	152	250	132	(1,213)	(1,003)	20.9%	(1,188)	2.1%
Other operating income	1,532	3,190	-52.0%	1,250	22.6%	233	(183)	NMF	790	-70.5%	163	(18)	NMF	27	NMF	(135)	240	(247)	1,793	3,229	-44.5%	1,820	-1.5%
EBITDA	**18,803**	**18,295**	**2.8%**	**18,552**	**1.4%**	**11,917**	**8,921**	**33.6%**	**12,644**	**-5.7%**	**512**	**(781)**	**NMF**	**204**	**151.0%**	**-**	**(341)**	**-**	**31,232**	**26,096**	**19.7%**	**31,399**	**-0.5%**
EBITDA margin	***24.3%***	***27.5%***		***25.2%***		***9.4%***	***8.0%***		***10.0%***		***3.7%***	***-5.8%***		***1.5%***					***14.7%***	***14.1%***		***15.1%***	
Depreciation and amortisation	(8,084)	(5,774)	40.0%	(6,963)	16.1%	(576)	(465)	23.9%	(548)	5.1%	(187)	(242)	-22.7%	(204)	-8.3%	-	-	-	(8,847)	(6,481)	36.5%	(7,715)	14.7%
Net interest income (expense)	(6,818)	(4,435)	53.7%	(5,692)	19.8%	(2,758)	(3,187)	-13.5%	(2,757)	0.0%	(11)	(206)	-94.7%	(114)	-90.4%	-	-	-	(9,587)	(7,828)	22.5%	(8,563)	12.0%
Net gains/(losses) from foreign currencies	58	1,118	-94.8%	(25)	NMF	243	(180)	NMF	1,886	-87.1%	50	48	4.2%	38	31.6%	-	-	-	351	986	-64.4%	1,899	-81.5%
Net non-recurring income/(expense)	(282)	(1,255)	-77.5%	(595)	-52.6%	(374)	(566)	-33.9%	(411)	-9.0%	-	2	NMF	-	-	-	341	-	(656)	(1,478)	-55.6%	(1,006)	-34.8%
Profit before income tax expense	**3,677**	**7,949**	**-53.7%**	**5,277**	**-30.3%**	**8,452**	**4,523**	**86.9%**	**10,814**	**-21.8%**	**364**	**(1,179)**	**NMF**	**(76)**	**NMF**	**-**	**-**	**-**	**12,493**	**11,295**	**10.6%**	**16,014**	**-22.0%**
Income tax benefit/(expense)	(72)	-	NMF	(2)	NMF	-	222	NMF	-	-	(43)	(310)	-86.1%	-	NMF	-	-	-	(115)	(88)	30.7%	(2)	NMF
Profit for the period	**3,605**	**7,949**	**-54.6%**	**5,275**	**-31.7%**	**8,452**	**4,745**	**78.1%**	**10,814**	**-21.8%**	**321**	**(1,489)**	**NMF**	**(76)**	**NMF**	**-**	**-**	**-**	**12,378**	**11,207**	**10.4%**	**16,012**	**-22.7%**
Attributable to:																							
- shareholders of the Company	2,826	5,636	-49.9%	3,885	-27.3%	4,500	2,024	122.3%	6,734	-33.2%	321	(1,489)	NMF	(76)	NMF	-	-	-	7,647	6,172	23.9%	10,542	-27.5%
- non-controlling interests	779	2,313	-66.3%	1,390	-44.0%	3,952	2,721	45.2%	4,080	-3.1%	-	-	-	-	-	-	-	-	4,731	5,035	-6.0%	5,470	-13.5%

Selected Balance Sheet items	Healthcare services					Pharma					Medical insurance				
GEL thousands; unless otherwise noted	**30-Jun-18**	**30-Jun -17**	**Change, Y-o-Y**	**31-Mar-18**	**Change, Q-o-Q**	**30-Jun-18**	**30-Jun -17**	**Change, Y-o-Y**	**31-Mar-18**	**Change, Q-o-Q**	**30-Jun-18**	**30-Jun -17**	**Change, Y-o-Y**	**31-Mar-18**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	11,142	21,741	-48.8%	32,157	-65.4%	5,210	5,548	-6.1%	4,423	17.8%	10,343	9,763	5.9%	9,087	13.8%
Property and equipment	641,574	582,437	10.2%	622,284	3.1%	27,800	23,746	17.1%	27,389	1.5%	15,021	5,976	151.4%	15,081	-0.4%
Inventory	15,974	14,787	8.0%	19,373	-17.5%	98,208	92,167	6.6%	90,463	8.6%	-	215	NMF	-	-
Liabilities:															
Borrowed Funds	273,604	189,600	44.3%	276,848	-1.2%	81,476	81,764	-0.4%	82,475	-1.2%	8,281	9,120	-9.2%	8,598	-3.7%
Accounts payable	31,176	34,616	-9.9%	34,727	-10.2%	60,042	58,015	3.5%	55,956	7.3%	-	-	-	-	-

Selected Balance Sheet items	Consolidation and eliminations			GHG				
GEL thousands; unless otherwise noted	**30-Jun-18**	**30-Jun -17**	**31-Mar-18**	**30-Jun-18**	**30-Jun -17**	**Change, Y-o-Y**	**31-Mar-18**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	26,695	37,052	-28.0%	45,667	*-41.5%*
Property and equipment	(2,728)	-	(2,728)	681,667	612,159	11.4%	662,026	*3.0%*
Inventory	-	-	-	114,182	107,169	6.5%	109,836	*4.0%*
Liabilities:								
Borrowed Funds	-	-	-	363,361	280,483	29.5%	367,921	*-1.2%*
Accounts payable	(7,911)	(4,939)	(4,191)	83,307	87,691	-5.0%	86,492	*-3.7%*

Selected ratios and KPIs

	2Q18	2Q17	1Q18	1H18	1H17
GHG					
EPS, GEL	0.06	0.05	0.08	0.14	0.12
ROIC *(%)*	10.2%	9.3%	10.6%	10.4%	9.2%
ROIC adjusted[7] *(%)*	13.8%	12.6%	13.5%	13.7%	12.5%
Group rent expenditure	4,754	4,728	4,724	9,478	9,747
of which, Pharma	*4,474*	*4,216*	*4,055*	*8,529*	*8,701*
Group capex (maintenance)	2,145	2,586	2,295	4,440	5,216
Group capex (growth)	13,555	21,071	22,505	36,060	38,937
Number of employees	15,544	14,759	15,491	15,544	14,759
Number of physicians	3,578	3,352	3,553	3,578	3,352
Number of nurses	3,323	3,101	3,305	3,323	3,101
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	(2,763,916)	(3,452,534)	(2,800,166)	(2,763,916)	(3,452,534)
Shares outstanding	128,917,904	128,229,286	128,881,654	128,917,904	128,229,286
Of which:					
Total free float	53,763,151	53,110,783	53,763,151	53,763,151	53,110,783
Shares held by Georgia Capital PLC	75,118,503	75,118,503	75,118,503	75,118,503	75,118,503
Healthcare services					
EBITDA margin of healthcare services	24.3%	27.5%	25.2%	24.7%	26.4%
Direct salary rate (direct salary as % of revenue)	36.0%	36.6%	34.9%	35.5%	35.7%
Materials rate (direct materials as % of revenue)	15.6%	15.4%	15.6%	15.6%	15.6%
Administrative salary rate (administrative salaries as % of revenue)	11.5%	12.0%	11.6%	11.6%	11.4%
SG&A rate (SG&A expenses as % of revenue)	6.3%	6.2%	5.8%	6.1%	6.2%
Number of hospitals	37	35	37	37	35
Number of polyclinics	17	13	17	17	13
Number of express outpatient clinics	24	24	24	24	24
Number of beds	3,320	2,731	3,320	3,320	2,731
Number of referral hospital beds	2,825	2,266	2,825	2,825	2,266
Bed occupancy rate, referral hospitals[8]	54.8%	62.2%	65.7%	57.8%	65.6%
Bed occupancy rate, referral hospitals excluding Tbilisi Referral Hospital and Regional Hospital beds[8]	63.4%	67.1%	68.4%	65.8%	69.7%
Average length of stay (days), referral hospitals[9]	5.4	5.5	5.6	5.5	5.6
Pharmacy and distribution					
EBITDA margin	9.4%	8.0%	10.0%	9.7%	7.9%
Number of bills issued	6.74mln	6.29mln	6.70mln	13.44mln	12.70mln
Average bill size	13.0	13.3	13.9	13.9	13.3
Revenue from wholesale as a percentage of total revenue from pharma	26.7%	23.2%	25.1%	25.9%	24.6%
Revenue from retail as a percentage of total revenue from pharma	73.3%	76.8%	74.9%	74.1%	75.4%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	30.1%	28.2%	28.8%	29.4%	28.4%
Number of pharmacies	259	247	256	259	247
Medical insurance					
Loss ratio	82.4%	89.0%	84.3%	83.4%	86.8%
Expense ratio, *of which*	15.2%	18.6%	15.7%	15.4%	19.4%
Commission ratio	*4.4%*	*5.8%*	*5.1%*	*4.7%*	*6.2%*
Combined ratio	97.6%	107.6%	100.0%	98.8%	106.2%
Renewal rate	70.1%	73.4%	70.6%	71.8%	75.3%

[7] Return on invested capital is adjusted to exclude newly launched Regional Hospital and Tbilisi Referral Hospital
[8] Excluding emergency beds
[9] Excludes data for the emergency beds

Principal risks and uncertainties

All principal risks identified by the Board may have an impact on our business strategic objectives. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key risk drivers/trends and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board, Audit or Clinical Quality and Safety Committee meetings. The order in which the Principal Risks and Uncertainties appear does not denote their order of priority. It is not possible to fully mitigate against all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Compliance		
The Group operates across the healthcare ecosystem and is subject to a complex spectrum of laws, regulations and codes. The Group operates in an emerging and developing market in which legislation is evolving and there may be further changes which affect the Group's business. **Impact** Non-compliance with applicable laws, regulations, codes, authority or regulatory requirements, including those specific to tax, insurance or healthcare, or the settling of disputes or lawsuits, could lead to financial detriment, penalties, increased costs of operations, censure, regulatory investigation and reputational impact. Inadequate record-keeping or documentation of medical matters and patient data could lead to medical or administrative errors and regulatory breaches which could impact our financial performance.	There are periodic changes to applicable regulations, including the UHC. Our healthcare service business includes a network of different hospitals and a nationwide chain of polyclinics, each of which must comply with extensive documentation requirements and documentation maintenance requirements. Regulatory authorities (the Social Services Agency and the State agency for supervision of medical activities) conduct periodic inspections of Group clinics in order to determine compliance with relevant regulatory requirements, and have imposed penalties for errors and non-compliance in the past. The Group is involved in contractual and other disputes and litigation. Georgia's existing anti-monopoly legislation may have an impact on our acquisitions as we will be required to seek prior approval from the Competition Authority to proceed with certain future acquisitions.	We engage in constructive dialogue with regulatory and Governmental bodies, where possible, on potential changes to legislation. We have policies, procedures and controls to fulfil our compliance obligations, for example, Infection Control Management, Quality Management, Sentinel Event Management, Waste Management and Radiation Safety Management. We have extensive process management systems in place that aim to ensure that documentation is carried out to a consistent standard and in compliance with Georgian regulatory requirements. Through a team of experienced practitioners and a quality control unit, we carry out regular internal audits. Their programme and audit results are reviewed by the Clinical Quality and Safety Committee every quarter. Outcomes and changes to process are circulated throughout the Group. Through a Regulatory Risks Unit, we perform a consolidated review of all key regulatory compliance risks within the network of the Group's clinics, analyse and report on findings identified as a result of past inspections carried out by the unit as well as by the Regulatory Authorities, and prepare detailed action plans for individual clinics in order to mitigate risk of future non-compliance. We involve our Legal Department in every material contract, contractual disputes and litigation. The Tax Unit of our Finance Department follows changes in tax legislation and initiatives, checks compliance with rules and is involved in significant contracts.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Recruitment and retention of skilled medical practitioners		
Our performance depends on our ability to recruit and retain high-quality doctors, nurses and other healthcare professionals. The success of our healthcare services depends in part on our ability to recruit, train and retain an appropriate number of highly skilled physicians, nurses, technicians and other healthcare professionals in order to deliver international standards of care, offer greater diversity of services to better satisfy our population's needs, and provide the latest treatments using technologically advanced equipment. **Impact** If we are unable to effectively attract, recruit and retain qualified doctors, nurses and other healthcare professionals, our ability to provide efficient and diverse healthcare services and sophisticated treatments and retain and attract new patients, as well as our business and results of operations may be adversely affected.	There is a shortage of suitably skilled doctors, nurses and other healthcare professionals in Georgia Our hospital and outpatient network has grown rapidly during the last several years, including 1H 2018, and requires human resources with the skills and experience to service it across a range of specialties.	We prioritise investment in recruitment and talent development programmes, training and retention of our professionals. We operate incentive schemes, which for example offer bonuses and enhanced benefits. We have successfully attracted a number of western trained Georgian doctors to our Group and are continuing our efforts to that end. We continue to expand the size of both our nurse college and residency programme and to broaden the specialties covered in order to source specialists in the fields where we have a shortage of doctors. Incentives are offered to graduates of the programme to accept employment within our network. Engagement with medical schools and nursing programmes as well as our scholarship programmes enable us to recruit talented graduates. We are committed to expanding our programmes and increasing our capacity. Talent and training development programmes that enhance the skills of our experienced specialist doctors and nurses and create an internal talent pipeline of younger doctors and nurses have been successful in expanding our specialist capability. We also offer programmes for doctors to study abroad as well as receive on-the-job training by our own specialists and doctors from abroad. We continue to expand our training and development programmes to a larger group of doctors and nurses.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Clinical risk		
Hospital acquired infections and communicable diseases at any of our facilities, and especially their epidemic or outbreak, could adversely affect our patients and our business, in common with other healthcare facilities worldwide. If our hospitals fail to carry out accurate and timely prevention activities, or to comply with internationally recognised clinical care and quality standards, previously uninfected people may contract and spread serious communicable diseases. Irrational use of antibiotics or neglecting to follow waste disposal or other clinical protocols could also have social or environmental impacts. **Maintenance of properly functioning medical equipment is another significant matter for healthcare facilities worldwide.** **Impact** Failure to diagnose and/or adhere to standards and protocols for hospital associated infectious and communicable diseases could result in: • damage to our patients and negatively impact outcome of treatment; • decreased patient trust in our services; • damage to our reputation which may result in an inability to attract new patients or retain existing patients; • claims for damages; • escalation of the epidemic or outbreak; • creation of bacteria resistant to antibiotics; • occupational health hazards for our staff and resulting staffing shortages; and/or • operational limitations imposed by our regulators. Improper disposal of waste increases these risks and can impact the environment. Failure to maintain medical equipment could result in: • decrease in quality of patient care and safety; and decreased patient trust in our services which may result in an inability to attract new patients or retain existing patients.	Our operations involve the treatment of patients with a variety of infections and communicable diseases. Failures in prevention could result in intra-hospital infections, especially in high risk areas such as intensive care units, emergency departments and operating theatres. Infection control and prevention has to cover a variety of our activities, including: clinical practice, cleaning and sterilization, laundry, waste management, rational antibiotic use and protection from communicable diseases. Historical practices in Georgia, including in many of the facilities we have acquired in recent years, are well behind international best practices. Our services involve using high-tech medical equipment which require regular maintenance and monitoring to ensure continuously high standard of patient care and avoid delays in service provision.	We continue to prioritise and enhance our infection control and prevention programme. In 1H 2018 we have been implementing further protocols on the containment of hospital acquired infection and communicable diseases. Special interactive multidisciplinary groups are responsible for overseeing the infection prevention activities in the medical facilities. The infection control risk assessment process is implemented. Further quality control measures have been implemented in high risk areas (critical care units), and data is tracked monthly in referral hospitals. The programme of initiatives on infection and disease control and prevention expanded further in 1H 2018 to increase support units in our facilities and training throughout our network. We also continue to work closely with the US Centre for Disease Control and Prevention representatives in South Caucasus (the CDC). CDC experts work closely with the Chief Quality Officer, Chief Medical Officer, Chief Epidemiologist and experienced practitioners responsible for overseeing infection and communicable disease control and prevention at our facilities. Infection control and prevention is a standing agenda item each time the Clinical Quality and Safety Committee meets (at least quarterly) to review our clinical services and performance, internal governance and controls as well as compliance. In 2018, we have developed and implemented personnel safety policy, self-injury reporting system and injured personnel management system, which includes their treatment. We are implementing strict procedures that, adhere to regulations and best practice, including an Environmental and Social Policy, in relation to the proper handling of waste and its safe disposal. We have an equipment maintenance and monitoring programme in place, which puts considerable emphasis on activities required for proper functioning of high-tech medical equipment. We regularly work to improve the programme and implement new and more effective approaches to medical equipment maintenance. Members of the Clinical Quality and Safety Committee and the wider Board also perform on-site visits and hold discussions with management to review practices and to discuss quality and safety with key practitioners.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Concentration of revenue		
Our healthcare services business depends on revenue from the Georgian Government and a small number of private insurance providers. Payments by the Government under UHC may be delayed, whilst the private insurance companies we work with may experience financial difficulties and fail, or fail to pay the claims we submit to them for healthcare services provided to patients covered by their services. **Impact** Reduction of prices or increased time taken to pay, including delayed payment under the UHC, would affect the revenues, receivables outstanding and profitability of the Group.	Our ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and may be impacted by any changes to state-funded healthcare programmes.	Changes to the UHC introduced in 2017 aim to make 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. Nevertheless, the UHC remains a significant priority for the Government. Government expenditure on healthcare in 2018 is budgeted at GEL 1,056 million, which represents 8.5% of the approved state budget for 2018. We monitor the macroeconomic environment in Georgia and budgetary performance of the Government to assess the forecasted future cash flows from the State. We actively seek to increase our share in the outpatient and planned medical services markets, which are funded either by patients out-of-pocket or by private insurance, thus reducing our dependence on the state insurance programme. We have diversified our portfolio by the addition of pharmaceutical, retail and wholesale business lines.
Currency and macroeconomic		
The Group is exposed to foreign currency risk, as a significant proportion of the medical equipment and pharmaceuticals we purchase is denominated in Dollars and/or Euro but our revenues are in Lari. A portion of our borrowings, particularly from Development Financial Institutions, is foreign-currency-denominated. The Group also faces macroeconomic risk. There could be developments which have an adverse effect on the country, regional or macro economy such as reduced GDP or significant inflation. **Impact** Depreciation of the Lari against the Dollar and/or Euro and/or negative macroeconomic developments may have an adverse effect on our business including putting adverse pressure on our business model, revenues, financial position and cash flows.	As the Group's operations continue to expand, the demand for medical equipment and more so for pharmaceuticals will increase, which in turn will likely lead to an increase in foreign-currency-denominated expenses. Following a period of sustained Lari weakness in 2017, in 1H 2018, the Lari appreciated in value by 5.4% against the Dollar and by 8.1% against the Euro. Future volatility in exchange rates remains a risk, especially at year-end when tourist inflows decline. Our expectation is that volatility will be less severe than in prior years. The GDP story in Georgia remains positive. Real GDP growth increased to estimated 5.6% in 1H 2018 from 4.9% growth in 1H 2017 and a modest 3.1% in 1H 2016. Inflation remains contained at 2.2% in June 2018. Tourist arrivals, a significant driver of foreign currency inflows for the country, continued to increase in Q1 2018 compared to Q1 2017. The Georgian Government's fiscal position continues to be strong.	We actively monitor market conditions and our currency positions and performs stress and scenario tests in order to assess our financial position and adjust strategy accordingly. Foreign currency exposure is actively hedged by foreign currency forward contracts as well as regular operational decisions. We adjust our prices to reflect the fluctuations in foreign currency exchange rates and reduce their impact where possible. The Group takes into account the volatility of the Lari in pricing discussions with counterparties. In 2017, we limited our foreign currency exposure by drawing down most of remaining loan facilities from Development Financial Institutions in Lari instead of Dollars. In 2018, we remain focused on maintaining local currency borrowings.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Information technology and operational		
We face information technology and operational risk. A cyber attack, security breach or unauthorised access to our systems could cause important or confidential data to be misappropriated, misused, disseminated or lost. In addition, improper access or information misappropriation may lead to insider trading or other illegal actions by employees or others. In the event the Group experiences an information technology failure, important and confidential information may be lost. Software or network disruption may cause the Group to experience lost revenue, failed customer transactions or non-timely submission of mandatory or other reports. Non-recurring operational risks include incurring loss or unexpected expenses from system failure, human error, fraud or other unexpected events. **Impact** Any of the above could lead to disruption to our business and operations, affect patient and customer loyalty, subject us to State and Governmental investigation, litigation, damages, penalties and/or reputational damage.	We hold confidential data about our patients and customers given the nature of our healthcare services and must be vigilant to guard data privacy. Cyber security threats are increasing year after year. The Group has expanded and has increasingly complex operations to manage, including the pharmaceutical business acquired in the previous years.	In 2017-2018, we have formed an Information and Corporate Security Department at Group level and appointed experienced professionals to it. A strategy and action plan has been defined and set for 2018 and further. We have completed a centralized, GHG-wide IT infrastructure (hardware and network), that has enhanced the Group's overall information and cyber security level. We continue to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks. Internal Audit conducts regular reviews of IT controls such as the policies for information storage, availability and access, while updating its assessment of risks and recommendations. Internal Audit reports to the Audit Committee on its findings.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Regional tensions		
The Georgian economy and our business may be adversely affected by regional tensions and instability. The Group's operations are located in, and its revenue is sourced from, Georgia. The Georgian economy is dependent on neighbouring economies, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners. There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position. **Impact** The prolongation or escalation of political instability, geopolitical conflict, economic decline of Georgia's trading partners and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia, which in turn may have an adverse effect on our business including putting adverse pressure on our business model, our revenues and our financial position.	Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions and tensions between Russia and Georgia persist. Russia is opposed to the eastward enlargement of NATO, potentially including former Soviet republics such as Georgia. The introduction of a preferential trade regime between Georgia and the EU in July 2016 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may intensify tensions between countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of Announcement, these have not resulted in any formal or legal changes in the relationship between the two countries. Relations between Russia and Turkey remain uncertain, as despite Russia repealing other sanctions on Turkey in March 2017, certain sanctions and legal limitations on Turkish nationals remain. In April 2017, amendments to the Turkish constitution were approved by voters in a referendum. The amendments, which grant the president wider powers, are expected to transform Turkey's system of government away from a parliamentary system. In June 2018 President Recep Tayyip Erdogan won a new five-year term. His policy to influence interest rates questions Central Bank's credibility and increases risks of capital outflow, which will negatively affect our region. Conflict remains unabated between Azerbaijan and Armenia.	We actively monitor risks related to regional tensions and political instability and develop responsive strategies and action plans. Despite tensions in the breakaway territories, Russia has continued to open its market to Georgian exports since 2013. In 1H 2018, regional trading partners' demand for Georgian goods and services continued to increase. Georgian tourism sector increasingly benefits from growing Russian arrivals as well as other visitors from regional countries.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;

- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year and description of principal risks and uncertainties for the remaining six months of the year); and

- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

The Directors of Georgia Healthcare Group PLC are listed on pages 74 - 75 of the Group's 2017 Annual Report and Accounts. Subsequent to the publication of the Annual Report, Neil Janin resigned as a Director of the Company on 30 April 2018.

After making enquiries, the Directors considered it appropriate to adopt the going concern basis in preparing this Results Report.

By order of the Board

Irakli Gilauri	**Nikoloz Gamkrelidze**
Chairman	Chief Executive Officer

14 August 2018

Consolidated Financial Statements

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SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT REVIEW REPORT TO GEORGIA HEALTHCARE GROUP PLC (the "Company")

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2018, which comprises the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 36. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
14 August 2018

Notes:

1. The maintenance and integrity of the Georgia Healthcare Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	Unaudited 30 June 2018	31 December 2017
Assets			
Cash and cash equivalents	5	16,528	48,840
Amounts due from credit institutions	6	10,167	14,768
Insurance premiums receivable	7	31,271	20,233
Receivables from healthcare services	8	107,608	100,944
Receivables from sales of pharmaceuticals		18,844	19,798
Inventory	11	114,182	118,811
Prepayments	12	21,843	30,354
Current income tax assets		2,132	2,026
Investment in associate		2,747	2,745
Property and equipment	9	681,667	642,859
Goodwill and other intangible assets	10	147,520	143,674
Other assets	13	26,470	22,748
Total assets		**1,180,979**	**1,167,800**
Liabilities			
Accruals for employee compensation		24,535	21,944
Insurance contract liabilities	14	31,228	20,953
Accounts payable	16	83,307	92,925
Current income tax liabilities		62	72
Finance lease liabilities		8,051	8,834
Payables for share acquisitions	18	86,053	98,258
Borrowings	15	269,874	267,010
Debt securities issued	17	93,487	93,493
Other liabilities	19	26,272	15,911
Total liabilities		**622,869**	**619,400**
Equity			
Share capital	21	4,784	4,784
Additional paid-in capital	21	2,817	1,708
Treasury shares	21	(134)	(134)
Other reserves	21	(32,124)	(26,866)
Retained earnings	21	515,846	504,192
Total equity attributable to shareholders of the Company		**491,189**	**483,684**
Non-controlling interests		66,921	64,716
Total equity		**558,110**	**548,400**
Total equity and liabilities		**1,180,979**	**1,167,800**

The interim condensed consolidated financial statements on pages 32 to 59 were approved by the Board of Directors of Georgia Healthcare Group PLC on 14 August 2018 and signed on its behalf by:

Nikoloz Gamkrelidze Chief Executive Officer

14 August 2018

Company registration number: 09752452

The accompanying notes on pages 36 to 59 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited Period ended 30 June 2018*	*Unaudited Period ended 30 June 2017*
Healthcare services revenue	22	143,590	126,156
Revenue from pharmacy and distribution	22	247,695	216,577
Net insurance premiums earned	23	26,415	27,032
Revenue		**417,700**	**369,765**
Cost of healthcare services	24	(78,490)	(70,425)
Cost of sales of pharmaceuticals	24	(191,412)	(169,230)
Cost of insurance services and agents' commissions	25	(18,945)	(20,338)
Costs of services		**(288,847)**	**(259,993)**
Gross profit		**128,853**	**109,772**
Other operating income	26	6,946	10,186
Salaries and other employee benefits	27	(41,232)	(36,152)
General and administrative expenses	28	(26,202)	(24,752)
Impairment of healthcare services, insurance premiums and other receivables		(2,401)	(2,124)
Other operating expenses	29	(3,333)	(5,775)
		(73,168)	**(68,803)**
EBITDA		**62,631**	**51,155**
Depreciation and amortisation		(16,562)	(12,353)
Interest income	30	592	1,223
Interest expense	30	(18,612)	(13,857)
Net gains from foreign currencies and currency derivatives		2,120	1,451
Net non-recurring expense	31	(1,662)	(3,270)
Profit before income tax expense		**28,507**	**24,349**
Income tax expense		(117)	(107)
Profit for the period		**28,390**	**24,242**
Profit for the year attributable to:			
- shareholders of the Company		18,189	15,004
- non-controlling interests		10,201	9,238
Earnings per share:			
- basic earnings per share	21	0.14	0.12
- diluted earnings per share	21	0.14	0.12

The accompanying notes on pages 36 to 59 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2018 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Attributable to the shareholders of the Group							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
31 December 2016	**4,784**	**(134)**	**(200)**	**4,822**	**476,616**	**485,888**	**56,144**	**542,032**
Effect of early adoption of IFRS 15	–	–	–	–	(1,049)	(1,049)	–	(1,049)
1 January 2017	**4,784**	**(134)**	**(200)**	**4,822**	**475,567**	**484,839**	**56,144**	**540,983**
Profit for the period	–	–	–	–	15,004	15,004	9,238	24,242
Total comprehensive income	–	–	–	–	**15,004**	**15,004**	**9,238**	**24,242**
Non-controlling interests arising from business combinations	–	–	–	–	(487)	(487)	24,818	24,331
Acquisition of additional interest in existing subsidiaries	–	–	–	(29,410)	–	(29,410)	(29,171)	(58,581)
Share-based compensation	–	–	1,545	–	–	1,545	–	1,545
Investment by NCI	–	–	–	–	–	–	2,128	2,128
30 June 2017 (unaudited)	**4,784**	**(134)**	**1,345**	**(24,588)**	**490,084**	**471,491**	**63,157**	**534,648**

	Attributable to the shareholders of the Group							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Other reserves**	**Retained earnings**	Total	**Non-controlling interest**	**Total equity**
31 December 2017	**4,784**	**(134)**	**1,708**	**(26,866)**	**504,192**	**483,684**	**64,716**	**548,400**
Effect of adoption of IFRS 9	–	–	–	–	(6,535)	(6,535)	(492)	(7,027)
1 January 2018	**4,784**	**(134)**	**1,708**	**(26,866)**	**497,657**	**477,149**	**64,224**	**541,373**
Profit for the period	–	–	–	–	18,189	18,189	10,200	28,389
Total comprehensive income	**–**	**–**	**–**	**–**	**18,189**	**18,189**	**10,200**	**28,389**
Acquisition of additional interest in existing subsidiaries	–	–	–	(5,258)	–	(5,258)	1,737	(3,521)
Dividends declared to non-controlling interests by subsidiary	–	–	–	–	–	–	(9,240)	(9,240)
Purchase of treasury shares	–	–	(1,751)	–	–	(1,751)	–	(1,751)
Share-based compensation	–	–	2,860	–	–	2,860	–	2,860
30 June 2018 (unaudited)	**4,784**	**(134)**	**2,817**	**(32,124)**	**515,846**	**491,189**	**66,921**	**558,110**

The accompanying notes on pages 36 to 59 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited Period ended 30 June 2018*	*Unaudited Period ended 30 June 2017*
Cash flows from / (used in) operating activities			
Revenue from healthcare services and medical trials received		128,263	108,619
Cost of healthcare services and medical trials paid		(83,335)	(69,509)
Revenue from pharmacy and distribution received		248,248	219,897
Cost of sales of pharmaceuticals paid		(190,682)	(178,853)
Net insurance premiums received		29,355	25,068
Cost of insurance services paid		(17,947)	(17,447)
Salaries and other employee benefits paid		(39,259)	(38,069)
General and administrative expenses paid		(29,555)	(24,915)
Acquisition costs paid		(1,007)	–
Other operating income received		2,632	1,948
Other operating expenses paid		(2,238)	(1,875)
Net cash flows from operating activities before income tax		**44,475**	**24,864**
Income tax paid		(233)	(229)
Net cash flows from operating activities		**44,242**	**24,635**
Cash flows from /(used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(14,565)	(33,201)
Purchase of property and equipment		(38,319)	(38,905)
Purchase of intangible assets		(5,537)	(5,248)
Interest income received		592	207
Withdrawals of amounts due from credit institutions		2,612	(4,105)
Placements of amounts due from credit institutions		(228)	3,305
Proceeds from sale of property and equipment		45	104
Net cash flow used in investing activities		**(55,400)**	**(77,843)**
Cash flows from / (used in) financing activities			
Repurchase of debt securities issued		–	(34,197)
Proceeds from borrowings		39,014	128,399
Repayment of borrowings		(31,763)	(36,631)
Purchase of treasury shares		(1,751)	–
Dividends paid to non-controlling interests by subsidiary		(6,270)	–
Interest expense paid		(19,608)	(9,769)
Net cash flows (used in)/from financing activities		**(20,378)**	**47,802**
Effect of exchange rates changes on cash and cash equivalents		(776)	(461)
Net decrease in cash and cash equivalents		**(32,312)**	**(5,867)**
Cash and cash equivalents, beginning	5	**48,840**	**23,239**
Cash and cash equivalents, end	5	**16,528**	**17,372**

The accompanying notes on pages 36 to 59 form an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

As at 30 June 2018 the ultimate parent of Georgia Healthcare Group PLC ("the Company") and its subsidiaries (together referred to as "GHG" or "the Group") is Georgia Capital PLC ("GCAP"). As at 31 December 2017 the ultimate parent of GHG was BGEO Group PLC ("BGEO"). On 29 May 2018, BGEO Group PLC demerged into two separate companies - Bank of Georgia Group PLC and Georgia Capital PLC, both incorporated in London, England. On the same date GCAP became the ultimate parent of GHG. GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England. GCAP registration number is 10852406. The remaining 43% is owned by public shareholders. GHG's results are included as part of GCAP's financial statements, as results of subsidiary held for sale.

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. Its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients. The Group's pharmacy and distribution subsidiary, which was acquired in May 2016 and was expanded with JSC ABC Pharmacy acquisition in 2017, offers a wide range of medicines as well as para-pharmacy products.

The legal address of the Company is No. 84 Brook Street, London W1K 5EH, United Kingdom. The Company registration number is 09752452.

As at 30 June 2018 and 31 December 2017 the following shareholders owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	*Unaudited 30 June 2018*	*31 December 2017*
GCAP PLC	57%	–
BGEO Group PLC	–	57%
Wellington Management Company	7%	7%
T Rowe LTD	6%	6%
Others	30%	30%
Total	**100%**	**100%**

(Thousands of Georgian Lari unless otherwise stated)

1. Background (continued)

The Group included the following subsidiaries and associates incorporated in Georgia:

	Ownership/Voting					
	30-Jun-18	*31-Dec-17*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal address*
Subsidiaries						
JSC Georgia Healthcare Group	100%	100%	Healthcare	29-Apr-15	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC GEPHA*	67%	67%	Pharmacy and Distribution	19-Oct-95	4-May-16	Sanapiro str. 6, Tbilisi, Georgia
LLC ABC Pharmalogistics	67%	67%	Pharmacy and Distribution	24-Feb-04	6-Jan-17	Sanapiro str. 6, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	67%	67%	Pharmacy and Distribution	28-Dec-13	6-Jan-17	Kievyan Str. 2/8, Erevan, Armenia
JSC Insurance Company Imedi L	100%	100%	Insurance	1-Aug-14	31-Jul-14	Anna Politkovskaia str. 9, Tbilisi, Georgia
JSC Medical Corporation EVEX	100%	100%	Healthcare	1-Aug-14	1-Aug-14	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
GNCo	50%	50%	Healthcare	4-Jun-01	5-Aug-15	Chavchavadze ave. 16, Tbilisi, Georgia
LLC Nefrology Development Clinic Centre	40%	40%	Healthcare	28-Sep-10	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
High Technology Medical Centre, University Clinic	50%	50%	Healthcare	16-Apr-99	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
LLC Deka	97%	97%	Healthcare	12-Jan-12	30-Jun-15	Kavtaradze str. 23, Tbilisi, Georgia
LLC Evex-Logistics	100%	100%	Healthcare	13-Feb-15	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Paediatrical Institute, Centre of Allergy and Rheumatology	100%	100%	Healthcare	6-Mar-00	19-Feb-14	Lubliana str. 13, Tbilisi, Georgia
LLC Referral Centre of Pathology	100%	100%	Healthcare	29-Dec-14	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC St. Nicholas Surgery Clinic	97%	97%	Healthcare	10-Nov-00	20-May-08	Paolo Iashvili str. 9, Kutaisi, Georgia
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	67%	67%	Healthcare	5-May-03	29-Nov-11	Djavakhishvili str. 85, Kutaisi, Georgia
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	67%	67%	Healthcare	15-Oct-04	29-Nov-11	A Djavakhishvili str. 83A, Kutaisi, Georgia
LLC Tskaltubo Regional Hospital	67%	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
LLC Unimedi Achara	100%	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Samtskhe	100%	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Unimedi Kakheti	100%	100%	Healthcare	29-Jun-10	30-Apr-12	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
NPO EVEX Learning Centre	100%	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili str. 83a, Tbilisi, Georgia
LLC M. Iashvili Children Central Hospital	100%	100%	Healthcare	3-May-11	19-Feb-14	Lubliana Str. 2/6, Tbilisi, Georgia
LLC Catastrophe Medicine Paediatric Centre	100%	100%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze str. 10, Tbilisi, Georgia
LLC Emergency Service**	–	–	Healthcare	28-Jul-09	20-May-16	D. Uznadze str. 2, Tbilisi, Georgia
JSC Poti Central Clinical Hospital	100%	100%	Healthcare	29-Oct-02	1-Jan-16	Guria str. 171, Poti, Georgia
JSC Patgeo	100%	100%	Healthcare	13-Jan-10	1-Aug-16	Mukhiani, II mcr. District, Building 22, 1a, Tbilisi, Georgia
JSC Pediatry	76%	76%	Healthcare	5-Sep-03	6-Jul-16	U. Chkeidze str. 10, Tbilisi, Georgia
JSC Mega-Lab	100%	100%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze str. 23, Tbilisi Georgia
LLC Evex-Collection	100%	100%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Ivane Bokeria Referral Hospital	100%	100%	Healthcare	16-Mar-17	Not Applicable	Kindzmarauli Str. 1 lane. #1, Tbilisi. Georgia
LLC New Clinic	100%	100%	Healthcare	3-Jan-17	20-Jul-17	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Aliance Med	100%	100%	Healthcare	7-Jul-15	20-Jul-17	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Medical Center Almedi	100%	100%	Healthcare	27-Sep-13	8-Nov-17	Tabukashvili str. 17, Tbilisi, Georgia
JSC Polyclinic Vere	97.8%	97.8%	Healthcare	22-Nov-13	25-Dec-17	Kiacheli str. 18-20, Tbilisis Georgia
Associates						
LLC Geolab	–	25%	Healthcare	3-May-11	5-Aug-15	Tsinandali str. 9, Tbilisi, Georgia
LLC 5th Clinical Hospital	35%	35%	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia
NPO Healthcare Association	25%	25%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia

** JSC GPC was renamed as JSC GEPHA in February 2017 and was merged with JSC ABC Pharmacy on 5 May 2017.*

*** The Group has de-facto control of the subsidiary*

2. Basis of Preparation

Basis of preparation

The financial information set out in these interim condensed consolidated financial statements does not constitute the Group's statutory financial statements within the meaning of section 434 of the Companies Act 2006. Those financial statements were prepared for the year ended 31 December 2017 under IFRS, as adopted by the European Union and have been reported on by GHG's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements for the six months period ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority. The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation (continued)

Basis of preparation (continued)

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2017, signed and authorised for release on 6 March 2018.

The preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best judgement at the date of the interim condensed consolidated financial statements, actual results may differ from these estimates.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated.

The interim condensed consolidated financial statements are unaudited but have been reviewed by the auditors and their review opinion is included in this report.

Going concern

The GHG's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of at least 12 months from the approval of the interim condensed consolidated financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the interim condensed consolidated financial statements continue to be prepared on the going concern basis.

3. Summary of Significant Accounting Policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as at 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 9 *Financial Instruments*. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group adopted the new standard on the required effective date and has not restated comparative information. During 2018, the Group has performed a detailed impact assessment of all three aspects of IFRS 9.

(a) Classification and measurement

Classification and measurement requirements of IFRS 9 have no significant impact on GHG's balance sheet or equity on applying the classification. The Group continues measuring at amortized cost all financial assets and liabilities. These items include: cash and cash equivalents, amounts due from credit institutions, pharmacy and distribution and healthcare receivables, loans issued, borrowings, debt securities issued and accounts payable.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies *(Continued)*

New standards, interpretations and amendments adopted by the Group *(Continued)*

IFRS 9 *Financial Instruments (Continued)*

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all trade receivables and contract assets.

The primary impact of adoption of the new impairment methodology was on the following two accounts: allowance on receivables from healthcare services and allowance on receivables from sales of pharmaceuticals. Insurance premiums receivable were not impacted by adoption of IFRS 9.

Cash and cash equivalents and Amounts due from credit institutions

Due to the short-term and highly liquid nature of these financial assets, the Group has assessed corresponding credit losses to be immaterial. Therefore, no impairment was recognized for Cash and cash equivalents and Amounts due from credit institutions under IFRS 9.

Receivables

In applying the simplified impairment approach under IFRS 9, the Group implemented four different assessment methods based on type of receivables:

1. Individual assessment for Receivables from government;
2. Individual assessment for all other material receivables (with a balance above GEL 250 thousand);
3. Individual assessment for Barter receivables in the pharmacy and distribution business; and
4. Collective assessment for all other receivables. Receivables with shared credit characteristics are combined in different portfolios for collective assessment. The Group has identified the following main types of portfolios (with a balance less than GEL 250 thousand): receivables from healthcare services (mainly receivables from individuals), receivables from sale of pharmaceuticals, rent receivables and other receivables.

Receivables from government

JSC Medical Corporation Evex ("Evex") participates in the Georgian state insurance programme - Universal Health Care ("UHC"). As a result, a significant part of receivables from healthcare services (approximately 70%) is due from the Georgian Government and municipal authorities. On the other hand, JSC Gepha ("Gepha") participates in UHC's tenders, supplying medicaments to different clinics. In addition, Georgian government co-pays the price of certain medicines to individuals covered by the UHC. Therefore, a considerable part of receivables from sales of pharmaceuticals (approximately 15%) are also due from the Georgian government. Receivables from government have unique credit characteristics, which are different from those of any other financial instrument currently owned by the Group. Considering this fact and materiality of corresponding balance, the Group has concluded that receivables from government should be considered for impairment on an individual basis, separately from all other financial instruments.

The Group uses credit ratings published by international agencies, such as Standard & Poor's ("S&P") or Moody's, in order to assess credit quality of state receivables. Similarly, the probabilities of default to the respective category of credit rating assigned to Georgia based on reports by the same international agencies are used as a reasonable approximation of probability of default ("PD") for receivables from government. PD for receivables from government was based on the country's risk rating. The Group will reconsider the PD rate used in the impairment calculations at each reporting date.

Individually impaired debtors

For debtors a with receivable balance above GEL 250 thousand, the Group considers each case individually and takes into account various factors and individual circumstances. This process consists of two main stages:

1) Counterparty's financial position is assessed based on: a) financial results and ratios (when available); b) average receivable overdue days to the Group; and c) any other non-financial information available to the Group, such as any news relevant to market sector in which particular debtor operates, management inquiries, etc.
2) Based on this analysis, counterparty is then categorised by the Group's management for credit risk assessment on an individual basis. Each credit category is assigned with corresponding expected credit loss rate, determined based on experience, management's professional judgment and expectations for the future. Assessments are performed on a quarterly basis. Macro-adjustments are incorporated based on regression results and dependency factor on GDP growth.

Financial ratios in this model are updated on an annual basis, after audited financial statements of the counterparty are published, while average overdue days, non-financial information and expectations for the future are updated monthly.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies *(Continued)*

New standards, interpretations and amendments adopted by the Group *(Continued)*

IFRS 9 *Financial Instruments (Continued)*

(b) Impairment *(Continued)*

Barter receivables in pharmacy and distribution business

Gepha participates in barter transactions by supplying goods and services in exchange for receiving other goods and services from the counterparty. Both trade receivables and trade payables arise as a result of these transactions, but settlement is made on a net basis as required by corresponding contracts. Therefore, in assessing barter receivables for impairment the Group takes into account only net exposure from any individual counterparty, i.e. part of receivables in excess of payables to the same counterparty. These exposures are then assessed for impairment under IFRS 9 in the same manner as described in the preceding section for individually impaired debtors.

Collective assessment

For the purposes of implementing collective impairment assessment of receivables from insurance companies and other large counterparty entities under IFRS 9, debtor portfolios are segregated into distinct risk buckets based on number of overdue days. In defining 180 days as a cut-off period for default definition, the Group considered actual payment history of insurance companies and other large counterparty entities. Overdue of 3 to 6 months was usual among creditworthy counterparties, while more than 6 months period marked the sign for financial trouble. The statistics were based on the Group's internal data. Five separate risk buckets were implemented as presented below:

Overdue Days	Category	Description
0-30	AA	Excellent
31-60	A	Good
61-90	B	Normal
91-180	C	Bad
181+	D	Default

As for collective impairment assessment of receivables from individuals and other small counterparties, we have five separate risk buckets as presented below:

Overdue Days	Category	Description
0-29	A	Good
30-59	B	Normal
60-89	C	Bad
90+	D	Default

IFRS 9 allows an entity to use a simplified "provision matrices" for calculating expected losses as a practical expedient (e.g., for trade receivables), consistent with the general principles for measuring expected losses. However, IFRS 9 also requires incorporating forward-looking information in the entity's impairment framework.

The Group has decided to use this option and utilize provision matrices in estimation of ECLs in case of collective assessment of impairment. As mentioned above, the Group adopted the simplified approach for trade receivables and directly considers life-time losses for the entire portfolio i.e. expected lifetime credit losses will be recognized for the entire portfolio regardless whether or not significant increase in credit risk occurred since initial recognition.. A migration matrix was used as a base for determination of probability of defaults by categories. Exposure at default was defined as the outstanding balance of debtor exposure.

Forward looking component

Additionally, the Group incorporated macroeconomic forward-looking information in the analysis to determine adjusted default probabilities by categories. Considering the fact that debtors in healthcare service and pharmacy and distribution businesses are relatively small and mainly consist of individuals or small entities from widely diverse regions from Georgia, the Group believes that country-wide economic performance measure is good fit for the purposes of expected performance evaluation of the individually small debtors from all over the country. As such, real GDP growth rate was assessed to be the best macro-economic indicator on two arguments:

1) GDP growth rate is the single most important economy performance indicator that is closely tied to actual well-being of the citizens and small entities;

2) GDP growth rate is easily obtainable and has both, consistent historical records as well as state forecast for coming years enabling to incorporate in the expected credit loss modeling. The Group regressed GDP growth rates over the past two years on impairment rates (which is the same as PD assuming 100% LGD) and found a statistically significant dependency factor.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies *(Continued)*

New standards, interpretations and amendments adopted by the Group *(Continued)*

IFRS 9 *Financial Instruments (Continued)*

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

Adoption effect

In total, due to the unsecured nature of the Group's receivables, the loss allowance increased by GEL 7,027 at the transition date, which was 1 Juanuary 2018. The effect of adopting IFRS 9 is, as follows:

	Original carrying amount under IAS 39 *as at 1 January 2018*	Remesuarement Amount	New carrying amount under IFRS 9 *as at 1 January 2018*
Assets			
Receivables from Healthcare Services	118,281	–	118,281
Less – Allowance for impairment	(17,337)	(5,535)	(22,872)
Receivables from healthcare services, net	**100,944**	**(5,535)**	**95,409**
Receivables from sales of pharmaceuticals	19,798	–	19,798
Less – Allowance for impairment	–	(1,492)	(1,492)
Receivables from sale of pharmaceuticals, net	**19,798**	**(1,492)**	**18,306**
Equity			
Retained earnings	504,192	(6,535)	497,657
Non-controlling interests	64,716	(492)	64,224

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The group opted a temporary exemption from applying IFRS 9.

Other new standards, interpretations and amendments adopted by the Group

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group:

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 40 Transfers of Investment Property;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;

(Thousands of Georgian Lari unless otherwise stated)

4. Segment Information

For management purposes, the Group is organised into three operating segments based on the products and services – Healthcare services, Pharmacy nad Distribution and Medical insurance. All revenues of the Group result from Georgia.

Healthcare services are the inpatient and outpatient medical services delivered by the referral hospitals, community hospitals and ambulatory clinics owned by the Group throughout the whole Georgian territory.

Medical insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Company's wholly owned subsidiary Imedi L.

Pharmacy and distribution comprises a wide range of drugs and parapharmacy products which are offered through a chain of well-developed drug-stores by the Company's subsidiary JSC GEPHA.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the consolidated financial statements. Corporate center costs are allocated to segments.

More than 20% of the Group's revenue is derived from the State. However, management believes that the government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in the period ended 30 June 2018 or 30 June 2017.

Selected items from the statement of financial position as at 30 June 2018 and 31 December 2017 by segments are presented below:

	30 June 2018 Unaudited				
	Healthcare Services	***Pharmacy and Distribution***	***Medical Insurance***	***Intersegment transactions and consolidation***	***Total***
Assets and liabilities					
Total assets	902,197	233,012	81,146	(35,376)	1,180,979
Total liabilities	427,001	180,231	60,250	(44,613)	622,869
Other segment information					
Property and equipment	641,574	27,800	15,021	(2,728)	681,667
Intangible assets	27,427	3,143	2,166	–	32,736

	31 December 2017				
	Healthcare Services	***Pharmacy and Distribution***	***Medical Insurance***	***Intersegment transactions and consolidation***	***Total***
Assets and liabilities					
Total assets	768,004	65,518	61,667	20,168	915,357
Total liabilities	271,897	62,011	48,274	(8,857)	373,325
Other segment information					
Property and equipment	560,407	9,003	5,562	–	574,972
Intangible assets	12,289	782	2,552	–	15,623

(Thousands of Georgian Lari unless otherwise stated)

4. Segment Information (continued)

Statement of comprehensive income as at 30 June 2018 by segments are presented below:

	Period ended 30 June 2018 Unaudited				
	Healthcare Services	*Pharmacy and Distribution*	*Medical Insurance*	*Intersegment transactions and consolidation*	*Total*
Healthcare services revenue	149,244	–	–	(5,654)	143,590
Revenue from pharma	–	254,191	–	(6,496)	247,695
Net insurance premiums earned	–	–	27,005	(590)	26,415
Revenue	**149,244**	**254,191**	**27,005**	**(12,740)**	**417,700**
Cost of healthcare services	(85,549)	–	–	7,059	(78,490)
Cost of sales of pharmaceuticals	–	(191,412)	–	–	(191,412)
Cost of insurance services and agents' commissions	–	–	(23,792)	4,847	(18,945)
Costs of services	**(85,549)**	**(191,412)**	**(23,792)**	**11,906**	**(288,847)**
Gross profit	**63,695**	**62,779**	**3,213**	**(834)**	**128,853**
Other operating income	8,211	1,274	322	(2,861)	6,946
Salaries and other employee benefits	(17,446)	(22,493)	(1,846)	553	(41,232)
General and administrative expenses	(9,175)	(16,723)	(682)	378	(26,202)
Impairment of healthcare services, insurance premiums and other receivables	(2,501)	(25)	(159)	284	(2,401)
Other operating expenses	(5,430)	(251)	(132)	2,480	(3,333)
	(34,552)	**(39,492)**	**(2,819)**	**3,695**	**(73,168)**
EBITDA	**37,354**	**24,561**	**716**	**–**	**62,631**
Depreciation and amortisation	(15,047)	(1,124)	(391)	–	(16,562)
Interest income	2,774	19	627	(2,828)	592
Interest expense	(15,154)	(5,534)	(752)	2,828	(18,612)
Net (losses)/gains from foreign currencies and currency derivatives	(97)	2,129	88	–	2,120
Net non-recurring expense	(877)	(785)	–	–	(1,662)
Profit before income tax expense	**8,953**	**19,266**	**288**	**–**	**28,507**
Income tax expense	(74)	-	(43)	–	(117)
Profit for the period	**8,879**	**19,266**	**245**	**–**	**28,390**

(Thousands of Georgian Lari unless otherwise stated)

4. Segment Information (continued)

Statement of comprehensive income as at 30 June 2017 by segments are presented below:

	Unaudited Period ended 30 June 2017				
	Healthcare Services	***Pharmacy and Distribution***	***Medical Insurance***	***Intersegment transactions and consolidation***	***Total***
Healthcare service revenue	131,665	–	–	(5,509)	126,156
Revenue from pharma	–	222,341	–	(5,764)	216,577
Net insurance premiums earned	–	–	27,375	(343)	27,032
Revenue	**131,665**	**222,341**	**27,375**	**(11,616)**	**369,765**
Cost of healthcare services	(75,429)	–	–	5,004	(70,425)
Cost of sales of pharmaceuticals	–	(169,230)	–	–	(169,230)
Cost of insurance services and agents' commissions	–	–	(25,452)	5,114	(20,338)
Costs of services	**(75,429)**	**(169,230)**	**(25,452)**	**10,118**	**(259,993)**
Gross profit	**56,236**	**53,111**	**1,923**	**(1,498)**	**109,772**
Other operating income	9,742	418	40	(14)	10,186
Salaries and other employee benefits	(15,175)	(19,300)	(2,020)	343	(36,152)
General and administrative expenses	(8,236)	(15,991)	(873)	348	(24,752)
Impairment of healthcare services, insurance premiums and other receivables	(2,013)	(131)	(230)	250	(2,124)
Other operating expenses	(5,440)	(500)	(65)	230	(5,775)
	(30,864)	**(35,922)**	**(3,188)**	**1,171**	**(68,803)**
EBITDA	**35,114**	**17,607**	**(1,225)**	**(341)**	**51,155**
Depreciation and amortisation	(10,713)	(1,176)	(464)	–	(12,353)
Interest income	833	145	245	–	1,223
Interest expense	(7,071)	(6,125)	(661)	–	(13,857)
Net (losses)/gains from foreign currencies and currency derivatives	(500)	1,915	36	–	1,451
Net non-recurring expense	(2,531)	(882)	(198)	341	(3,270)
Profit/(loss) before income tax expense	**15,132**	**11,484**	**(2,267)**	**–**	**24,349**
Income tax benefit (expense)/income	(11)	214	(310)	–	(107)
Profit/(loss) for the period	**15,121**	**11,698**	**(2,577)**	**–**	**24,242**

5. Cash and Cash Equivalents

	Unaudited 30 June 2018	***31 December 2017***
Current and on-demand accounts with banks	13,840	46,068
Cash on hand	2,688	2,772
Total cash and cash equivalents	**16,528**	**48,840**

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 1,564 (2017: GEL 1,513). The requirement of the Insurance State Supervision Service of Georgia ("ISSSG") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to mandatory reserve requirements as defined by the ISSSG regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 803 (2017: GEL 579). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

(Thousands of Georgian Lari unless otherwise stated)

6. Amounts Due from Credit Institutions

	Unaudited 30 June 2018	31 December 2017
Time deposits with banks, foreign currency	6,375	12,748
Time deposits with banks, local currency	3,792	2,020
Total amounts due from credit institutions	**10,167**	**14,768**

As at 30 June 2018, amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) placements with banks and earn annual interest of 0% to 12.75% (2017: 0% to 12.75%). As at 30 June 2018, amounts due from credit institutions include restricted cash of GEL 1,389 (2017: GEL 7,190), of which GEL 1,220 (2017: GEL 2,581) is pledged under currency forward contracts and the remaining GEL 169 (2017: GEL 2,341) is pledged under Guarantees issued by Bank of Georgia.

7. Insurance Premiums Receivables

	Unaudited 30 June 2018	31 December 2017
Insurance premiums receivable from policyholders	33,531	22,562
Less – Allowance for impairment	(2,260)	(2,329)
Total insurance premiums receivables, net	**31,271**	**20,233**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2018 and 31 December 2017.

8. Receivables from Healthcare Services

	Unaudited 30 June 2018	31 December 2017
Receivables from State	97,039	83,202
Receivables from individuals and other	16,599	29,343
Receivables from insurance companies	5,780	5,736
	119,418	**118,281**
Less – Allowance for impairment	(11,810)	(17,337)
Total receivables from healthcare services, net	**107,608**	**100,944**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2018 and 31 December 2017.

The Group has applied 85% effective allowance rate to receivables from individuals. GHG immediately collects 90% of its out-of-pocket revenues and only 10% is converted to receivables. GHG applies 85% effective allowance rate to the uncollected portion of revenues i.e. the 10% of the revenues from individuals.

During the six months period ended 30 June 2018, after performing detailed analysis of recoveries of troubled receivables, the Group wrote-off GEL 13,196 receivables from individuals that were in overdues for more than one year.

9. Property and Equipment

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the land and office buildings and hospitals and clinics pledged as at 30 June 2018 was GEL 398,578 (2017: GEL 397,436). The Group engaged an independent appraiser to determine the fair value of its land and office buildings and hospitals and clinics on 1 October 2017, which is the latest revaluation date. If the land and office buildings and hospitals and clinics were measured using the cost model, the carrying amounts of the buildings as at 30 June 2018 and 31 December 2017 would be as follows:

	Unaudited 30 June 2018	31 December 2017
Cost	454,239	437,890
Accumulated depreciation and impairment	(14,708)	(12,148)
Net carrying amount	439,531	425,742

(Thousands of Georgian Lari unless otherwise stated)

10. Goodwill and Other Intangible Assets

The table below presents carrying values of goodwill by operating segments and other intangible assets:

	Effective annual growth rate in three-year financial budgets	*Pre-tax WACC applied for impairment**	*Unaudited 30 June 2018*	*31 December 2017*
Pharmacy and Distribution Goodwill	4.97%	15.19%	77,755	77,755
Healthcare Services Goodwill	16.53%	15.06%	33,567	33,567
Medical Insurance Goodwill	26.33%	16.12%	3,462	3,462
Total Goodwill			**114,784**	**114,784**
Other Intangible assets**			32,736	28,890
Total Goodwill and Other Intangible Assets			**147,520**	**143,674**

* Post-tax WACC (weighted average cost of capital) comprised approximately 13%

** Net of accumulated amortisation

In performing goodwill impairment testing the following key assumptions were made:

- WACC was used as a discount rate for the forecasted cash flows. WACC was estimated using capital assets pricing model based on the group's shares market beta.
- 2018, 2019 and 2020 years' cash flow projections were modelled applying 4% - 27% growth.

Moderate, stable 4.9% real GDP growth was assumed based on the external statistical forecasts for 2021 and beyond.

For the Healthcare cash generating unit, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Goodwill is tested at the lowest level monitored by management, which is at the operating segment level. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2017. The Group did not identify any impairment of goodwill as at 31 December 2017. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. The Group did not identify any indicators of impairment at at 30 June 2018.

11. Inventory

	Unaudited 30 June 2018	*31 December 2017*
Inventory held by pharmacy and distribution business (FIFO)	98,208	98,938
Inventory held by healthcare business (weighted average cost)	15,974	19,873
Total	**114,182**	**118,811**

12. Prepayments

	Unaudited 30 June 2018	*31 December 2017*
Prepayments for inventory	8,831	13,906
Prepayments for property and equipment	4,241	7,935
Prepayments for claims expense	3,813	3,209
Other prepayments	4,958	5,304
Total prepayments	**21,843**	**30,354**

The prepayments for property and equipment mainly comprise advances for construction activities.

(Thousands of Georgian Lari unless otherwise stated)

13. Other Assets

	Unaudited 30 June 2018	*31 December 2017*
Call Option	11,318	10,106
Receivable from non-controlling interest shareholder	2,128	2,128
Non-medical receivables	1,949	1,626
Lease deposit	1,679	1,774
Prepaid operating taxes	1,643	756
Loans issued	1,387	1,425
Deferred acquisition costs	1,356	1,293
Investment property	397	395
Derivative financial assets	–	130
Other receivables	5,518	5,588
Total other assets, gross	**27,375**	**25,221**
Less – allowance for impairment	(905)	(2,473)
Total other assets, net	**26,470**	**22,748**

As part of JSC ABC Pharmacy acquisition contract the Group has a call option to buy the remaining non-controlling interest, which is a 33% stake in the combined pharmacy and distribution business during the period from 1 January 2023 to 31 December 2023. In accordance with IFRS requirements the Group had recognized a GEL 11,318 asset as at 30 June 2018 (2017: GEL 10,106).

Loans issued as at 30 June 2018 mainly comprise debt securities issued by JSC m2 Real Estate and JSC Crystal. JSC m2 represents related party entity of the Group.

Lease deposit comprises advances paid to a lease contractor on the rent of an ambulatory clinic as at 30 June 2018. Lease payments are netted against the deposited amount upon payment due date. Other receivables mainly comprise rent receivables and receivables from employees.

During the six months period ended 30 June 2018, after performing detailed analysis of recoveries of troubled receivables, the Group wrote-off GEL 1,675 other receivables, namely receivable from doctor penalties, that were in overdues for more than one year and that were 100% provisioned.

14. Insurance Contract Liabilities

	Unaudited 30 June 2018	*31 December 2017*
- Unearned premiums reserve (“UPR”)	26,957	17,851
- Reserves for claims incurred but not reported (“IBNR”)	2,526	2,925
- Reserves for claims reported but not settled (“RBNS”)	1,745	177
Total insurance contracts liabilities	**31,228**	**20,953**

Movements in the insurance contract liabilities during the period can be analysed as follows:

	Unaudited 30 June 2018	*31 December 2017*
At the beginning of the period	**20,953**	**26,787**
Premiums written during the period	33,493	49,220
Premiums earned during the period	(26,414)	(53,741)
Claims incurred during the period	17,790	35,153
Claims paid during the period	(14,594)	(36,466)
At the end of the period	**31,228**	**20,953**

15. Borrowings

	Unaudited 30 June 2018	*31 December 2017*
Borrowings from local financial institutions	142,608	159,683
Borrowings from foreign financial institutions	121,111	100,537
Borrowings from non-controlling interest shareholder of subsidiary	6,155	6,790
Total borrowings	**269,874**	**267,010**

(Thousands of Georgian Lari unless otherwise stated)

15. Borrowings (continued)

In the period ended 30 June 2018 borrowings from local financial institutions had an average interest rate of 10.98% per annum (2017: 10.81%), maturing on average in 1,016 days (2017: 1,081 days). Borrowings from international financial institutions had an average interest rate of 9.55% (2017: 8.76%), maturing in 2,088 days (2017: 2,168 days). Borrowings from non-controlling interest shareholder of subsidiary had an average interest rate of 12.38% (2017: 12.41%), maturing in 258 days (2017: 74 days).Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. As at 30 June 2018 and 31 December 2017, the Group complied with all these lender covenants.

16. Accounts Payable

	Unaudited 30 June 2018	***31 December 2017***
Accounts payable for healthcare materials and supplies	64,355	73,803
Payable for purchase of property and equipment	8,595	4,242
Accounts payable for office supplies	4,480	5,577
Accounts payable to providers	1,425	4,563
Other accounts payable	4,452	4,740
Total accounts payable	**83,307**	**92,925**

17. Debt securities issued

In July 2017 EVEX issued five-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.75% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned on-going capital expenditures. Outstanding balance as at 30 June 2018 equalled GEL 93,487 (2017: GEL 93,493).

18. Payables for Share Acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") are stated at fair value and represent outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries. Payables for business combination is a portion of the total consideration, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) The audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) Material unrecorded liabilities should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than predetermined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination. Payable for share acquisitions comprised:

	Unaudited 30 June 2018	***31 December 2017***
Holdback for the acquisition of ABC	82,541	92,409
LLC Emergency Service	2,850	2,850
JSC Pediatry	347	347
LLC Medical Center Almedi	200	200
LLC New Clinic	115	115
JSC Policlinic Vere	–	1,581
LLC Patgeo	–	756
Total Payables for Share Acquisitions	**86,053**	**98,258**

As at 30 June 2018, GEL 65,068 (2017: GEL 61,512) from JSC ABC holdback amount of GEL 82,541 (2017: 92,409) represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% share based on pre-determined EBITDA multiple (4.5 times EBITDA). The redemption liability is the present value of the expected settlement amount at each reporting period end.

(Thousands of Georgian Lari unless otherwise stated)

19. Other Liabilities

	Unaudited 30 June 2018	*31 December 2017*
Operating taxes payable	5,143	4,767
Insurance claims payable	4,911	2,615
Deferred revenues	4,571	4,138
Dividend payable to non-controlling interest shareholders of subsidiary	2,970	–
Reinsurance payable	2,940	–
Derivative financial liability	2,375	1,091
Provision for ongoing litigation	1,783	1,657
Commissions payable	286	1,293
Other	1,293	350
Total other liabilities	**26,272**	**15,911**

Provisions for ongoing litigation comprise the Group management's estimate of probable losses from litigation with various third parties. Law suits that have more likely a negative than a positive outcome are fully provisioned. Assumptions used to calculate the provision were based on current information available about the court proceedings.

20. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

As at 30 June 2018, the Group had litigation with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 9,859 (2017: GEL 6,631). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Financial commitments and contingencies

	Unaudited 30 June 2018	*31 December 2017*
Capital commitments	6,317	5,550
Operating lease commitments		
- Leases due not later than 1 year	20,101	18,298
- Leases due later than 1 year but not later than 5 years	62,706	71,004
Total minimum operating lease commitments	**82,807**	**89,302**
Total financial commitments	**89,124**	**94,852**

As at 30 June 2018 and 31 December 2017, capital commitments mainly comprised contracts related to the construction of "Megalab" and ambulatory clinics in Georgia. The Group did not have contingent rents or sublease payments. Rent expense recognised during the six month period equalled GEL 9,477 (30 June 2017: GEL 9,747).

21. Equity

Share Capital

Share capital of Georgia Healthcare Group PLC is denominated in GBP and shareholders are entitled to dividends in GBP. No dividends were announced or distributed in the period ended 30 June 2018 or 31 December 2017.

As at 30 June 2018 and 31 December 2017, number of ordinary shares comprised 131,681,820 totaling GEL 4,784 (GBP 1,310).

Treasury Shares

The number of treasury shares held by the Company as at 30 June 2018 was 2,763,916 (2017: 3,379,629). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation.

Additional-paid in Capital

Additional paid-in-capital comprises credits or debits to equity on GHG share-related transactions. Any GHG share-related transaction impact (including share-based compensations) on top of nominal amount of GHG shares (0.01 GBP) is posted in additional paid-in-capital account.

(Thousands of Georgian Lari unless otherwise stated)

21. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and hospitals and clinics and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity. As at 30 June 2018 the revaluation reserve for property and equipment equalled GEL 15,646 (2017: 15,646).

Gains (losses) from sale/acquisition of shares in existing subsidiaries

In 2017, as part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined pharmacy and distribution business to GHG during the period from 1 January 2023 to 31 December 2023. At initial recognition, in accordance with IFRS requirements, the Group recognised GEL 55 million (present value) liability to purchase the remaining 33% shares - included in the payable for share acquisitions caption. The non-controlling interest arising from the consolidated pharmacy and distribution business, GEL 24 million, was fully de-recognised in accordance with IFRS requirements. The difference between the redemption liability of GEL 55 million and the non-controlling interest of GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. The redemption liability is carried at fair value and interest is unwound on each reporting date. The difference between the unwound interest and the share of profit attributable to the non-controlling interest is debited or credited to other reserves to "Acquisition of additional interest in existing subsidiaries" line. Current year change in the balance is attributable to the above contract. The debit to other reserves during six month period ended 30 June 2018 comprised GEL 5,258. As a result, total "Acquisition of additional interest in existing subsidiaries" amounted to GEL 12,761 (2017: GEL 62,026), of which GEL 7,503 was attributable to non-controlling interest shareholders.

As at 30 June 2018, losses from sale/acquisition of shares in existing subsidiaries equalled GEL 47,768 (2017: GEL 42,512).

Retained Earnings

The impact of adoption of IFRS 9, GEL 6,535 was debited to Retained Earnings as at 1 January 2018, the transition date. Refer to Note 3.

Regulatory Capital Requirements

Regulatory capital requirements in Georgia are set by the ISSSG and are applied to Imedi L solely on a stand-alone basis. The ISSSG requirement is to maintain a minimum Capital of GEL 2,200, which should be kept in current accounts. A bank confirmation letter is submitted to ISSSG on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSG regulatory capital requirement.

Earnings per Share

For the purpose of calculating basic earnings per share the Group used profit for the six month period attributable to shareholders of the Company of GEL 18,189 (2017: GEL 15,004) as a numerator and the weighted average number of shares outstanding during the period ended 30 June 2018 of 128,591,923 (2017: 128,091,636) as a denominator. For diluted earnings per share, the Group used the same numerator as for basic earnings per share and used the weighted average number of shares outstanding together with the number of shares granted to management during the period ended 30 June 2018 of 131,681,820 (2017: 131,681,820) as a denominator.

22. Healthcare Service and Pharmacy and Distribution Revenue

	Unaudited Period ended 30 June 2018	*Unaudited Period ended 30 June 2017*
Healthcare services revenue from State (UHC)	100,744	90,641
Healthcare services revenue from out-of-pocket and other	38,634	31,356
Healthcare services revenue from insurance companies	5,992	5,442
Less: Corrections & rebates	(1,780)	(1,283)
Total healthcare services revenue	**143,590**	**126,156**
Retail	185,733	164,083
Wholesale	61,962	52,494
Total revenue from pharmacy and distribution	**247,695**	**216,577**

(Thousands of Georgian Lari unless otherwise stated)

22. Healthcare Service and Pharmacy and Distribution Revenue (continued)

The Group has recognised the following revenue-related contract assets and liabilities:

	Unaudited 30 June 2018	*31 December 2017*
Deferred revenues	4,571	4,138
Receivables from healthcare services	107,608	100,944
Receivables from sale of pharmaceuticals	18,844	19,798

Receivables from healthcare services are recognized when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group recognised GEL 433 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

In period ended 30 June 2018, the Group has recognised the following amounts relating to revenue from contracts with customers in the income statement: Healthcare services revenue of GEL 143,590; revenue from pharmacy and distribution of GEL 247,695; revenue from sale of medicine of GEL 375.

The Group applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, the original expected duration of the underlying contracts is less than one year.

23. Net Insurance Premiums Earned

	Unaudited Period ended 30 June 2018	*Unaudited Period ended 30 June 2017*
Gross premiums written	33,494	30,012
Change in unearned premiums reserve	(7,079)	(2,980)
Total net insurance premiums earned	**26,415**	**27,032**

24. Cost of Healthcare Services and Pharmaceuticals

	Unaudited Period ended 30 June 2018	*Unaudited Period ended 30 June 2017*
Cost of salaries and other employee benefits	(51,544)	(45,654)
Cost materials and supplies	(18,823)	(17,761)
Cost of utilities and other	(6,640)	(6,234)
Cost of providers	(1,483)	(776)
Total cost of healthcare services	**(78,490)**	**(70,425)**
Retail	(138,109)	(123,744)
Wholesale	(53,303)	(45,486)
Total cost of sales of pharmaceuticals	**(191,412)**	**(169,230)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment. Indirect salaries that were not included in the cost of healthcare services in the period ended 30 June 2018 amounted to GEL 41,232 (2017: GEL 36,152) and were presented as a separate line item in profit or loss. The total amount of salaries and other employee benefits recognised as an expense in profit or loss in the period ended 30 June 2018 amounted to GEL 92,776 (2017: GEL 81,806).

25. Cost of insurance services and agents' commissions

	Unaudited Period ended 30 June 2018	*Unaudited Period ended 30 June 2017*
Insurance claims paid	(13,322)	(21,972)
Change in insurance contract liabilities	(4,343)	3,338
Net insurance claims incurred	**(17,665)**	**(18,634)**
Agents, brokers and employee commissions	(1,280)	(1,704)
Cost of insurance services and agents' commissions	**(18,945)**	**(20,338)**

(Thousands of Georgian Lari unless otherwise stated)

26. Other Operating Income

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Trade payables derecognised	2,342	–
Gain from call option	1,212	4,691
Revenue from penalties	758	–
Rental Income	664	932
Revenue from sale of medicaments	375	241
Gain from property and equipment sold	48	98
Gain from lease derecognition	–	2,702
Gain from rent liability derecognition	–	514
Share of profit of associate	–	211
Other	1,547	797
Total other operating income	**6,946**	**10,186**

As part of the ABC acquisition contract aquirer (JSC GEPHA) has a call option to buy the remaining non-controlling interest, which is a 33% stake in the combined pharmacy and distribution business during the period from 1 January 2023 to 31 December 2023. In the period ended 30 June 2018, in accordance with IFRS requirments the Group recognized GEL 1,212 (2017: GEL 4,691) gain from the call option.

In accordance with its accounting policies, the Group has recognized gain from penalties to constructors of GEL 758 in other operating income.

In the period ended 30 June 2018 the Group derecognized trade paybles of GEL 2,342 principally due to expiration of statute of limitations.

In the period ended 30 June 2017, gain from lease derecognition during the prior period includes gain from early redemption of finance lease liability from acquisition of Gldani policlinic building.

27. Salaries and Other Employee Benefits

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Salaries and other benefits	(35,462)	(33,017)
Cash bonuses	(3,687)	(2,673)
Share-based compensation	(2,083)	(462)
Total salaries and other employee benefits	**(41,232)**	**(36,152)**

The average number of full time employees, including those whose salaries are included in the cost of healthcare services and medical trials, in the six month period ended 30 June 2018 equaled 13,985 (2017: 13,785).

28. General and Administrative Expenses

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Ocupancy and rent expense	(9,477)	(9,747)
Marketing and advertising	(2,591)	(3,397)
Office supplies and utility expenses	(2,551)	(1,919)
Professional services	(1,234)	(1,659)
Representative expense	(998)	(899)
Administrative utilities	(951)	(939)
Bank fees and commissions	(899)	(473)
Communication	(875)	(813)
Travel	(523)	(535)
Security	(471)	(382)
Other	(5,632)	(3,989)
Total general and administrative expenses	**(26,202)**	**(24,752)**

In the six month period ended 30 June 2018 and 2017, other general and administrative expenses mainly comprised training, property tax, property insurance, cost of packaging materils and other operating tax expenses.

(Thousands of Georgian Lari unless otherwise stated)

29. Other Operating Expenses

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Repair and maintenance expense	(1,185)	(1,187)
Losses from litigations and penalties	(832)	(2,233)
Cost of realized medicaments	(297)	(197)
Impairment of prepayments	(115)	(225)
Loss from property and equipment sold	(57)	(20)
Impairment of intangible assets	–	(606)
Impairment of property and equipment	–	(295)
Other	(847)	(1,012)
Total other operating expense	**(3,333)**	**(5,775)**

30. Interest Income and Interest Expense

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Interest income		
Interest income from amounts due from credit institutions	493	909
Interest income from loans issued	99	314
Total interest income	**592**	**1,223**
Interest expense		
Interest expense on borrowings	(13,621)	(12,382)
Interest expense on debt securities issued	(4,373)	(1,151)
Interest expense on finance lease	(618)	(324)
Total interest expense	**(18,612)**	**(13,857)**

In the six months period ended 30 June 2018, the amount of borrowing costs capitalised in relation to qualifying items of property and equipment amounted to GEL 867 (30 June 2017: GEL 2,838).

31. Net Non-Recurring Expense

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Net non-recurring expense for the six month period ended 30 June 2018 comprises:

- GEL 783 one-off charity expense;
- GEL 331 prior period related professional service additional billing;
- GEL 184 loss from employee dismissal compensation;
- GEL 364 loss from other individually insignificant transactions;

Net non-recurring expense for the six month period ended 30 June 2017 comprises:

- GEL 1,253 loss from one-off write-off of a loan;
- GEL 699 loss from one-off dismissal compensations to employees;
- GEL 687 loss from loan write-off;
- GEL 200 loss on contract, which was trerminated in Februarry 2017;
- GEL 129 loss from capital reduction;
- GEL 302 loss from other individually insignificant transactions.

Near the end of 2017 the board approved project aimed at cost optimisation. In scope of the project, the Group dismissed number of its employees mainly transferred from acquired entities that resulted in duplicated positions. The project started in 2017 and was mainly completed in the first quarter of 2018.

(Thousands of Georgian Lari unless otherwise stated)

32. Share-based Compensation

In December 2017 the Board of Directors of GHG resolved to award 122,900 ordinary shares of GHG to the CEO of the Group. In December 2017 the Board of Directors of GHG resolved to award 107,200 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 10 December 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 12.54 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2018 no shares have been vested.

In February 2017 the Board of Directors of GHG resolved to award 141,981 ordinary shares of GHG to the CEO of the Group. In February 2017 the Board of Directors of GHG resolved to award 128,070 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 11.68 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2018, one third of the discretionary shares have been vested.

In February 2016, the Board of Directors of GHG resolved to award 237,500 ordinary shares of GHG to the CEO of the Group. In February 2016, the Board of Directors of GHG resolved to award 281,000 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2016 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 6.28 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2018, two thirds of the discretionary shares have been vested. In January 2015, the CEO of the Group and the deputies signed five-year fixed contingent share-based compensation agreements for the total of 1,670,000 ordinary shares of GHG. The total amount of shares allocated to each executive will be awarded in five equal installments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period with 20% of shares vesting during the first three years and 40% of shares vesting during the fourth year. The Group considers 1 January 2015 and 29 April 2015 as the grant dates for the awards to the CEO and deputies respectively. The Group estimates that the fair value of the shares awarded was GEL 2.18 per share as at the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 30 June 2018, 12% of the shares have been vested.

33. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current period, revaluation and other reserves and non-controlling interests. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are as follows:

- To maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders for the insurance arm;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements in Georgia. These requirments impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimum insurance liquidity requirement, to minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the six month period ended 30 June 2018 and year ended 31 December 2017 the Group complied with all regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

The Group's capital management policy for its insurance business is to hold the least required amount of regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSG. The regulations of ISSSG require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued, investment property as well as other financial assets, as defined by ISSSG. The amount of such minimum liquid assets is called the "Statutory Reserve".

(Thousands of Georgian Lari unless otherwise stated)

34. Maturity analysis

The table below analyses assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date their contractual maturities or expected repayment dates.

30 June 2018	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	16,528	–	16,528
Amounts due from credit institutions	10,167	–	10,167
Insurance premiums receivables	31,271	–	31,271
Receivables from healthcare services	96,690	10,918	107,608
Receivables from sales of pharmaceuticals	18,844	–	18,844
Inventory	114,182	–	114,182
Prepayments	17,602	4,241	21,843
Current income tax assets	2,132	–	2,132
Investment in associate	–	2,747	2,747
Property and equipment	–	681,667	681,667
Goodwill and other intangible assets	–	147,520	147,520
Other assets	10,815	15,655	26,470
Total assets	**318,231**	**862,748**	**1,180,979**
Liabilities			
Accruals for employee compensation	24,535	–	24,535
Insurance contract liabilities	31,228	–	31,228
Accounts payable	83,307	–	83,307
Current income tax liabilities	62	–	62
Finance lease liabilities	8,051	–	8,051
Payables for share acquisitions	7,921	78,132	86,053
Borrowings	71,547	198,327	269,874
Debt securities issued	4,476	89,011	93,487
Other liabilities	26,272	–	26,272
Total liabilities	**257,399**	**365,470**	**622,869**
Net position	**60,832**	**497,278**	**558,110**
Accumulated gap	***60,832***	***558,110***	

(Thousands of Georgian Lari unless otherwise stated)

34. Maturity analysis (continued)

31 December 2017	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	48,840	–	48,840
Amounts due from credit institutions	14,768	–	14,768
Insurance premiums receivables	20,233	–	20,233
Receivables from healthcare services	100,944	–	100,944
Receivables from sales of pharmaceuticals	19,798	–	19,798
Inventory	118,811	–	118,811
Prepayments	16,448	13,906	30,354
Current income tax assets	2,026	–	2,026
Investment in associate	–	2,745	2,745
Property and equipment	–	642,859	642,859
Goodwill and other intangible assets	–	143,674	143,674
Other assets	10,309	12,439	22,748
Total assets	**352,177**	**815,623**	**1,167,800**
Liabilities			
Accruals for employee compensation	21,944	–	21,944
Insurance contract liabilities	20,953	–	20,953
Accounts payable	92,925	–	92,925
Current income tax liabilities	72	–	72
Finance lease liabilities	8,834	–	8,834
Payable for share acquisitions	15,946	82,312	98,258
Borrowings	60,696	206,314	267,010
Debt securities issued	4,483	89,010	93,493
Other liabilities	15,911	–	15,911
Total liabilities	**241,764**	**377,636**	**619,400**
Net position	**110,413**	**437,987**	**548,400**
Accumulated gap	***110,413***	***548,400***	

The amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate supported by statistical techniques and past experience. Management believes that the current level of the Group's liquidity is sufficient to meet all its present obligations and settle liabilities in timely manner.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps.

35. Related Party Transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

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(Thousands of Georgian Lari unless otherwise stated)

35. Related Party Transactions (continued)

The volumes of related party transactions, outstanding balances at the period/year end, and related expense and income for the period/year are as follows:

	Unaudited 30 June 2018		31 December 2017	
	Entities under common control*	Other **	Entities under common control*	Other **
Assets				
Cash and cash equivalents	–	–	23,720	–
Amounts due from credit institutions	–	–	6,218	–
Insurance premiums receivable	1,050	–	2,511	–
Other assets: Non-medical receivables	121	–	–	–
Other assets: Investment securities: available-for-sale	627	–	–	–
Other assets: Derivative financial assets	–	–	130	–
Prepayments and other assets	110	2,128	219	2,128
	1,908	**2,128**	**32,798**	**2,128**
Liabilities				
Accounts payable	456	–	650	–
Borrowings	–	6,155	50,975	6,790
Other liabilities: derivative financial liability	261	–	1,091	–
Other liabilities: other	4	–	195	–
	721	**6,155**	**52,911**	**6,790**

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
	Entities under common control*	Entities under common control*
Income and expenses		
Net insurance premiums earned	2,228	1,766
General and administrative expenses	(839)	(712)
Salaries and other employee benefits	(168)	-
Interest income	244	687
Interest expense	(2,926)	(5,567)
Net gains from foreign currencies	(1,066)	4,272
Other operating expenses	-	(457)
Other operating income	133	-
Cost of healthcare services and medical trials	(749)	(476)
Non-recurring expense	(61)	-
	(3,204)	**(487)**

* *Entities under common control include subsidiaries of Georgia Capital Group PLC since 30 May 2018 and subsidiaries of BGEO Group PLC before 29 May 2018 inclusively;*

** *Other comprise non-controlling shareholders in GNCo and LLC Deka;*

Compensation of key management personnel comprised the following:

	Unaudited Period ended 30 June 2018	Unaudited Period ended 30 June 2017
Salaries and cash bonuses	3,856	3,327
Share-based compensation	1,886	1,826
Total key management compensation	**5,742**	**5,153**

(Thousands of Georgian Lari unless otherwise stated)

36. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. They also include a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

(Unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total fair value 30-Jun-2018*	*Carrying value 30-Jun-2018*	*Unrecognised gain (loss) 30-Jun-2018*
Assets measured at fair value						
Property and equipment	–	–	454,933	**454,933**	454,933	–
Other assets: call option	–	–	11,318	**11,318**	11,318	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	16,528	-	**16,528**	16,528	–
Amounts due from credit institutions	–	–	10,167	**10,167**	10,167	–
Receivables from healthcare services	–	–	107,608	**107,608**	107,608	–
Receivables from sales of pharmaceuticals	–	–	18,844	**18,844**	18,844	–
Other assets: loans issued and lease deposit	–	–	3,066	**3,066**	3,066	–
Other assets: non-medical receivables	–	–	1,949	**1,949**	1,949	–
Liabilities measured at fair value						
Payable for share acquisition	–	–	86,053	**86,053**	86,053	–
Other liabilities: derivative financial liability	–	–	2,375	**2,375**	2,375	–
Liabilities for which fair values are disclosed						
Finance lease liability	–	–	8,060	**8,060**	8,051	9
Borrowings	–	–	270,165	**270,165**	269,874	291
Debt securities issued	–	–	95,135	**95,135**	93,487	1,648

The Group only carries land and office buildings at fair value (level 3). Refer to Note 9. The following is a description of the determination of fair value for financial instruments and property that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Property and equipment

Property carried at fair value consists of land and buildings and hospitals and clinics, for which fair value is derived by certain inputs that are not based on observable market data. The value of these assets is measured using the market and depreciated replacement cost (DRC) approaches. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively, while DRC approach uses construction costs for similar properties.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique employs a discounted forward pricing model. The model incorporates various inputs including the foreign exchange spot and forward rates. Call option represents option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC Gepha. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of parent company's market capitalisation from 1 January 2013 till 31 December 2017 period, which equalled 34.7%. If the volatility was 10% higher, fair value of call option would increase by GEL 2,012 if volatility was 10% lower call option value would decrease by GEL 2,035. The Group recognised GEL 1,212 unrealised gains on the call option during the six month period ended 2018.

(Thousands of Georgian Lari unless otherwise stated)

36. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Impact of changes in key assumptions on fair value of level 3 assets measured at fair value

Level 3 property at fair value

Property and equipment	30 June 2018 Unaudited	*Valuation technique*	*Significant unobservable inputs*	*Range*	*Other key information*	*Range*	*Sensitivity of the input to fair value*
Land and office buildings	**24,614**	Market approach	Price per square meter, land, building	5-2,284	Square meters, building	123-1,770	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Hospitals and clinics	**430,319**	Market and DRC approaches	Price per square meter, land, building	3-1,106	Square meters, building	151-30,700	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximates their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

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
- Organic growth – percentage increase in healthcare service revenue, excluding growth derived from any acquisitions during a given period
- EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income
- EBITDA margin equals EBITDA divided by gross revenue excluding corrections and rebates
- The Group's rent expense comprises of operating lease contracts
- The Group's maintenance capital expenditure are short-term expenditures
- The Group's expansion capital expenditures are longer term by nature and include acquisition of properties with longer useful lives
- Net Debt to EBITDA equals Borrowings less Cash and bank deposits divided by EBITDA
- Earnings per share (EPS) equals profit for the period / net profit attributable to shareholders of the Company divided by weighted average number of shares outstanding during the same period
- Bed occupancy rate is calculated by dividing the number of total inpatient nights by the number of bed days (number of days multiplied by number of beds, excluding emergency beds) available during the year
- Average length of stay is calculated as number of inpatient days divided by number of patients. This calculation excludes data for the emergency department
- Renewal rate is calculated by dividing number of clients who renewed insurance contracts during given period by total number of clients
- Commission ratio equals agents, brokers and employee commissions divided by net insurance premiums earned
- Loss ratio is defined as net insurance claims divided by net insurance revenue
- Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue
- Combined ratio is the sum of loss ratio and expense ratio
- Day's sales outstanding ratio ("**DSO**") equals receivables from sales of pharmaceuticals divided by wholesale revenue of pharmacy and distribution, multiplied by number of days in a given period
- Revenue cash conversion equals revenue received from all business lines divided by net revenue.
- EBITDA cash conversion cycle equals Net cash flows from / (used in) operating activities before income tax divided by EBITDA
- Other operating income is presented on a net basis and is derived from financial statements after subtracting other operating expense
- Net interest income (expense) and cost of currency derivatives includes interest expense as well as cost of currency derivatives as presented in the financial statements
- ROIC is calculated as EBITDA minus depreciation, plus interest income divided by aggregate amount of total equity and borrowed funds.

COMPANY INFORMATION

Georgia Healthcare Group PLC

Registered Address
84 Brook Street
London W1K 5EH
United Kingdom
ghg.com.ge
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Incorporation date: 27 August 2015

Stock Listing
London Stock Exchange PLC's Main Market for listed securities
Ticker: "GHG.LN"

Contact Information
Georgia Healthcare Group PLC Investor Relations
Telephone: +44 (0) 20 3178 4033; +995 322 444 205
E-mail: ir@ghg.com.ge
ghg.com.ge

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY
United Kingdom

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
United Kingdom