2nd quarter and half-year 2017 Results

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

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Forward looking statements

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; clinical and medical risk; concentration of revenue and the Universal Healthcare Programme; exchange rate fluctuations, including depreciation of the Georgian Lari; information technology and operational risk; macroeconomic 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 2016 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 2017 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 2Q17 and 1H17 consolidated results, reporting a half year profit of GEL 24.2 million (US$10.1 million/GBP 7.8 million) and earnings per share ("**EPS**") of GEL 0.12 (US$0.05 per share/GBP 0.04 per share).

GEL million; unless otherwise noted	**2Q17**	**Change, Y-o-Y**	**Change, Q-o-Q**	**1H17**	**Change, Y-o-Y**
GHG – *the leading integrated player in the Georgian healthcare ecosystem*					
Revenue	184.6	81.6%	-1.0%	371.0	112.9%
EBITDA	26.1	54.6%	4.1%	51.2	50.4%
Profit before tax	11.3	79.8%	-13.5%	24.3	44.9%
EPS, GEL	0.05	-2.7%[1]	-2.1%	0.12	-3.6%[1]
ROAE normalised[2]	9.7%	-3.2%[3]	-1.5%	11.4%	-2.8%[3]
Healthcare services business					
Revenue	66.6	13.3%	0.4%	132.9	11.5%
Gross profit	28.3	6.1%	1.2%	56.2	4.7%
EBITDA	18.3	6.6%	8.8%	35.1	0.4%
EBITDA margin *(%)*	27.5%	-1.7 ppts	2.1 ppts	26.4%	-2.9 ppts
Profit before tax	7.9	-8.8%	10.7%	15.1	-21.9%
Pharma business[4]					
Revenue	110.9	261.5%	-0.4%	222.3	624.5%
Revenue from retail sales	82.5	257.5%	-3.2%	167.7	627.1%
Gross profit	26.1	363.8%	-3.2%	53.1	NMF
Gross profit margin *(%)*	23.5%	5.2 ppts	-0.7 ppts	23.9%	5.5 ppts
EBITDA	8.9	NMF	2.7%	17.6	NMF
EBITDA margin *(%)*	8.0%	6.2 ppts	0.2 ppts	7.9%	6.1 ppts
Profit before tax	4.5	NMF	-35.0%	11.5	NMF
Medical insurance business					
Net insurance premiums earned	13.4	-12.3%	-4.0%	27.4	-6.0%
Loss ratio *(%)*	89.0%	4.0 ppts	4.4 ppts	86.8%	1.1 ppts
Expense ratio *(%)*	18.6%	-3.1 ppts	-1.6 ppts	19.4%	-1.6 ppts
Combined ratio *(%)*	107.6%	0.9 ppts	2.9 ppts	106.2%	-0.5 ppts
EBITDA	(0.8)	-6.1%	75.9%	(1.2)	-20.0%
Loss before tax	(1.2)	-41.9%	8.4%	(2.3)	4.0%

[1] Comparison on a normalised basis – 2Q16 and 1H16 Earnings per share (EPS) is calculated as adjusted net profit - 2Q16 and 1H16 net profit was normalised and adjusted for one-off non-recurring gain due to deferred tax adjustments (in the amount of GEL 29.3 million for GHG, which fully resulted from the Group's healthcare services business) and adjusted for one-off currency translation loss in June ("translation loss") (in the amount of GEL 2.1 million), which resulted from settlement of the US Dollar denominated payable for the acquisition of GPC, the Group's pharma business - divided by weighted average number of shares outstanding during the same period.

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

[3] Comparison on a normalised basis - 2Q16 and 1H16 Return on equity (ROAE) is calculated on adjusted net profit (explained in footnote 1)

[4] We entered into the pharma business and started consolidating GPC's results from May 2016 and Pharmadepot's results from January 2017. Thus 2Q16 and 1H16 pharma business results only includes GPC's figures for May-June period only

CHIEF EXECUTIVE OFFICER STATEMENT

Both Georgia Healthcare Group and the wider Georgia Healthcare system are in a strong period of growth and evolution. Georgia Healthcare Group, in particular, is in a significant business roll-out phase in a number of key areas and, in the first half of 2017, has continued to make strong progress in integrating recent acquisitions and delivering key organic growth priorities such as the Sunstone and Deka hospital redevelopment projects. All this has been achieved whilst continuing to adapt to changes in Georgia's Universal Healthcare Programme ("**UHC**") and seeking to develop a more diverse stream of revenues, particularly in the pharma and Polyclinic businesses. For the first half of 2017, EBITDA of GEL 51.2 million represented a 50.4% increase half-on-half. In the second quarter of 2017, Group EBITDA totalled GEL 26.1 million, an increase of 54.6% year-on-year and 4.1% quarter-on-quarter.

Over the next few years in our healthcare services business, we aim to achieve one-third market share by hospital beds, invest to close existing medical service gaps, and deliver a rapid launch of Polyclinics in the highly fragmented and underpenetrated outpatient market. In pharma, our newest business area, we aim to achieve more than 30% market share by revenue whilst improving the EBITDA margin to more than 8%.

In the **healthcare services** business, our referral hospitals continued to deliver double-digit organic revenue growth during the first half of the year, at the same time as continuing to invest significantly in our two Tbilisi hospital redevelopment projects - Sunstone and Deka - and a number of modernisation programmes. The first phase of Sunstone opened in April 2017, two months ahead of schedule, and the 220 newly renovated beds are already enabling a population of over one million in east Tbilisi and in East Georgia to get access to significantly improved healthcare services closer to their home. Following the April opening of Sunstone, it was pleasing to see strong levels of bed occupancy in the first two months build to 26.4% in June 2017. The first phase of Deka, the diagnostics centre, was opened in the second half of 2016, and we expect to complete the full launch of Deka as a 320 bed multi-profile flagship hospital by the end of 2017. The impact of these redevelopment projects reduced the healthcare services EBITDA margin to 25.3% in the first quarter of 2017, but this has already started to recover towards our targeted 30%. In the second quarter of 2017 the EBITDA margin increased by 220 basis points to 27.5%.

The Government's UHC continues to be the main contributor to the Group's healthcare services revenues, although we are actively seeking to further diversify our sources of revenues and to reduce reliance on Government funded programmes. There have been a number of recent changes to the UHC which are leading to a slight switch towards payment for services for lower income patients, compared with hospital services for higher-earning patients, as well as a move to increase the level of co-payment for elective services for patients in the middle-income category. In addition, the Government has also recently introduced a revised reimbursement mechanism for the provision of intensive care services, which is likely to reduce reimbursement for these facilities.

In July 2017, we acquired two community hospitals in the Khashurui and Qareli regions, which will add an additional 90 beds to our portfolio. These acquisitions support our plans to expand our presence throughout Georgia, particularly in the country's under-represented regions, and expand the catchment areas of our key referral hospitals.

In addition, we are continuing our programme of launching new medical services in our referral hospitals and in 2017 plan to launch over 60 new services across 14 different hospitals. During the first half of 2017, we completed the launch of 21 new services, as part of our desire to close medical service gaps in the country.

We continue to make progress in the development of a nationwide chain of Polyclinics to provide quality outpatient services to a much larger part of Georgia's population and, at the end of the half year, had 13 district Polyclinics and 24 express Polyclinics in operation. Revenues from Polyclinics increased by 43.8% in the first half of 2017, compared to the first half of 2016. We are also currently experiencing a rapid increase in customer footfall into our Polyclinic network, with average footfall increasing by nearly 40% over the last two months. The Polyclinic EBITDA margin was 15.2% in the first half of 2017, reflecting the impact of the rapid roll-out, and we expect this margin to increase to more than 30% after the roll-out phase is completed towards the end of 2018.

In the **pharma business**, the Group has now largely completed the integration of the Pharmadepot and GPC chains of pharmacies. We now have 247 pharmacies in a country-wide distribution network, which also includes 21 pharmacies located in our hospitals and clinics.

Our key focus during the first half of 2017 was to ensure the full integration of the two pharmacies with as little business disruption as possible. This has been successfully achieved and has included the integration of the both pharmacies' customer software during the second quarter. There was some minor disruption in 2Q but we have now completed the integration and the combined customer software is fully operational. The process of eliminating unnecessary costs is ongoing and we remain on track to deliver all initially expected cost savings and revenue enhancements. As a result of this progress, the pharma business achieved a second quarter EBITDA margin of 8.0%, close to our medium-term target of more than 8%.

Going forward, the strong performance of the combined pharma business will be an important growth opportunity for the Group and allow us to further diversify our earnings profile.

Our **medical insurance business** had started to make progress towards stabilising its earnings, following the expiration of its loss-making contract with the Ministry of Defence in January 2017. Recent changes in the Government's UHC programme, that redefined UHC coverage eligibility criteria for certain citizens based on their income level, has however led to an increase in the cost of insuring those individuals that are no longer covered by UHC. As a result of these increased claims, a number of insurance contracts became uneconomic and the medical insurance business continued to generate negative EBITDA in the first half of 2017. Consequently, the business has been through a process of either renegotiating specific contracts or terminating contracts that were likely to remain loss-making, resulting in EBITDA breaking even in July 2017. Notwithstanding these adjustments following the changes in UHC coverage, we continue to expect the medical insurance business to reach its 2018 targets of a loss ratio less than 80%, and a c.14% expense ratio (excluding commissions).

More importantly, our insurance business provides a strong feeder role in originating and directing patients to our healthcare facilities, mainly to Polyclinics and pharmacies, and we continue to improve the ratio of medical insurance claims retained within the Group. In the second quarter of 2017, 38.1% of medical expense claims were retained within the Group, compared to 35.6% in the first quarter of the year.

The structure of the UHC continues to evolve and the healthcare services business is continuing to adapt to reflect these changes, whilst continuing to prioritise efforts to broaden the source of revenues throughout the business, through elective care services which are largely funded out-of-pocket, and reduce reliance on the UHC. In the short-term however recent changes to the UHC are likely to reduce Group revenues during the year by c.GEL5-6 million. Georgia Healthcare Group however is the clear market leader in this fast-evolving healthcare system, and remains firmly on track to deliver on its key priorities, in particular to more than double 2015 healthcare services revenues by 2018, whilst achieving a more than 30% EBITDA margin. The Group has two significant major hospital redevelopments being completed during 2017, and both Sunstone and Deka will provide substantial earnings impetus over the next few years. In addition, the successful integration of the Group's pharma businesses has created a combined business with a 29% market share and significant opportunities to improve cross-selling, particularly to Polyclinics, to develop customer loyalty and achieve further margin improvement. We remain well positioned to deliver further progress in the second half of 2017 and beyond.

Nikoloz Gamkrelidze, CEO of Georgia Healthcare Group PLC

DISCUSSION OF GROUP RESULTS

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest integrated player in the fast-growing predominantly privately-owned Georgia Healthcare ecosystem of GEL 3.4 billion aggregated value. GHG is comprised of three main business lines: healthcare services business (consisting of hospital business and ambulatory business "Polyclinics"), pharma business and medical insurance business.

***GHG is the single largest market participant in healthcare services industry in Georgia**, accounting for 24.6% of total hospital bed capacity of the country, as of 30 June 2017. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting the mass market segment, through its vertically integrated network of hospitals and Polyclinics (outpatient clinics). In 2Q17 we operated with 35 hospitals with a total of 2,731 beds, including 15 referral hospitals with a total of 2,266 beds, which provide secondary or tertiary level healthcare services and 20 community hospitals with a total of 465 beds, which provide basic outpatient and inpatient healthcare services. We operated with ten Polyclinic clusters consisting of 13 district Polyclinics and 24 express outpatient clinics, which provide outpatient diagnostic and treatment services. These clinics are located in Tbilisi and major regional cities.*

***GHG is the largest pharmaceuticals retailer and wholesaler in Georgia**, with approximately 29% market share by revenue. We entered into the pharma business in 2016 and expanded in 2017, by purchasing the third and fourth largest pharmaceuticals retailers and wholesalers in Georgia in May 2016 and January 2017, respectively. GHG's two pharmacy chains have now been merged but, operate under the separate brand names **Pharmadepot** and **GPC**. Our combined pharma business has 247 pharmacies, of which 24 also have express outpatient clinics. The number of our pharmacies located at our hospitals is 21.*

***GHG is also the largest provider of medical insurance in Georgia** with a 30.9% market share based on 1Q17 net insurance premiums. Our medical insurance business consists of private medical insurance operations in Georgia, providing medical insurance products to corporate and retail clients. We have a wide distribution network and offer a variety of medical insurance products primarily to the Georgian corporates and also to retail clients. We had approximately 135,000 persons insured as at 30 June 2017. The medical insurance business plays an important role in our business model, as it is a significant feeder for our pharma business and healthcare services business, particularly for the Polyclinics (outpatient clinics), and we believe that role will grow in the future as we roll-out our Polyclinic growth strategy.*

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Revenue, gross	**184,601**	**101,673**	**81.6%**	**186,447**	**-1.0%**	**371,048**	**174,249**	**112.9%**
Corrections & rebates	(660)	(724)	-8.8%	(623)	5.9%	(1,283)	(1,134)	13.1%
Revenue, net	**183,941**	**100,949**	**82.2%**	**185,824**	**-1.0%**	**369,765**	**173,115**	**113.6%**
Revenue from healthcare services	65,940	58,055	13.6%	65,725	0.3%	131,665	118,096	11.5%
Revenue from pharma	110,942	30,691	NMF	111,399	-0.4%	222,341	30,691	NMF
Net insurance premiums earned	13,410	15,298	-12.3%	13,965	-4.0%	27,375	29,128	-6.0%
Eliminations	(6,351)	(3,095)	105.2%	(5,265)	20.6%	(11,616)	(4,800)	142.0%
Costs of services	**(130,247)**	**(67,395)**	**93.3%**	**(129,746)**	**0.4%**	**(259,993)**	**(111,546)**	**133.1%**
Cost of healthcare services	(37,652)	(31,399)	19.9%	(37,777)	-0.3%	(75,429)	(64,397)	17.1%
Cost of pharma	(84,822)	(25,059)	NMF	(84,408)	0.5%	(169,230)	(25,059)	NMF
Cost of insurance services	(12,718)	(13,989)	-9.1%	(12,734)	-0.1%	(25,452)	(26,836)	-5.2%
Eliminations	4,945	3,052	62.0%	5,173	-4.4%	10,118	4,746	113.2%
Gross profit	**53,694**	**33,554**	**60.0%**	**56,078**	**-4.3%**	**109,772**	**61,569**	**78.3%**
Salaries and other employee benefits	(18,424)	(9,229)	99.6%	(17,728)	3.9%	(36,152)	(16,152)	123.8%
General and administrative expenses	(11,400)	(6,705)	70.0%	(13,352)	-14.6%	(24,752)	(9,268)	167.1%
Impairment of receivables	(1,003)	(1,236)	-18.9%	(1,121)	-10.5%	(2,124)	(2,216)	-4.2%
Other operating income	3,229	497	549.7%	1,182	173.2%	4,411	78	NMF
EBITDA	**26,096**	**16,882**	**54.6%**	**25,059**	**4.1%**	**51,155**	**34,011**	**50.4%**
Depreciation and amortisation	(6,481)	(4,581)	41.5%	(5,872)	10.4%	(12,353)	(9,046)	36.6%
Net interest expense	(7,828)	(3,469)	125.7%	(7,119)	10.0%	(14,947)	(5,125)	191.6%
Net gains/(losses) from foreign currencies	986	(1,964)	-150.2%	2,778	-64.5%	3,764	(2,224)	NMF
Net non-recurring income/(expense)	(1,478)	(586)	152.2%	(1,792)	-17.5%	(3,270)	(816)	NMF
Profit before income tax expense	**11,295**	**6,282**	**79.8%**	**13,054**	**-13.5%**	**24,349**	**16,800**	**44.9%**
Income tax benefit/(expense)	(88)	26,920	-100.3%	(19)	NMF	(107)	28,425	NMF
of which: Deferred tax adjustments	-	*27,113*		-			*29,311*	
Profit for the period	**11,207**	**33,202**	**-66.2%**	**13,035**	**-14.0%**	**24,242**	**45,225**	**-46.4%**
Attributable to:								
- shareholders of the Company	6,172	27,755	-77.8%	8,832	-30.1%	15,004	37,676	-60.2%
- non-controlling interests	5,035	5,447	-7.6%	4,203	19.8%	9,238	7,549	22.4%
of which: Deferred tax adjustments	-	*4,705*		-		-	*5,057*	

Revenue. We delivered quarterly revenue of GEL 184.6 million, up 81.6% y-o-y and down 1.0% q-o-q. The quarterly and half year y-o-y growth was mainly attributable to the pharma business consolidation since May 2016, followed by the growth in healthcare services business, up 13.3% and up 11.5% respectively. The decrease in net insurance premiums earned reflects the expiration of the loss-making contract with the Ministry of Defence in January 2017.

The Group has further diversified its revenue by payment sources as a result of a higher proportion of pharma business revenues, which are funded largely out-of-pocket. In the first half of 2017, 34% of the Group's revenue came from the healthcare services business, 59% came from the pharma business and the remaining 7% came from the medical insurance business. This translated into the Group's total revenue from out of pocket payments being c.55%[5], from Government (UHC) c.23% and from other sources c.22%.

Gross Profit. The Group reported gross profit of GEL 53.7 million in 2Q17, up 60.0% y-o-y and down 4.3% q-o-q, and GEL 109.8 million in 1H17, up 78.3% y-o-y. The gross margin for our healthcare services business increased (up 40 bps q-o-q), which is a result of our efforts towards increasing the utilisation of our healthcare facilities through elective care services, and realising further cost synergies. The gross margin in the pharma business was slightly reduced q-o-q as a result of an increased cost of goods sold. As anticipated, the recent launches of two large hospitals in Tbilisi together with a number of new medical services have temporarily reduced our healthcare services business margins, as they are currently in their initial roll-out phase. From 2Q17 the gross margin for healthcare services started to improve gradually and we expect this trend to continue. The gross margin in the pharma business was temporarily reduced in April as a result of an increased cost of goods sold, caused by the impact of previously purchased inventory at a higher foreign currency exchange rate. In May and June, this impact unwound and the gross margin returned to its normal level.

EBITDA. We reported record EBITDA of GEL 26.1 million (up 54.6% y-o-y and up 4.1% q-o-q) and GEL 51.2 million (up 50.4% y-o-y) for 2Q17 and 1H17, respectively. The healthcare services business was the main contributor to the Group's 2Q17 EBITDA, contributing 69% in total. The pharma business achieved an 8.0% EBITDA margin and we are fully on track to deliver our goal of a more than 8% EBITDA margin in the pharma business. The healthcare services EBITDA margin started to improve gradually, up by 210 bps q-o-q (with positive operating leverage at 11.4 percentage points q-o-q) and we expect further margin increases going forward.

Profit. The Group's profit totaled GEL 11.2 million in 2Q17 (up 39.2% y-o-y on a normalised[6] basis and down 14.0% q-o-q) and GEL 24.2 million in 1H17 (up 33.7% y-o-y on a normalised basis[6]). The healthcare services business was the main driver of the 2Q17 Group profit, contributing GEL 7.9 million, followed by the pharma business which contributed GEL 4.7 million. This profit was partially offset by the loss of GEL 1.5 million reported by the medical insurance business.

Depreciation and amortisation. The growth in the Group's depreciation and amortisation reflects two main factors: 1) continued sizeable development projects and our active investing phase in healthcare facilities throughout the first half of 2017; and 2) consolidation of the pharma business entities. The q-o-q increase is fully attributable to the launch of the Sunstone hospital, which added to the depreciation of the Group from April 2017.

Financing costs. The increase in interest expense on a y-o-y basis is due to three main factors: 1) *Lower base in 2016.* At the end of 2015 and the beginning of 2016, the Group prepaid local banks debt to utilise the available cash post-IPO, subsequently realising significant savings in interest expense throughout 2016. From the second half of 2016 and in the first quarter of 2017 the Group sourced longer-term and less expensive funding from both local commercial banks and Development Financial Institutions ("**DFIs**") and used the proceeds for the development of healthcare facilities; 2) The first tranche of consideration payable for the Pharmadepot acquisition, which was funded through GEL 33.0 million raised from a local commercial bank at the beginning of 2017; and 3) Recognised interest expense of GEL 0.9 million, due to the unwinding of a discount resulting from the remaining consideration payable (in the amount of US$13.0 million) to Pharmadepot's former selling shareholders as part of total purchase price, payment of which will be carried out over the next five years. Discounted present value accounting is an IFRS requirement and does not result in actual cash outflow.

[5] Includes: healthcare services out of pocket revenue and pharma and medical insurance businesses revenue from retail
[6] Normalised as explained in footnote 1 on page 4

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**30-Jun-17**	**30-Jun-16**	**Change, Y-o-Y**	**31-Mar-17**	**Change, Q-o-Q**
Total assets, of which:	**1,065,527**	**814,089**	**30.9%**	**1,109,533**	**-4.0%**
Cash and bank deposits	37,052	26,395	40.4%	100,229	-63.0%
Receivables from healthcare services	96,784	70,398	37.5%	90,142	7.4%
Receivables from sale of pharmaceuticals	15,550	6,110	154.5%	15,499	0.3%
Insurance premiums receivable	26,936	34,275	-21.4%	29,773	-9.5%
Property and equipment	612,159	501,739	22.0%	608,429	0.6%
Goodwill and other intangible assets	124,490	64,733	92.3%	118,781	4.8%
Inventory	107,169	42,470	152.3%	96,750	10.8%
Prepayments	25,350	49,074	-48.3%	35,799	-29.2%
Other assets	20,037	18,895	6.0%	14,131	41.8%
Total liabilities, of which:	**530,879**	**306,861**	**73.0%**	**588,612**	**-9.8%**
Borrowed funds	280,483	141,257	98.6%	321,091	-12.6%
Accounts payable	87,691	52,582	66.8%	94,125	-6.8%
Insurance contract liabilities	26,429	32,941	-19.8%	28,013	-5.7%
Other liabilities	136,276	80,081	70.2%	145,383	-6.3%
Total shareholders' equity attributable to:	**534,648**	**507,228**	**5.4%**	**520,921**	**2.6%**
Shareholders of the Company	*471,491*	*455,824*	*3.4%*	*463,369*	*1.8%*
Non-controlling interest	*63,157*	*51,404*	*22.9%*	*57,552*	*9.7%*

The 30.9% y-o-y growth in total assets reflects the significant investments in hospital renovations, Polyclinic roll-outs and the consolidation of the two pharma business acquisitions.

- The q-o-q reduction in cash and bank deposits is due to ongoing funding of development projects as well as repayment of GEL 34.6 million in high yielding local currency bonds that matured in 2Q17.
- The significant increases in both inventory and goodwill stem from the consolidation of the acquired pharma businesses, which make up GEL 92.2 million and GEL 77.8 million of the respective totals in these assets as at the end of 2Q17.
- Borrowed funds have increased y-o-y as a result of the drivers explained above. The reduction in borrowed funds in 2Q17 is due to the maturity of local currency bonds.
- The y-o-y increase in accounts payable is also attributable to consolidating the pharma business. Out of the GEL 87.7 million accounts payable balance, GEL 58.0 million relates to the pharma business.

DISCUSSION OF SEGMENT RESULTS

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

Discussion of Healthcare Services Business Results

Income Statement, healthcare services business

GEL thousands; unless otherwise noted	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Healthcare service revenue, gross	**66,600**	**58,779**	**13.3%**	**66,348**	**0.4%**	**132,948**	**119,230**	**11.5%**
Corrections & rebates	(660)	(724)	-8.8%	(623)	5.9%	(1,283)	(1,134)	13.1%
Healthcare services revenue, net	**65,940**	**58,055**	**13.6%**	**65,725**	**0.3%**	**131,665**	**118,096**	**11.5%**
Costs of healthcare services	**(37,652)**	**(31,399)**	**19.9%**	**(37,777)**	**-0.3%**	**(75,429)**	**(64,397)**	**17.1%**
Gross profit	**28,288**	**26,656**	**6.1%**	**27,948**	**1.2%**	**56,236**	**53,699**	**4.7%**
Salaries and other employee benefits	(7,996)	(5,254)	52.2%	(7,179)	11.4%	(15,175)	(11,369)	33.5%
General and administrative expenses	(4,154)	(3,517)	18.1%	(4,082)	1.8%	(8,236)	(5,479)	50.3%
Impairment of receivables	(1,033)	(1,120)	-7.8%	(980)	5.4%	(2,013)	(1,978)	1.8%
Other operating income	3,190	395	NMF	1,112	186.9%	4,302	115	NMF
EBITDA	**18,295**	**17,160**	**6.6%**	**16,819**	**8.8%**	**35,114**	**34,988**	**0.4%**
EBITDA margin	***27.5%***	***29.2%***		***25.3%***		***26.4%***	***29.3%***	
Depreciation and amortisation	(5,774)	(4,121)	40.1%	(4,939)	16.9%	(10,713)	(8,382)	27.8%
Net interest income (expense)	(4,435)	(2,999)	47.9%	(4,116)	7.8%	(8,551)	(5,258)	62.6%
Net gains/(losses) from foreign currencies	1,118	(1,711)	NMF	695	60.9%	1,813	(2,122)	NMF
Net non-recurring income/(expense)	(1,255)	387	NMF	(1,276)	-1.6%	(2,531)	157	NMF
Profit before income tax expense	**7,949**	**8,716**	**-8.8%**	**7,183**	**10.7%**	**15,132**	**19,383**	**-21.9%**
Income tax benefit/(expense)	-	26,619	NMF	(11)	-100.0%	(11)	28,105	NMF
of which: Deferred tax adjustments	-	*27,113*		-		-	*29,311*	
Profit for the period	**7,949**	**35,335**	**-77.5%**	**7,172**	**10.8%**	**15,121**	**47,488**	**-68.2%**
Attributable to:								
- shareholders of the Company	5,636	29,888	-81.1%	5,764	-2.2%	11,400	39,939	-71.5%
- non-controlling interests	2,313	5,447	-57.5%	1,408	64.3%	3,721	7,549	-50.7%
of which: Deferred tax adjustments	-	*4,705*		-		-	5,057	

Healthcare services business revenue[7]

Our healthcare services business recorded quarterly revenue of GEL 66.6 million (up 13.3% y-o-y and up 0.4% q-o-q) and 1H17 revenue of GEL 132.9 million (up 11.5% y-o-y). The healthcare services business revenue growth was fully organic.

Revenue by types of healthcare facilities

(GEL thousands, unless otherwise noted)	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Healthcare services revenue, net	**65,940**	**58,055**	**13.6%**	**65,725**	**0.3%**	**131,665**	**118,096**	**11.5%**
Referral hospitals	57,358	49,667	15.5%	56,446	1.6%	113,804	101,693	11.9%
Community hospitals	4,876	5,389	-9.5%	5,661	-13.9%	10,537	11,309	-6.8%
Polyclinics (outpatient clinics)	3,706	2,999	23.6%	3,618	2.4%	7,324	5,094	43.8%

The y-o-y increase in revenue from referral hospitals was driven by strong demand for current services at our existing facilities, as well as the renovation of our facilities and the launch of new medical services**.** Our renovation

[7] In prior quarter financial statements, the Group included revenue from sale of blood in healthcare services revenue. The Group reconsidered the presentation and decided that revenues from sale of blood should be included in other operating income rather than revenues (1H17 - GEL 428,000). The presentation of previous quarter comparative figures has been adjusted accordingly to conform to the presentation of the current quarter amounts.

projects and our new services are described below under "Operating performance highlights and notable developments in 2Q17".

In 1H17, referral hospitals contributed 86% to total revenue from our healthcare services. We expect a significant portion of the future growth of our healthcare services revenue to come from referral hospitals, in line with our strategy to improve the quality of care throughout the country by further investing in facilities and developing new, high-quality elective care services in Georgia, to cover existing service gaps.

Effective from May 2017, the Government introduced a revised reimbursement mechanism relating to the provision of intensive care, reducing the Universal Healthcare Programme ("**UHC**") reimbursement of these services. We estimate that the revised level of reimbursement could reduce revenues by approximately GEL 3-4 million in 2017, which will partially offset some of the growth we had planned for this year, especially for our referral hospitals.

In 1H17 community hospitals contributed 8% to total revenue from healthcare services. Community hospitals play a feeder role for the referral hospitals, so we expect their revenue growth to be slower compared to the growth of referral hospital revenue. The decrease in community hospitals revenue y-o-y and q-o-q is attributable to another of the Government's new initiatives, also effective from May 2017, which introduced income level criteria for UHC coverage eligibility. The new initiative established co-payments on certain urgent and outpatient services for mid-level citizens, causing revenue from community hospitals to decrease. For more details regarding the new initiative please see "Operating performance highlights and notable developments in 2Q17" below.

In 1H17, Polyclinics (outpatient clinics) contribution to total revenue from healthcare services was 6% compared to 4% in 1H16. Currently we operate with 10 Polyclinic clusters consisting of 13 district Polyclinics and 24 express outpatient clinics. Express outpatient clinics are mostly integrated into our pharmacies and play a facilitating role for our pharma and district Policlinic patients. We expect growth in revenue from Polyclinics to accelerate over the next few years, in line with our strategy to increase the number of Polyclinic clusters from today's level, to more than 15 by the end of 2018.

As described under "Operating performance highlights and notable developments" below, we are engaged in an initiative to rebrand our ambulatory clinics and outpatient centers as "Polyclinics" due to better patient perception, as well as a related patient acquisition initiative. Through these activities, the average number of patients visiting our Polyclinics has increased by 39% over the last two months. In total, we plan c.200,000 patient acquisitions within a year, through organic growth and, possibly, strategic acquisitions of existing clinics.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Healthcare services revenue, net	**65,940**	**58,055**	**13.6%**	**65,725**	**0.3%**	**131,665**	**118,096**	**11.5%**
Government-funded healthcare programmes	43,527	41,835	4.0%	45,831	-5.0%	89,358	87,212	2.5%
Out-of-pocket payments by patients	16,308	12,179	33.9%	15,048	8.4%	31,356	23,605	32.8%
Private medical insurance companies, *of which*	6,105	4,041	51.1%	4,846	26.0%	10,951	7,279	50.5%
GHG medical insurance	2,710	3,052	*-11.2%*	*2,693*	*0.6%*	*5,403*	*4,746*	*13.8%*
Share of Government financing in revenue from healthcare services	*66.0%*	*72.1%*		*69.7%*		*67.9%*	*73.8%*	

In our healthcare services business, we made strong progress towards our strategic goal to further diversify our revenue stream. UHC continues to be the main contributor to our healthcare services revenues. In 1H17, however, the share of the Government financing in the healthcare services business revenue decreased by 5.9 percentage points to 67.9% in 1H17, while this share in 2Q17 was 66.0% also down from both 2Q16 and 1Q17. The Government's new initiatives will further contribute to this goal.

The slight decrease in Government-funded healthcare programmes on a q-o-q basis is due to the two new Government initiatives mentioned above.

The goal to diversify our earnings will also be furthered by growing out-of-pocket and private medical insurance revenues.

Further growth in out-of-pocket payments is expected to be driven by two main factors: 1) growth in a number of elective services provided which are partially or fully funded out-of-pocket. With the increasing number of elective services, financed less by the state, the revenue from out-of-pocket payments by patients increases; 2) enhanced footprint of our Polyclinics (outpatient clinics), the revenue from which is primarily out-of-pocket, as the government provides minimal coverage for outpatient services.

The y-o-y and q-o-q growth of revenue from private medical insurance companies also continues to be supported by the roll-out of Polyclinics (outpatient clinics) as well as an enhanced relationship with other insurance companies who redirect their customers to our hospitals. Our Polyclinics stand out from competition as they are brand new, modern and provide a diverse range of services in one location, unlike the majority of our competitors, and are therefore an attractive proposition for insured customers. Our own medical insurance clients have increasingly utilised our Polyclinics, resulting in growth in revenue from GHG medical insurance generated by our healthcare services business up 13.8% in 1H17, compared to 1H16. Consequently, we are retaining significantly more outpatient claims from our medical insurance business within the Group. Retention stood at 39.3% in 1H17, up from 22.8% in 1H16. The revenue decrease 2Q17 over 2Q16 from the medical insurance business reflects the expiration of the loss-making contract with the Ministry of Defence.

Gross profit, healthcare services business

(GEL thousands, unless otherwise noted)	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Cost of healthcare services	**(37,652)**	**(31,399)**	**19.9%**	**(37,777)**	**-0.3%**	**(75,429)**	**(64,397)**	**17.1%**
Cost of salaries and other employee benefits	(24,343)	(19,857)	22.6%	(23,095)	5.4%	(47,438)	(39,609)	19.8%
Cost of materials and supplies	(10,240)	(9,228)	11.0%	(10,467)	-2.2%	(20,707)	(18,841)	9.9%
Cost of medical service providers	(434)	(401)	8.2%	(372)	16.7%	(806)	(829)	-2.8%
Cost of utilities and other	(2,635)	(1,913)	37.7%	(3,843)	-31.4%	(6,478)	(5,118)	26.6%
Gross profit	**28,288**	**26,656**	**6.1%**	**27,948**	**1.2%**	**56,236**	**53,699**	**4.7%**
Gross margin	**42.5%**	**45.3%**		**42.1%**		**42.3%**	**45.0%**	
Cost of healthcare services as % of revenue								
Direct salary rate	36.6%	33.8%		34.8%		35.7%	33.2%	
Materials rate	15.4%	15.7%		15.8%		15.6%	15.8%	

The growth in the cost of salaries and other employee benefits was driven by the expansion of the hospital business, roll-out of new healthcare facilities and launch of new services, some of which are in the early roll-out phase resulting in revenue generation lagging behind the respective salary expense growth. Once the ramp-up phase of the newly launched healthcare facilities and services is completed, we expect a normalisation of the direct salaries rate.

The decrease in the materials rate (expense on direct materials as a percentage of gross revenue) y-o-y as well as q-o-q (to 15.6% and 15.4%, respectively) reflects the benefits of consolidated purchasing power following the acquisition of the pharma business, resulting in revenue outpacing the growth of materials costs.

After the seasonally high 1Q17 in terms of cost of utilities, the respective expense was reduced by 31.4% in 2Q17. The increase in the cost of utilities on a y-o-y basis is due to the growth in some utility tariffs in the country, effective from 4Q16.

Gross profit reached GEL 28.3 million in 2Q17, up 6.1% y-o-y and up 1.2% q-o-q. While our healthcare services business margins remain under pressure due to the roll-out of new healthcare facilities and services, the gross profit margin increased to 42.5% in 2Q17 from 42.1% in 1Q17. This is mainly a result of increasing utilisation of existing facilities and adding elective services at our hospitals.

EBITDA, healthcare services business

(GEL thousands, unless otherwise noted)	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Operating expenses	**(9,993)**	**(9,496)**	**5.2%**	**(11,129)**	**-10.2%**	**(21,122)**	**(18,711)**	**12.9%**
Salaries and other employee benefits	(7,996)	(5,254)	52.2%	(7,179)	11.4%	(15,175)	(11,369)	33.5%
General and administrative expenses	(4,154)	(3,517)	18.1%	(4,082)	1.8%	(8,236)	(5,479)	50.3%
Impairment of receivables	(1,033)	(1,120)	-7.8%	(980)	5.4%	(2,013)	(1,978)	1.8%
Other operating income	3,190	395	NMF	1,112	186.9%	4,302	115	NMF
EBITDA	**18,295**	**17,160**	**6.6%**	**16,819**	**8.8%**	**35,114**	**34,988**	**0.4%**
EBITDA margin	***27.5%***	***29.2%***		***25.3%***		***26.4%***	***29.3%***	

The healthcare services business operating expenses were down by 10.2% q-o-q leading to a quarterly positive operating leverage of 11.4 percentage points. The increase in operating expenses on a y-o-y basis is primarily driven by the expansion of the business as well as new openings.

The increase in administrative salaries compared to the previous year is mainly attributable to: 1) the overall expansion of the business and roll-out of new healthcare facilities; and 2) an increase in the cost of share based compensation for our employees in managerial positions and the introduction of a new share scheme to our key doctors, to attract, motivate and retain the best quality talent. The increase on a q-o-q basis is mainly due to the launch of Sunstone hospital in 2Q17, the salary expense of which outpaces the hospital revenue generation at this stage.

The y-o-y increase in general and administrative expenses is primarily driven by the expansion of the business, increased marketing activity alongside the roll-out of our Polyclinics, as well as the increased rental costs of the newly launched Polyclinics. Since 2Q16 we have launched five new Polyclinic clusters.

Other operating income mainly comprises rental income, gain from call option, share of profit of associate, gains from the sale of drugs and gains on the sale of property and equipment.

We reported quarterly EBITDA of GEL 18.3 million, up 6.6% y-o-y and up 8.8% q-o-q. The EBITDA margin was up by 220 bps compared to previous quarter but still remains below the last year figure due to the hospital and Polyclinic roll-outs.

The EBITDA margin for our hospitals (both, referral and community) in 1H17 was 27.1% compared to 29.1% in 1H16, due to the roll-out of new facilities and services. The healthcare facilities and services which are still in roll-out phase, posted negative EBITDA of GEL 1.6 million in 2Q17 and GEL 2.7 million in 1H17.

The EBITDA margin of our Polyclinics stood at 15.2% in 1H17 compared to 28.9% in 1H16. After the roll-out phase is completed, towards the end of 2018, we expect the run rate EBITDA margin for our Polyclinics to be 30%+.

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

Profit for the period, healthcare services business

(GEL thousands, unless otherwise noted)	**2Q17**	**2Q16**	**Change, Y-o-Y**	**1Q17**	**Change, Q-o-Q**	**1H17**	**1H16**	**Change, Y-o-Y**
Depreciation and amortisation	(5,774)	(4,121)	40.1%	(4,939)	16.9%	(10,713)	(8,382)	27.8%
Net interest income (expense)	(4,435)	(2,999)	47.9%	(4,116)	7.8%	(8,551)	(5,258)	62.6%
Net gains/(losses) from foreign currencies	1,118	(1,711)	NMF	695	60.9%	1,813	(2,122)	NMF
Net non-recurring income/(expense)	(1,255)	387	NMF	(1,276)	-1.6%	(2,531)	157	NMF
Profit before income tax expense	**7,949**	**8,716**	**-8.8%**	**7,183**	**10.7%**	**15,132**	**19,383**	**-21.9%**
Income tax benefit/(expense)	-	26,619	NMF	(11)	-100.0%	(11)	28,105	NMF
of which: Deferred tax adjustments	-	*27,113*		-		-	*29,311*	
Profit for the period	**7,949**	**35,335**	**-77.5%**	**7,172**	**10.8%**	**15,121**	**47,488**	**-68.2%**
Attributable to:								
- shareholders of the Company	5,636	29,888	-81.1%	5,764	-2.2%	11,400	39,939	-71.5%
- non-controlling interests	2,313	5,447	-57.5%	1,408	64.3%	3,721	7,549	-50.7%
of which: Deferred tax adjustments	-	*4,705*		-		-	*5,057*	

The y-o-y increase in depreciation expense in 1Q17 and 1H17 is a result of the increased asset base from our expansion and the associated capex. After launching Sunstone hospital in 2Q17 the depreciation of its buildings and equipment was started, causing the increased depreciation expense q-o-q.

The y-o-y increase in net interest expense reflects the increase in our borrowing levels as explained earlier in this report, on page 8.

The increased 2Q17 gross profit, supported by positive operating leverage, translated into an increase in profit before income tax expense by 10.7% q-o-q. Compared to last year, the trend was downward due to the pressure on margins from the newly launched healthcare facilities and services as well as due to increased interest and depreciation expenses.

Operating performance highlights and notable developments in 2Q17, healthcare services business

- **New Government initiative.**

  Effective from May 2017, the Government adopted a new regulation which bases UHC coverage eligibility on the income level of citizens as follows:
  1) Citizens with income of below GEL 1,000 per month continue to receive the same coverage from UHC, with reimbursement of their healthcare service needs. In addition, coverage of certain additional medicines were introduced for people at a certain level of poverty; 2) Citizens with income more than GEL 1,000 per month but below GEL 40,000 annually are partially covered by UHC with increased co-payments – the extent of the coverage is close to that received under UHC before the new regulation; 3) more than GEL 40,000 annually are excluded from UHC coverage.

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

- **Rebranding of our ambulatory clinics and outpatient centers into "Polyclinics"**

  Due to a better customer perception, we have decided to rebrand our ambulatory clinics into Polyclinics. The word Polyclinic is very well known within the population, awareness is high and remains the preferable description for the outpatient clinic customers. By changing the name of our ambulatories, we aim to position ourselves as the brand-new, well equipped Polyclinics with much better quality, to tap the c.GEL 100 million annual market segment, currently occupied by the post-Soviet style polyclinics.

  We have started negotiations with family doctors at post-Soviet era polyclinics and have already recruited 67 doctors. We have also started active marketing campaigns to promote our brand-new Polyclinics, which resulted in 39% increase in the average number of patients visiting our Polyclinics over the last two months.

- **In July 2017, healthcare service business acquired two community hospitals in Khashuri and Qareli regions** (together the "**Hospitals**"). The acquisition is in line with the healthcare services business strategy to expand its presence across the country, especially in underrepresented regions of Georgia. Following the acquisition of these Hospitals, the number of community hospitals in the Group has increased to 22, with 555 beds in total.
  The Hospitals are located in the Khashuri and Qareli regions, which have a combined population of c.100,000 people, and they operate with 65 and 25 beds respectively. Both hospitals are the sole healthcare services providers in their respective regions and are next to the new central highway connecting East and West Georgia. Khashuri hospital is also the referral centre for three other nearby towns. This acquisition further enables us to refer patients to our referral hospitals, primarily in Kutaisi and Tbilisi, thus providing potential revenue synergies. Finally, this acquisition will also strengthen our outpatient capacity in these two regions, since our community hospitals are well suited for providing full scale ambulatory services.

- Our healthcare services market share by number of beds was 24.6% as of 30 June 2017.
- Our hospital bed occupancy rate[8] was 55.6% in 2Q17 (57.6% in 2Q16, 60.5% in 1Q17) and 58.8% in 1H17 (59.3% in 1H16). Our hospital bed occupancy rate excluding newly opened Sunstone hospital was 59.0% and 61.6% in 2Q17 and 1H17, respectively
  - Our referral hospital bed occupancy rate was 62.2% in 2Q17 (64.9% in 2Q16, 68.1% in 1Q17) and 65.6% in 1H17 (65.8% in 1H16). Our referral hospital bed occupancy rate excluding Sunstone hospital was 67.1% and 69.7% in 2Q17 and 1H17 respectively
- The average length of stay[9] was 5.3 days in 2Q17 (5.1 in 2Q16, 5.4 in 1Q17) and 5.4 in 1H17 (4.9 in 1H16)

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

  - The average length of stay at referral hospitals was 5.5 days in 2Q17 (5.3 days in 2Q16, 5.6 days in 1Q17) and 5.6 in 1H17 (5.1 in 1H16)

- During 2Q17, we continued to invest in the development of our healthcare facilities. We spent a total of GEL 13.6 million on capital expenditures, primarily on the extensive renovations of Deka and Sunstone hospitals, as well as enhancing our service mix and introducing new services to cater to previously unmet patient needs. Of this, maintenance capex was GEL 2.6 million.

  - We continued the process of launching new services at our referral hospitals. This includes services like paediatrics, neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynaecology, cardio-surgery, traumatology, angio-surgery, intensive care and reproductive services. More sophisticated services launched include: oncology, transplantation of bone marrow and paediatric kidney transplant. During 2Q17, we have launched 10 new services in 7 different referral hospitals. In total during 1H17 we have launched 21 new services. In 2017, we plan to launch more than 60 new services in 14 hospitals.

  - The renovation of the first phase of Sunstone (c.332 beds) was completed two months ahead of the initial schedule, within budget. In April 2017, we opened the hospital with 220 newly renovated beds and in June the hospital already reached 26.4% occupancy rate per bed. The full launch of the 332-bed Sunstone hospital is planned by the end of this year, in line with the expected increase in demand.

  - The renovation and full launch of Deka (c.320 beds) is on budget and on target for completion by year-end. In August 2016, we opened Deka's diagnostic centre, which is one of the largest in Tbilisi. The opening of the diagnostic centre was the first step toward developing Deka into a flagship multi-profile hospital in Georgia.

- We also expanded the number of specialties offered in our residency programme in line with our strategy to develop a new generation of doctors. In 2Q17 we obtained accreditation in an additional three specialties bringing the total number of specialties to 23. This increased the total number of slots for admission to the programme by six residents, bringing the total number of slots for admission to 240 residents. Currently 112 residents are involved in our residency programme. To incentivise and support top talent's enrollment, we offer grants, student loans and employment after graduating from our residency programme.

Discussion of Pharma Business Results

Our results of operations for the 2Q16 and 1H16 include only GPC results, which we have been consolidating since May 2016. Starting from 1Q17 our results include GPC's and Pharmadepot's combined results (consolidation of Pharmadepot started from January 2017). Accordingly, only 2Q17 and 1Q17 figures are comparable.

Income Statement, pharma business

GEL thousands; unless otherwise noted	**2Q17**	**1Q17**	**Change, Q-o-Q**	**1H17**	**May-June 2016**
Pharma revenue	**110,942**	**111,399**	**-0.4%**	**222,341**	**30,691**
Costs of pharma	**(84,822)**	**(84,408)**	**0.5%**	**(169,230)**	**(25,059)**
Gross profit	**26,120**	**26,991**	**-3.2%**	**53,111**	**5,632**
Salaries and other employee benefits	(9,684)	(9,616)	0.7%	(19,300)	(2,690)
General and administrative expenses	(7,229)	(8,762)	-17.5%	(15,991)	(2,480)
Impairment of receivables	(103)	(28)	267.9%	(131)	-
Other operating income	(183)	101	NMF	(82)	92
EBITDA	**8,921**	**8,686**	**2.7%**	**17,607**	**554**
EBITDA margin	***8.0%***	***7.8%***		***7.9%***	***1.8%***
Depreciation and amortisation	(465)	(711)	-34.6%	(1,176)	(258)
Net interest income (expense)	(3,187)	(2,793)	14.1%	(5,980)	(427)
Net gains/(losses) from foreign currencies	(180)	2,095	NMF	1,915	(272)
Net non-recurring income/(expense)	(566)	(316)	79.1%	(882)	-
Profit before income tax expense	**4,523**	**6,961**	**-35.0%**	**11,484**	**(403)**
Income tax benefit/(expense)	222	(8)	NMF	214	NMF
Deferred tax adjustments	-	-	-	-	-
Profit for the period	**4,745**	**6,953**	**-31.8%**	**11,698**	**(403)**

We have now largely completed the integration process of the two pharma companies. The process is gone smoothly and we are on track within the expected schedule. Still in process is the integration of our two pharma warehouses, which we expect to finalise by the end of this year. Successful completion of that project will enable us to reduce and better manage the level of stock inventory.

The pharma business revenue was GEL 110.9 million in 2Q17, largely flat q-o-q reflecting the impact of the companies integration process. We started the integration process of the most important pillar – customer software, in May and whilst the process went smoothly, some minor interruptions in GPC negatively affected revenue by an estimated GEL 2 million. The system is now fully operational. The revenue mix by sales channels was: retail GEL 82.5 million (74.3% of total) in 2Q17 and GEL 167.7 million in (75.4% of total) 1H17; and wholesale GEL 24.9 million (22.5% of total) in 2Q17 and GEL 54.6 million in (24.6% of total) 1H17. The share of para-pharmacies in retail revenue was 28.2% in 2Q17 and 28.4% in 1H17.

The cost of pharma (cost of goods sold) rose slightly in 2Q17, mainly due to sales in April 2017 of inventory purchased previously at high foreign currency exchange rate.

The combined pharma business continuous to deliver its synergy targets. Through renegotiations with manufacturers for additional discounts we have already achieved GEL 7.0 million procurement synergies on an annualised basis. In line with our strategy to add high margin products to our product mix, in 1H17 we added 5 new contract manufactured and 16 new generic products.

Consequently, pharma business gross profit was GEL 26.1 million, which has resulted in a gross margin of 23.5% in 2Q17, compared to 24.2% in 1Q17. In May and June the exchange rate impact noted above unwound and gross margin returned to 24.2% and we expect further improvement in this measure now as the business integration process has been largely completed.

Salaries and other employee benefits were well controlled and maintained broadly unchanged. The decrease in general and administrative expenses, down by 17.5% q-o-q, is mainly due to: 1) renegotiation of existing agreement terms for better rental cost of pharmacies; 2) less marketing costs in the second quarter; and 3) decrease in the cost of utilities after the winter season.

The pharma business reported EBITDA of GEL 8.9 million and GEL 17.6 million in 2Q17 and HY17, while delivering quarterly and half yearly EBITDA margins of 8.0% and 7.9% respectively, nearing our more than 8% target in the medium-term. Positive operating leverage of 2.8 percentage points was delivered q-o-q.

The q-o-q interest expense was up by 14.1% as the funds incurred for the Pharmadepot acquisition were raised in the middle of January 2017, causing increased interest expense in 2Q17.

Consequently, the pharma business reported a net profit of GEL 4.7 million in 2Q17, down by 31.8% q-o-q but remained largely flat q-o-q excluding the foreign currency gain in 1Q17. Profit reached GEL 11.7 million in 1H17.

Operating highlights and notable developments in 2Q17, pharma business:

- After the acquisition of Pharmadepot we continued negotiations with manufacturers for additional discounts, as a result of the increased consolidated purchasing power of our healthcare services and pharma businesses. In line with our initial guidance, we have already delivered GEL 7.0 million procurement synergies on an annualised basis out of an expected GEL 7.9 million on an annualised basis in 2017.
- After the acquisition of Pharmadepot we successfully continued to eliminate unnecessary costs. We have already eliminated GEL 1.7 million compared to initial guidance of GEL 3.9 million, on an annualised basis.
- We also accelerated the procurement of medical disposables for our healthcare services business through our pharma business. In 2Q17, we had GEL 1.1 million in intercompany purchases, compared to GEL 0.8 million in 2Q16.
- In total, we operate a country-wide distribution network of 247 pharmacies in major cities. The number of our pharmacies located in our hospitals and clinics totals 21.
- In 2Q17, the pharma business had:
  - c.2.1 million retail customer interactions per month
  - c.0.5 million loyalty card members
  - Average bill size of GEL 13.3
  - 29% market share measured by sales
  - Total number of bills issued was 6.3 million

Discussion of Medical Insurance Business Results

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Net insurance premiums earned	**13,410**	**15,298**	**-12.3%**	**13,965**	**-4.0%**	**27,375**	**29,128**	**-6.0%**
Cost of insurance services	**(12,718)**	**(13,989)**	**-9.1%**	**(12,734)**	**-0.1%**	**(25,452)**	**(26,836)**	**-5.2%**
Gross profit	**692**	**1,309**	**-47.1%**	**1,231**	**-43.8%**	**1,923**	**2,292**	**-16.1%**
Salaries and other employee benefits	(972)	(1,328)	-26.8%	(1,048)	-7.3%	(2,020)	(2,147)	-5.9%
General and administrative expenses	(366)	(708)	-48.3%	(507)	-27.8%	(873)	(1,309)	-33.3%
Impairment of receivables	(117)	(116)	0.9%	(113)	3.5%	(230)	(238)	-3.4%
Other operating income	(18)	10	NMF	(7)	NMF	(25)	(129)	-80.6%
EBITDA	**(781)**	**(832)**	**-6.1%**	**(444)**	**75.9%**	**(1,225)**	**(1,531)**	**-20.0%**
EBITDA margin	***-5.8%***	***-5.4%***		***-3.2%***		***-4.5%***	***-5.3%***	
Depreciation and amortisation	(242)	(202)	19.8%	(222)	9.0%	(464)	(406)	14.3%
Net interest income (expense)	(206)	(43)	NMF	(210)	-1.9%	(416)	560	-174.3%
Net gains/(losses) from foreign currencies	48	19	152.6%	(12)	NMF	36	170	-78.8%
Net non-recurring income/(expense)	2	(973)	NMF	(200)	-101.0%	(198)	(973)	-79.7%
Profit before income tax expense	**(1,179)**	**(2,031)**	**-41.9%**	**(1,088)**	**8.4%**	**(2,267)**	**(2,180)**	**4.0%**
Income tax benefit/(expense)	(310)	301	NMF	-	NMF	(310)	320	NMF
Deferred tax adjustments	-	-	-	-		-	-	-
(Loss) / Profit for the period	**(1,489)**	**(1,730)**	**-13.9%**	**(1,088)**	**36.9%**	**(2,577)**	**(1,860)**	**38.5%**

Medical insurance business revenue. Our medical insurance business contributed GEL 13.4 million to the Group's revenue in 2Q17 (down 12.3% y-o-y and down 4.0% q-o-q) and GEL 27.4 million in 1H17 (down 6.0% y-o-y). The decrease in insurance premiums earned is due to the expiration of the MOD contract which was allowed to expire in January 2017 due to the high loss ratio.

Gross profit, medical insurance business

(GEL thousands, unless otherwise noted)	2Q17	2Q16	Change, Y-o-Y	1Q17	Change, Q-o-Q	1H17	1H16	Change, Y-o-Y
Cost of insurance services	**(12,718)**	**(13,989)**	**-9.1%**	**(12,734)**	**-0.1%**	**(25,452)**	**(26,836)**	**-5.2%**
Net insurance claims incurred	(11,936)	(13,003)	-8.2%	(11,812)	1.0%	(23,748)	(24,956)	-4.8%
Agents, brokers and employee commissions	(782)	(986)	-20.7%	(922)	-15.2%	(1,704)	(1,880)	-9.4%
Gross profit	**692**	**1,309**	-47.1%	**1,231**	-43.8%	**1,923**	**2,292**	-16.1%
Loss ratio	*89.0%*	*85.0%*		*84.6%*		*86.8%*	*85.7%*	

Our insurance business plays a good feeder role in originating and directing patients to our healthcare facilities, mainly to Polyclinics and to pharmacies. In 2Q17, our medical insurance claims expense was GEL 11.9 million, of which GEL 4.8 million (39.8 % of total) was inpatient, GEL 4.3 million (36.4 % of total) was outpatient and GEL 2.8 million (23.7 % of total) accounted for drugs. In 2Q17, GEL 4.5 million, or 38.1 % (25.2% in 2Q16) of our total medical insurance claims were retained within the Group, of which GEL 2.7 million and GEL 1.8 million were retained in the healthcare services and pharma businesses respectively. The feeder role of our medical insurance business is particularly important for the Group's outpatient services. In 1H17, GEL 3.3 million, or 34.4%, of our medical insurance claims on outpatient services were retained within the Group, which represents an increase of 13.6 ppts. With our recently launched Polyclinics initiative and expansion strategy, the retention rate should improve further in the future, on a larger base, providing a significant revenue boost for our healthcare services business. In addition, following the expansion of our healthcare services business in referral hospitals in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising more of our hospitals. Our facilities are increasingly favoured by these customers over competitor facilities due to the better quality of service, access to one-stop-shop style Polyclinics and the ease of claim reimbursement procedures.

Recent changes that removed insured individuals from UHC coverage and redefined UHC eligibility criteria for citizens based on their income level, increased the cost per insured client, leading to an increase in c.GEL 300,000 per month in claims. According to contracts between us and our insured clients, the medical insurance business had the right to amend or terminate the contracts in case of material changes in the market. The medical insurance business has already started to terminate contracts that have become loss-making as a result of this change, or has adjusted package pricing in existing contracts. The impact of this effort has already been reflected and our medical insurance business achieved positive EBITDA in July.

Gross profit recorded was GEL 0.7 million in 2Q17 (down by 47.1% y-o-y and down by 43.8% q-o-q) and GEL 1.9 million (down 16.1% y-o-y) in 1H17.

The decrease in general and administrative expenses y-o-y is a result of savings in rent expense due to relocation to a new office, as well as decreasing administrative expenses due to the re-negotiation of terms and conditions with different service providers. There were further savings on marketing costs as well as decreased utilities expenses.

We continue to expect an improved loss ratio for our medical insurance business and to reach our 2018 targets of a loss ratio less than 80% and c.14% expense ratio (excluding commissions). Our medical insurance business recorded GEL 0.8 million negative EBITDA, compared to negative EBITDA of GEL 0.8 million and 0.4 million in 2Q16 and in 1Q17.

Operating highlights and notable developments in 2Q17, medical insurance business

- The number of persons insured was 135,000 as at 30 June 2017
- Our medical insurance market share was 30.9% based on net insurance premium revenue, as at 31 March 2017
- Our insurance renewal rate was 73.4% in 2Q17

SELECTED FINANCIAL INFORMATION

Income Statement, ***half- year***	**Healthcare services**			**Pharma**		**Medical insurance**			**Eliminations**		**GHG**		
GEL thousands; unless otherwise noted	**1H17**	**1H16**	**Change, Y-o-Y**	**1H17**	**(May-June) 1H16[10]**	**1H17**	**1H16**	**Change, Y-o-Y**	**1H17**	**1H16**	**1H17**	**1H16**	**Change, Y-o-Y**
Revenue, gross	**132,948**	**119,230**	**11.5%**	**222,341**	**30,691**	**27,375**	**29,128**	**-6.0%**	**(11,616)**	**(4,800)**	**371,048**	**174,249**	**112.9%**
Corrections & rebates	(1,283)	(1,134)	13.1%	-	-	-	-	-	-	-	(1,283)	(1,134)	13.1%
Revenue, net	**131,665**	**118,096**	**11.5%**	**222,341**	**30,691**	**27,375**	**29,128**	**-6.0%**	**(11,616)**	**(4,800)**	**369,765**	**173,115**	**113.6%**
Costs of services	**(75,429)**	**(64,397)**	**17.1%**	**(169,230)**	**(25,059)**	**(25,452)**	**(26,836)**	**-5.2%**	**10,118**	**4,746**	**(259,993)**	**(111,546)**	**133.1%**
Cost of salaries and other employee benefits	(47,438)	(39,609)	19.8%	-	-	-	-	-	1,784	1,659	(45,654)	(37,950)	20.3%
Cost of materials and supplies	(20,707)	(18,841)	9.9%	-	-	-	-	-	2,945	789	(17,762)	(18,052)	-1.6%
Cost of medical service providers	(806)	(829)	-2.8%	-	-	-	-	-	31	35	(775)	(794)	-2.4%
Cost of utilities and other	(6,478)	(5,118)	26.6%	-	-	-	-	-	244	214	(6,234)	(4,904)	27.1%
Net insurance claims incurred	-	-	-	-	-	(23,748)	(24,956)	-4.8%	5,114	2,049	(18,634)	(22,907)	-18.7%
Agents, brokers and employee commissions	-	-	-	-	-	(1,704)	(1,880)	-9.4%	-		(1,704)	(1,880)	-9.4%
Cost of pharma - wholesale	-	-	-	(45,485)	(6,545)	-	-	-	-	-	(45,485)	(6,545)	NMF
Cost of pharma - retail	-	-	-	(123,745)	(18,514)	-	-	-	-	-	(123,745)	(18,514)	NMF
Gross profit	**56,236**	**53,699**	**4.7%**	**53,111**	**5,632**	**1,923**	**2,292**	**-16.1%**	**(1,498)**	**(54)**	**109,772**	**61,569**	**78.3%**
Salaries and other employee benefits	(15,175)	(11,369)	33.5%	(19,300)	(2,690)	(2,020)	(2,147)	-5.9%	343	54	(36,152)	(16,152)	123.8%
General and administrative expenses	(8,236)	(5,479)	50.3%	(15,991)	(2,480)	(873)	(1,309)	-33.3%	348	-	(24,752)	(9,268)	167.1%
Impairment of receivables	(2,013)	(1,978)	1.8%	(131)	-	(230)	(238)	-3.4%	250	-	(2,124)	(2,216)	-4.2%
Other operating income	4,302	115	NMF	(82)	92	(25)	(129)	-80.6%	216	-	4,411	78	NMF
EBITDA	**35,114**	**34,988**	**0.4%**	**17,607**	**554**	**(1,225)**	**(1,531)**	**-20.0%**	**(341)**	**-**	**51,155**	**34,011**	**50.4%**
EBITDA margin	***26.4%***	***29.3%***		***7.9%***	***1.8%***	***-4.5%***	***-5.3%***			-	***13.8%***	***19.5%***	
Depreciation and amortisation	(10,713)	(8,382)	27.8%	(1,176)	(258)	(464)	(406)	14.3%	-	-	(12,353)	(9,046)	36.6%
Net interest income (expense)	(8,551)	(5,258)	62.6%	(5,980)	(427)	(416)	560	NMF	-	-	(14,947)	(5,125)	191.6%
Net gains/(losses) from foreign currencies	1,813	(2,122)	NMF	1,915	(272)	36	170	-78.8%	-	-	3,764	(2,224)	NMF
Net non-recurring income/(expense)	(2,531)	157	NMF	(882)	-	(198)	(973)	-79.7%	341	-	(3,270)	(816)	NMF
Profit before income tax expense	**15,132**	**19,383**	**-21.9%**	**11,484**	**(403)**	**(2,267)**	**(2,180)**	**4.0%**	**-**	**-**	**24,349**	**16,800**	**44.9%**
Income tax benefit/(expense)	(11)	28,105	NMF	214	-	(310)	320	NMF	-	-	(107)	28,425	NMF
of which: Deferred tax adjustments	-	*29,311*			-		-					*29,311*	
Profit for the period	**15,121**	**47,488**	**-68.2%**	**11,698**	**(403)**	**(2,577)**	**(1,860)**	**38.5%**	**-**	**-**	**24,242**	**45,225**	**-46.4%**
Attributable to:													
- shareholders of the Company	11,400	39,939	-71.5%	6,181	(403)	(2,577)	(1,860)	38.5%	-	-	15,004	37,676	-60.2%
- non-controlling interests	3,721	7,549	-50.7%	5,517	-	-	-	-	-	-	9,238	7,549	22.4%
of which: Deferred tax adjustments		*5,057*			-		-	-	-	-		*5,057*	

[10] 1H16 includes only May-June GPC's results

Income Statement, *Quarterly*	**Healthcare services**					**Pharma**					**Medical insurance**					**Eliminations**			**GHG**				
GEL thousands; unless otherwise noted	**2Q17**	**2Q16**	**Change, Y-o-Y**	**1Q17**	**Change, Q-o-Q**	**2Q17**	**2Q16[11]**	**Change, Y-o-Y**	**1Q17**	**Change, Q-o-Q**	**2Q17**	**2Q16**	**Change, Y-o-Y**	**1Q17**	**Change, Q-o-Q**	**2Q17**	**2Q16**	**1Q17**	**2Q17**	**2Q16**	**Change, Y-o-Y**	**1Q17**	**Change, Q-o-Q**
Revenue, gross	**66,600**	**58,779**	**13.3%**	**66,348**	**0.4%**	**110,942**	**30,691**	**261.5%**	**111,399**	**-0.4%**	**13,410**	**15,298**	**-12.3%**	**13,965**	**-4.0%**	**(6,351)**	**(3,095)**	**(5,265)**	**184,601**	**101,673**	**81.6%**	**186,447**	**-1.0%**
Corrections & rebates	(660)	(724)	-8.8%	(623)	5.9%	-	-		-		-	-	-	-	-	-	-	-	(660)	(724)	-8.8%	(623)	5.9%
Revenue, net	**65,940**	**58,055**	**13.6%**	**65,725**	**0.3%**	**110,942**	**30,691**	**261.5%**	**111,399**	**-0.4%**	**13,410**	**15,298**	**-12.3%**	**13,965**	**-4.0%**	**(6,351)**	**(3,095)**	**(5,265)**	**183,941**	**100,949**	**82.2%**	**185,824**	**-1.0%**
Costs of services	**(37,652)**	**(31,399)**	**19.9%**	**(37,777)**	**-0.3%**	**(84,822)**	**(25,059)**	**238.5%**	**(84,408)**	**0.5%**	**(12,718)**	**(13,989)**	**-9.1%**	**(12,734)**	**-0.1%**	**4,945**	**3,052**	**5,173**	**(130,247)**	**(67,395)**	**93.3%**	**(129,746)**	**0.4%**
Cost of salaries and other employee benefits	(24,343)	(19,857)	22.6%	(23,095)	5.4%	-	-	-	-	-	-	-	-	-	-	929	1,094	855	(23,414)	(18,763)	24.8%	(22,240)	5.3%
Cost of materials and supplies	(10,240)	(9,228)	11.0%	(10,467)	-2.2%	-	-	-	-	-	-	-	-	-	-	1,582	514	1,363	(8,658)	(8,714)	-0.6%	(9,104)	-4.9%
Cost of medical service providers	(434)	(401)	8.2%	(372)	16.7%	-	-	-	-	-	-	-	-	-	-	17	23	14	(417)	(378)	10.3%	(358)	16.5%
Cost of utilities and other	(2,635)	(1,913)	37.7%	(3,843)	-31.4%	-	-	-	-	-	-	-	-	-	-	102	122	142	(2,533)	(1,791)	41.4%	(3,701)	-31.6%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	-	(11,936)	(13,003)	-8.2%	(11,812)	1.0%	2,315	1,299	2,799	(9,621)	(11,704)	-17.8%	(9,013)	6.7%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	-	(782)	(986)	-20.7%	(922)	-15.2%	-	-	-	(782)	(986)	-20.7%	(922)	-15.2%
Cost of pharma - wholesale	-	-	-	-	-	(22,989)	(6,545)	251.2%	(22,496)	-	-	-	-	-	-	-	-	-	(22,989)	(6,545)	251.2%	(22,496)	2.2%
Cost of pharma - retail	-	-	-	-	-	(61,833)	(18,514)	234.0%	(61,912)	-	-	-	-	-	-	-	-	-	(61,833)	(18,514)	234.0%	(61,912)	-0.1%
Gross profit	**28,288**	**26,656**	**6.1%**	**27,948**	**1.2%**	**26,120**	**5,632**	**363.8%**	**26,991**	**-3.2%**	**692**	**1,309**	**-47.1%**	**1,231**	**-43.8%**	**(1,406)**	**(43)**	**(92)**	**53,694**	**33,554**	**60.0%**	**56,078**	**-4.3%**
Salaries and other employee benefits	(7,996)	(5,254)	52.2%	(7,179)	11.4%	(9,684)	(2,690)	260.0%	(9,616)	0.7%	(972)	(1,328)	-26.8%	(1,048)	-7.3%	227	43	116	(18,424)	(9,229)	99.6%	(17,728)	3.9%
General and administrative expenses	(4,154)	(3,517)	18.1%	(4,082)	1.8%	(7,229)	(2,480)	191.5%	(8,762)	-17.5%	(366)	(708)	-48.3%	(507)	-27.8%	348	-	-	(11,400)	(6,705)	70.0%	(13,352)	-14.6%
Impairment of other receivables	(1,033)	(1,120)	-7.8%	(980)	5.4%	(103)	-	-	(28)	267.9%	(117)	(116)	0.9%	(113)	3.5%	250	-	-	(1,003)	(1,236)	-18.9%	(1,121)	-10.5%
Other operating income	3,190	395	NMF	1,112	186.9%	(183)	92	-298.9%	101	-281.2%	(18)	10	NMF	(7)	NMF	240	-	(24)	3,229	497	NMF	1,182	173.2%
EBITDA	**18,295**	**17,160**	**6.6%**	**16,819**	**8.8%**	**8,921**	**554**	**NMF**	**8,686**	**2.7%**	**(781)**	**(832)**	**-6.1%**	**(444)**	**75.9%**	**(341)**	**-**	**-**	**26,096**	**16,882**	**54.6%**	**25,059**	**4.1%**
EBITDA margin	***27.5%***	***29.2%***		***25.3%***		***8.0%***	***1.8%***	-	***7.8%***		***-5.8%***	***-5.4%***		***-3.2%***			-	-	***14.1%***	***16.6%***		***13.4%***	
Depreciation and amortisation	(5,774)	(4,121)	40.1%	(4,939)	16.9%	(465)	(258)	80.2%	(711)	-34.6%	(242)	(202)	19.8%	(222)	9.0%	-	-	-	(6,481)	(4,581)	41.5%	(5,872)	10.4%
Net interest income (expense)	(4,435)	(2,999)	47.9%	(4,116)	7.8%	(3,187)	(427)	NMF	(2,793)	14.1%	(206)	(43)	NMF	(210)	NMF	-	-	-	(7,828)	(3,469)	125.7%	(7,119)	10.0%
Net gains/(losses) from foreign currencies	1,118	(1,711)	NMF	695	60.9%	(180)	(272)	-33.8%	2,095	-108.6%	48	19	152.6%	(12)	NMF	-	-	-	986	(1,964)	NMF	2,778	-64.5%
Net non-recurring income/(expense)	(1,255)	387	NMF	(1,276)	-1.6%	(566)	-	NMF	(316)	NMF	2	(973)	NMF	(200)	-	341	-	-	(1,478)	(586)	NMF	(1,792)	-17.5%
Profit before income tax expense	**7,949**	**8,716**	**-8.8%**	**7,183**	**10.7%**	**4,523**	**(403)**	**NMF**	**6,961**	**-35.0%**	**(1,179)**	**(2,031)**	**-41.9%**	**(1,088)**	**8.4%**	-	-	-	**11,295**	**6,282**	**79.8%**	**13,054**	**-13.5%**
Income tax benefit/(expense)	-	26,619	NMF	(11)	NMF	222	-	-	(8)	**NMF**	(310)	301	NMF	-	NMF	-	-	-	(88)	26,920	NMF	(19)	NMF
of which: Deferred tax adjustments	-	*27,113*		-		-	-	-		-	-	-	-	-	-	-	-	-	-	*27,113*	NMF	-	-
Profit for the period	**7,949**	**35,335**	**-77.5%**	**7,172**	**10.8%**	**4,745**	**(403)**	**NMF**	**6,953**	**-31.8%**	**(1,489)**	**(1,730)**	**-13.9%**	**(1,088)**	**36.9%**	**-**	**-**	**-**	**11,207**	**33,202**	**-66.2%**	**13,035**	**-14.0%**
Attributable to:																							
- shareholders of the Company	5,636	29,888	-81.1%	5,764	-2.2%	2,024	(403)	NMF	4,157	-51.3%	(1,489)	(1,730)	-13.9%	(1,088)	36.9%	-	-	-	6,172	27,755	-77.8%	8,832	-30.1%
- non-controlling interests	2,313	5,447	-57.5%	1,408	64.3%	2,721	-	-	2,796	-2.7%	-	-	-	-	-	-	-	-	5,035	5,447	-7.6%	4,203	19.8%
of which: Deferred tax adjustments	-	*4,705*		-		-	-		-		-	-		-		-	-	-	-	*4,705*		-	

[11] 2Q16 includes only May-June GPC's results

Selected Balance Sheet items	Healthcare services					Pharma					Medical insurance				
GEL thousands; unless otherwise noted	**30-Jun-17**	**30-Jun-16**	**Change, Y-o-Y**	**31-Mar-17**	**Change, Q-o-Q**	**30-Jun-17**	**30-Jun-16**	**Change, Y-o-Y**	**31-Mar-17**	**Change, Q-o-Q**	**30-Jun-17**	**30-Jun-16**	**Change, Y-o-Y**	**31-Mar-17**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	21,741	12,551	73.2%	82,893	-73.8%	5,548	1,853	199.4%	6,924	-19.9%	9,763	11,991	-18.6%	10,412	-6.2%
Property and equipment	582,437	488,105	19.3%	579,505	0.5%	23,746	7,950	192.5%	22,922	1.5%	5,976	5,684	5.1%	6,002	-0.4%
Inventory	14,787	8,552	72.9%	14,282	3.5%	92,167	33,692	173.6%	82,256	12.0%	215	226	-4.9%	212	1.4%
Liabilities:															
Borrowed Funds	189,600	120,897	56.8%	228,596	-17.1%	81,764	18,020	353.7%	83,463	-100.0%	9,120	11,942	-23.6%	9,032	1.0%
Accounts payable	34,616	25,156	37.6%	41,844	-17.3%	58,015	31,122	86.4%	63,440	0.0%	-	-	-	-	-

Selected Balance Sheet items	Consolidation and eliminations			GHG				
GEL thousands; unless otherwise noted	**30-Jun-17**	**30-Jun-16**	**31-Mar-17**	**30-Jun-17**	**30-Jun-16**	**Change, Y-o-Y**	**31-Mar-17**	**Change, Q-o-Q**
Assets								
Cash and bank deposits	-	-	-	37,052	26,395	*40.4%*	100,229	-63.0%
Property and equipment	-	-	-	612,159	501,739	*22.0%*	608,429	0.6%
Inventory	-	-	-	107,169	42,470	*152.3%*	96,750	10.8%
Liabilities:								
Borrowed Funds	(0)	(9,602)	-	280,483	141,257	*98.6%*	321,091	-12.6%
Accounts payable	(4,939)	(3,696)	(11,159)	87,691	52,582	*66.8%*	94,125	-6.8%

Selected ratios and KPIs

	2Q17	2Q16	1Q17	1H17	1H16
GHG					
EPS, GEL	0.05	0.08[12]	0.07	0.12	0.15[12]
ROAE	5.3%	25.1%	7.4%	6.3%	17.2%
ROAE, normalised[13]	9.7%	12.8%	13.4%	11.4%	14.2%
Group rent expenditure	4,728	2,266	5,019	9,747	2,670
of which, Pharma	*4,216*	*1,642*	*4,485*	*8,701*	*1,642*
Group capex (maintenance)	2,586	2,053	2,630	5,216	4,590
Group capex (growth)	21,071	29,895	17,866	38,937	44,252
Number of employees	14,759	11,884	14,593	14,759	11,884
Number of physicians	3,352	2,954	3,278	3,352	2,954
Number of nurses	3,101	2,795	2,980	3,101	2,795
Nurse to doctor ratio, referral hospitals	0.95	0.95	0.93	0.95	0.95
Total number of shares	131,681,820	131,681,820	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(3,452,534)	(3,500,000)	(3,452,534)	(3,452,534)	(3,500,000)
Shares outstanding	128,229,286	128,181,820	128,229,286	128,229,286	128,181,820
Of which:					
Total free float	53,110,783	42,550,000	42,610,783	43,610,783	42,550,000
Shares held by BGEO GROUP PLC	75,118,503	85,631,820	84,618,503	84,618,503	85,631,820
Healthcare services					
EBITDA margin of healthcare services	27.5%	29.2%	25.3%	26.4%	29.3%
Direct salary rate (direct salary as % of revenue)	36.6%	33.8%	34.8%	35.7%	33.2%
Materials rate (direct materials as % of revenue)	15.4%	15.7%	15.8%	15.6%	15.8%
Administrative salary rate (administrative salaries as % of revenue)	12.0%	8.9%	10.8%	11.4%	9.5%
SG&A rate (SG&A expenses as % of revenue)	6.2%	6.0%	6.2%	6.2%	5.0%
Number of hospitals	35	47	35	35	47
Number of Polyclinics	13	7	13	13	7
Number of express outpatient clinics	24	28	28	24	28
Number of beds	2,731	2,467	2,557	2,731	2,467
Number of referral hospital beds	2,266	2,005	2,092	2,266	2,005
Bed occupancy rate	55.6%[14]	57.6%	60.5%	58.8%	59.3%
Bed occupancy rate, referral hospitals	62.2%[15]	64.9%	68.1%	65.6%	65.8%
Bed occupancy rate, community hospitals	23.5%	23.9%	24.0%	23.9%	22.4%
Average length of stay (days)	5.3	5.1	5.4	5.4	4.9
Average length of stay (days), referral hospitals	5.5	5.3	5.6	5.6	5.1
Average length of stay (days), community hospitals	4.0	3.9	3.9	3.9	3.4
Pharma					
EBITDA margin	8.0%	1.8%	7.8%	7.9%	1.8%
Number of bills issued	6.29mln	1.92mln	6.39mln	12.70mln	1.92mln
Average bill size	13.3	13.0	13.4	13.3	13.0
Revenue from wholesale as a percentage of total revenue from pharma	26%	25%	27%	25%	25%
Revenue from retail as a percentage of total revenue from pharma	74%	75%	73%	75%	75%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	28.2%	31.0%	30.9%	28.4%	31.0%
Number of pharmacies	247	118	245	247	118
Medical insurance					
Loss ratio	89.0%	85.0%	84.6%	86.8%	85.7%
Expense ratio, *of which*	18.6%	21.8%	20.2%	19.4%	21.0%
Commission ratio	*5.8%*	*6.4%*	*6.6%*	*6.2%*	*6.5%*
Combined ratio	107.6%	106.8%	104.8%	106.2%	106.6%
Renewal rate	73.4%	75.7%	77.3%	75.3%	75.7%

[12] Normalised as explained in footnote 1 on page 4.
[13] Normalised as explained in footnote 2 on page 4.
[14] Bed occupancy rate, excluding Sunstone hospital was 59.0% and 61.6% in 2Q17 and 1H17 respectively
[15] Referral hospital bed occupancy rate, excluding Sunstone hospital was 67.1% and 69.7% in 2Q17 and 1H17 respectively

Principal risks and uncertainties

The table below describes the principal risks and uncertainties faced by the Group. These principal risks are described in the table that follows, together with the relevant strategic business objectives, key risk drivers/trends and material controls which have been put in place to mitigate the principal risks and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed.

The order in which the Principal Risks and Uncertainties appear does not denote their order of priority. It is not possible to fully mitigate all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to our achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Integration		
The Group has grown in size, and added sectors, through acquisitions including its pharmaceutical businesses. The Group may face challenges in integrating its new businesses into the existing Group. Challenges could include but are not limited to the full integration of IT systems, a lack of human resources and failure to achieve expected synergies. **Impact** Failure to integrate successfully would adversely affect anticipated synergies, our strategy, projected growth and revenues.	In May 2016 and January 2017, the Group completed the acquisition of JSC GPC and JSC ABC Pharmacia (brand name Pharmadepot) respectively, adding new business lines of pharmaceutical retail and wholesale chains. Starting from January 2017, GPC and ABC are being merged into a single company and single operating unit named JSC GEPHA.	The integration team meets at least weekly to discuss all aspects of the pharmacy integration process, including but not limited to strategy, financial, commercial, clinical, IT, human resources and legal matters. The wider team involved in integration are highly skilled and experienced, having carried out over 30 integrations and acquisitions in the last six years. Key personnel and management from GPC and ABC Pharmacia have joined the Company to ensure business continuity including GPC's CEO, and ABC Pharmacia's CEO and COO.
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 law suits, 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.	Changes to the UHC were introduced in 2017 in respect of certain categories of insured persons, further explained on page 14. In October 2014, an anti-monopoly agency was established and antimonopoly legislation was implemented in respect of certain operations. We expect that such 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. The Group is involved in contractual and other disputes and litigation. Our healthcare service business includes a network of different hospitals and a nationwide chain of ambulatory clinics, each of which must comply with extensive documentation requirements and documentation maintenance requirements. Regulatory Authorites (Social Services Agency and state supervision agency of medical activities) conduct periodic inspections of Group clinics in order to determine the compliance with relevant regulatory requirements.	Engaging in constructive dialogue with regulatory and Governmental bodies, where possible, and seek external advice on potential changes to legislation. The Group has policies, procedures and controls to fulfil our compliance obligations, for example, Infection Control Management, Quality Management, Sentinel Event. Management and Waste Management. The Group's Legal Department is involved in every material contract and advises on contractual disputes and litigations. The Tax Unit of the Finance Department follows changes in tax legislation and initiatives, checks compliance with rules and is involved in significant contracts. The Company has extensive process management systems in place to ensure that all documentation is carried out to a consistent standard and in compliance with Georgian regulatory requirements. Regular Audits are carried out internally by a team of experienced practitioners and a quality control unit. Their programme and audit results in respect of medical documentation are reviewed by the Clinical Quality and Safety Committee every quarter. Outcomes and changes to process are circulated throughout the Group.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
		Our recently formed Regulatory Risks unit is tasked to perform a consolidated review of all key regulatory compliance risks within the network of the Group's clinics, analyze and report on findings identified as a result of the inspections carried out by the unit as well as by the Regulatory Authorities from 2012 to 2016 and prepare a detailed amendment action plan for each individual clinic in order to mitigate risk of future non-compliance.
Availability, 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 as well as retain and attract new patients, 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 2016 and H1 2017 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 continue to expand our nurse college, residency programme and specialities 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 provide us access to recruit talented graduates. Our Evex learning centre, the only continuing education centre of its kind in Georgia, trained over 4,200 doctors and nurses in 2016. Talent and training development programmes to enhance the skills of our highly experienced specialist doctors and nurses well as create an internal talent pipeline of younger doctors and nurses has been successful in expanding our specialist capability. We also offer programmes for doctors to study abroad and 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. In order to retain our professionals and motivate them to perform to the best of their ability, we operate incentives schemes, which for example offer bonuses and enhanced benefits.
Clinical Risk		
An epidemic or outbreak of infectious and communicable disease at any of our facilities could adversely affect our business. If our hospitals fail to accurately or timely diagnose, or to comply with internationally recognised clinical care and quality standards and protocols for infection and communicable disease control and prevention, previously healthy or uninfected people may contract and spread serious communicable diseases.	Our operations involve the treatment of patients with a variety of infectious and communicable diseases.	We continue to prioritise and enhance our infection and communicable disease control and prevention programme. The programme of initiatives on infection and disease control and prevention expanded further in H1 2017 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 (the CDC). CDC experts travel to Georgia to work closely with the Chief Medical Officer, Chief Epidemiologist and experienced

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Impact Failure to diagnose and/or adhere to standards and protocols for infectious and communicable diseases could result in: • escalation of the epidemic or outbreak; • decreased patient trust in our services; • staff contracting contagious diseases resulting in staffing shortages; • an inability to attract new patient; • claims for damages; • operational limitations imposed by our regulators; and/or • damage to our reputation.		practitioners responsible for overseeing infection and communicable disease control and prevention at our facilities. Infection and communicable disease control and prevention is a standing agenda item each time the Clinical Quality and Safety Committee meets (at least quarterly) to review the Group's clinical services and performance, internal governance and controls as well as compliance. Members of the Committee and wider Board also perform on-site visits at least quarterly to review practices and to discuss quality and safety with key practitioners.
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 resulted in slight decrease in the number of programme beneficiaries. Nevertheless, the UHC remains a significant priority for the Government. Government expenditure on healthcare in 2017 is budgeted at GEL 974 million, which represents 9% of the approved state budget for 2017. The Group monitors the macroeconomic environment in Georgia and budgetary performance of the state to assess the forecasted future cash flows from the State. The Group has diversified its portfolio by the addition of pharmaceutical, retail and wholesale business lines. The Group actively seeks to increase its share in the outpatient and planned medical services markets and thus reduce its dependence on the state insurance programme.
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 Dollars and/ or Euros and/or negative macroeconomic developments may have an adverse effect on our business including putting adverse pressure on our business model, our revenues, financial position and cash flows.	In 2016, the Lari depreciated in value by 10.5% and 6.8% against the Dollar and Euro, respectively. In contrast, in the first half of 2017, the Lari appreciated in value by 9.1% and 1.8% against the Dollar and Euro, respectively. As the Group's operations continue expand, the demand for medical equipment and pharmaceuticals will increase, which in turn will likely lead to an increase in foreign currency denominated expenses. Real GDP growth in Georgia increased to 4.5% in the first half of 2017 from modest 2.7% growth in 2016 and 2.9% in 2015, according to Geostat. Georgia's economy has remained resilient despite low world commodity prices, which have affected the economy negatively since the end of 2014 through reduced exports and remittances. Inflation remains contained.	The Group actively monitors market conditions, 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 to reduce their impact. The Group takes into account the volatility of the Lari in pricing discussions with counterparties. In the first half of 2017, the Group limited its foreign currency exposure by drawing down most of its remaining loan facilities from Development Financial Institutions in Lari instead of Dollars. The Group remains focused on increasing local currency borrowings and successfully placed GEL-denominated bonds worth GEL 90 million in July.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
		Regular meetings of the Supervisory Board Audit Committee and the Management Board further analyse instability risks and form responsive strategies and action plans.
Information Technology and Operational		
We face information technology and operational risk. A cyberattack, 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 extract or mandatory 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. The recently acquired pharmaceutical business has a separate IT department which covers the information, cyber security and hardware separately.	The Group's Information Security Team within the IT Department tackles IT and security threats for its healthcare and insurance businesses. The IT Infrastructure team handles hardware projects and matters for the healthcare and insurance businesses. We are planning to consolidate the Group's efforts for information technology risk and bring the integrated process closer together with common standards and procedures. 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. The Group has recently integrated a new core operating system Vabaco into its healthcare business, such system having already been integrated with the Group's core ERP, Exact, thus decreasing risks arising from human error and protecting the integrated data better. Vabaco is fully integrated with all external payment channels. As a result of this, nearly all of the healthcare services business runs on one unified platform with substantially increased functionality, capacity and speed. The Group continues to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks.
Regional Tensions		
The Georgian economy and our business may be adversely affected by regional tensions. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories, Abkhazia and the Tskhinvali Region/South Ossetia. Countries within the region, including Azerbaijan, Armenia, Russia and Turkey are key trading partners of Georgia. 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 ongoing, 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	Russia imposed economic sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed Georgian borders and recognised the independence of Abkhazia and the Tskhinvali Region/South Ossetia regions. Russian troops continue to occupy the 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 the countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this Announcement, these have not resulted in any formal or legal changes in the relationship between the two countries. The crisis in Ukraine began in late 2013 and is still ongoing, directly and adversely affecting the economies of both Ukraine and	The Group actively monitors significant developments in the region and risks related to political instability and develops responsive strategies and actions plans. One of the most significant changes in the Georgian export market was a shift away from the Russian market after Russia's 2006 embargo. Despite tensions in the breakaway territories, Russia has continued to open its export market to Georgian exports since 2013. While lower global commodity prices and macroeconomic factors have affected Georgia's regional trading partners, leading to lower exports within the region, Georgia has benefited from increased exports earnings from non-traditional markets such as Switzerland, China, Egypt, Saudi Arabia, South Korea and Singapore. In April 2017, the IMF approved a new three-year US$285 million economic programme, aimed at preserving macroeconomic and financial stability and addressing structural

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
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.	Russia. Sanctions by the United States against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. In late 2015, relations between Russia and Turkey deteriorated after an airspace dispute close to the Syria-Turkey border, after which Russia imposed strict sanctions on Turkey. In 2016, the relationship between the two countries began to improve, with Russia partially lifting the economic sanctions it had imposed. Tension between the countries renewed following the use of chemical weapons in Syria. Russia repealed other sanctions on Turkey in March 2017, although certain sanctions and legal limitations on Turkish nationals remain. Relations between the countries remain uncertain. In April 2017, amendments to the Turkish constitution were approved by voters by referendum. The amendments which grant the president wider powers are expected to transform Turkey's system of government away from a parliamentary system. The implementation of the proposed amendments could have a negative impact on political stability in Turkey, which is already tense after a failed coup against the president in July 2016. Conflict remains unabated between Azerbaijan and Armenia.	weaknesses in the Georgian economy to support higher and inclusive growth. During first half of 2017, Georgia delivered real GDP growth of 4.5%, whilst inflation was well contained at 7.1% at the end of first half 2017. Foreign direct investment continued to be solid and tourist arrivals, a significant driver of Dollar inflows for the country, continued to increase. Tax revenues increased 14.2% y-o-y and were above the budgeted figure for the first half of 2017. The Georgian Government's fiscal position continues to be strong.

Responsibility Statements

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 gives 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 and Transparency Rule 4.2.7R (indication of important events during the first six months 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 and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

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

14 August 2017

Consolidated Financial Statements

CONTENTS

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 2017, 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 33 to 71. 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 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 Ireland) 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
14 August 2017

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 2017 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited 30-Jun-17*	*31-Dec-16*
Assets			
Cash and cash equivalents	6	17,372	23,239
Amounts due from credit institutions	7	19,680	23,876
Insurance premiums receivable	8	26,936	24,207
Receivables from healthcare services	9	96,784	81,927
Receivables from sales of pharmaceuticals		15,550	5,105
Investment in associate		2,581	2,370
Inventory	13	107,169	54,920
Prepayments	14	25,350	30,518
Property and equipment	10	612,159	574,972
Goodwill and other intangible assets	11	124,490	70,339
Current income tax assets		2,373	2,511
Deferred income tax assets	12	–	309
Other assets	15	15,083	18,270
Total assets		**1,065,527**	**912,563**
Liabilities			
Accounts payable	18	87,691	64,367
Accruals for employee compensation		21,146	16,001
Payables for share acquisitions	19	89,913	8,407
Insurance contract liabilities	16	26,429	26,787
Borrowings	17	280,483	187,557
Debt securities issued		–	36,024
Finance lease liabilities	20	2,933	14,878
Current income tax liabilities		274	258
Other liabilities	21	22,010	16,252
Total liabilities		**530,879**	**370,531**
Equity	23		
Share capital		4,784	4,784
Additional paid-in capital		1,345	(200)
Treasury shares		(134)	(134)
Other reserves		(24,588)	4,822
Retained earnings		490,084	476,616
Total equity attributable to shareholders of the Company		**471,491**	**485,888**
Non-controlling interests		63,157	56,144
Total equity		**534,648**	**542,032**
Total equity and liabilities		**1,065,527**	**912,563**

The interim condensed consolidated financial statements on pages 33 to 71 were approved by the Board of Directors of Georgia Healthcare Group PLC on 14 August 2017 and signed on its behalf by:

Nikoloz Gamkrelidze Chief Executive Officer

14 August 2017

Irakli Gogia Deputy Chief Executive Officer, Finance

14 August 2017

Company registration number: 09752452

The accompanying notes on pages 37 to 71 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2017 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited Period ended 30 June 2017*	*Unaudited Period ended 30 June 2016, as reclassified*
Revenue from healthcare services and medical trials	24	126,156	113,350
Revenue from pharma	25	216,577	30,691
Net insurance premiums earned	26	27,032	29,074
Revenue		**369,765**	**173,115**
Cost of healthcare services and medical trials	27	(70,425)	(61,700)
Cost of sales of pharmaceuticals	28	(169,230)	(25,059)
Cost of insurance services and agents' commissions	29	(20,338)	(24,787)
Costs of services		**(259,993)**	**(111,546)**
Gross profit		**109,772**	**61,569**
Other operating income	30	10,186	2,097
Salaries and other employee benefits	31	(36,152)	(16,152)
General and administrative expenses	32	(24,752)	(9,268)
Impairment of healthcare services, insurance premiums and other receivables		(2,124)	(2,216)
Other operating expenses	33	(5,775)	(2,019)
		(68,803)	**(29,655)**
EBITDA		**51,155**	**34,011**
Depreciation and amortization	10, 11	(12,353)	(9,046)
Interest income	34	1,223	693
Interest expense	34	(13,857)	(5,818)
Net gains/(losses) from foreign currencies and cost of currency derivatives*	36	1,451	(2,224)
Net non-recurring expense	35	(3,270)	(816)
Profit before income tax expense		**24,349**	**16,800**
Income tax (expense)/benefit	12	(107)	3,290
Non-recurring income tax benefit	12	–	25,135
Profit for the period		**24,242**	**45,225**
Profit for the period attributable to:			
- shareholders of the Company		15,004	37,676
- non-controlling interests		9,238	7,549
Earnings per share (Profit for the period):			
- basic earnings per share	23	0.12	0.29
- diluted earnings per share	23	0.12	0.29

The accompanying notes on pages 37 to 71 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE

(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**
1 January 2016	**47,842**	**(1,272)**	**332,180**	**(15,289)**	**55,520**	**418,981**	**56,000**	**474,981**
Profit for the period	–	–	–	–	37,676	37,676	7,549	45,225
Total comprehensive income	**–**	**–**	**–**	**–**	**37,676**	**37,676**	**7,549**	**45,225**
Non-controlling interests arising from business combinations	–	–	–	–	–	–	(1,025)	(1,025)
Acquisition of additional interest in existing subsidiaries	–	–	–	468	–	468	(11,119)	(10,651)
Capital reduction	(43,058)	1,145	(329,660)	(1)	370,895	(679)	–	(679)
Transaction costs recognised directly in equity	–	–	(2,520)	–	–	(2,520)	–	(2,520)
Share-based compensation	–	–	1,897	–	–	1,897	–	1,897
30 June 2016 (unaudited) (Note 22)	**4,784**	**(127)**	**1,897**	**(14,822)**	**464,091**	**455,823**	**51,405**	**507,228**

	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 from 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) (Note 22)	**4,784**	**(134)**	**1,345**	**(24,588)**	**490,084**	**471,491**	**63,157**	**534,648**

The accompanying notes on pages 37 to 71 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2017

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited Period ended 30 June 2017*	*Unaudited Period ended 30 June 2016*
Cash flows from operating activities			
Revenue from healthcare services and medical trials received		108,619	101,541
Cost of healthcare services and medical trials paid		(69,509)	(62,478)
Revenue from pharma received		219,897	32,466
Cost of sales of pharmaceuticals paid		(178,853)	(29,234)
Net insurance premiums received		25,068	26,949
Cost of insurance services paid		(17,447)	(21,366)
Salaries and other employee benefits paid		(38,069)	(17,098)
General and administrative expenses paid		(24,915)	(13,178)
Other operating income received		1,948	1,792
Other operating expenses paid		(1,875)	(1,236)
Net cash flows from operating activities before income tax		**24,864**	**18,158**
Income tax paid		(229)	(1,405)
Net cash flows from operating activities		**24,635**	**16,753**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired		(33,201)	(47,288)
Acquisition of additional interest in existing subsidiaries		–	(2,472)
Acquisition of investment securities held-to-maturity		–	(2,011)
Purchase of property and equipment		(38,905)	(53,929)
Purchase of intangible assets		(5,248)	(1,835)
Interest income received		207	42
Proceeds from amounts due from credit institutions		3,305	–
Placements of amounts due from credit institutions		(4,105)	(5,011)
Proceeds from sale of property and equipment		105	1,567
Net cash flow used in investing activities		**(77,842)**	**(110,937)**
Cash flows from / (used in) financing activities			
Repurchase of debt securities issued		(34,197)	(1,350)
Proceeds from borrowings		128,399	30,662
Repayment of borrowings		(36,631)	(55,296)
IPO related transaction costs		–	(2,520)
Interest expense paid		(9,769)	(8,796)
Net cash flows (used in)/from financing activities		**47,802**	**(37,300)**
Effect of exchange rates changes on cash and cash equivalents		(461)	(2,457)
Net decrease in cash and cash equivalents		**(5,866)**	**(133,941)**
Cash and cash equivalents, beginning	6	**23,239**	**145,153**
Cash and cash equivalents, end	6	**17,372**	**11,212**

The accompanying notes on pages 37 to 71 form an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

In 2014 the JSC Insurance Company Aldagi ("Aldagi") and its subsidiaries ("Aldagi group") began a corporate reorganisation in order to separate the healthcare services and medical insurance business, from the property and casualty insurance business.

As at 1 August 2014, Aldagi's medical insurance business segment was separated and transferred to a newly established legal entity, JSC Insurance Company Imedi L ("Imedi L"). At the same time, healthcare providers included in the Aldagi group were transferred to a newly established holding company, JSC Medical Corporation EVEX ("EVEX").

Both Imedi L and EVEX have been ultimately owned by Bank of Georgia Holdings plc ("BGH") since the commencement of reorganisation, but did not represent a group of entities until 27 August 2015, when BGH established a holding company, Georgia Healthcare Group PLC ("GHG" or "the Group"), and transferred its shares in Imedi L and EVEX to GHG. BGH changed its name to BGEO Group PLC ("BGEO") in 2015.

As at 30 June 2017 and 31 December 2016, the ultimate parent of GHG is BGEO Group PLC ("BGEO"), incorporated in London, England. GHG's results are consolidated as part of BGEO's financial statements.

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 pharma subsidiary, which was acquired in May 2016 (Note 4), offers a wide range of drugs as well as parapharmacy products.

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

As at 30 June 2017 and 31 December 2016, 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-Jun-2017*	*31-Dec-16*
BGEO Group PLC	57%	65%
Wellington Management Company	7%	7%
T Rowe LTD	6%	5%
Others	30%	23%
Total	**100%**	**100%**

(Thousands of Georgian Lari unless otherwise stated)

1. Background (continued)

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

Subsidiary	Ownership/Voting 30-Jun-2017	Ownership/Voting 31-Dec-2016	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Georgia Healthcare Group	100%	100%	Healthcare	29-Apr-15	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC GEPHA	67%	100%	Healthcare	19-Oct-95	4-May-16	Sanapiro str. 6, Tbilisi, Georgia
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	95%	95%	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	93%	93%	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, 4600
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%	–	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
NPO Healthcare Association	33%	33%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia
JSC Mega-Lab	100%	100%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze str. 23, Tbilisi Georgia

Associate	Ownership/Voting 30-Jun-2017	Ownership/Voting 31-Dec-2016	Industry	Date of incorporation	Date of acquisition	Legal address
LLC Geolab	25%	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

* The Group has de-facto control over the subsidiary (Note 4)

(Thousands of Georgian Lari unless otherwise stated)

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 2016 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 2017 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.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2016, signed and authorised for release on 13 April 2017.

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.

Reclassifications

During 2017, the Group reconsidered the presentation of its consolidated statement of comprehensive income for the purpose of more accurate presentation of certain accounts stated in the table below. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Consolidated statement of comprehensive income	*As previously reported*	*Reclassification*	*As reclassified*
General and Administrative Expenses	9,960	(692)	9,268
Other operating expense	1,327	692	2,019

(Thousands of Georgian Lari unless otherwise stated)

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 2016, except for the adoption of new standards effective as at 1 January 2017 and early adoption of IFRS 15. The nature and the effect of these changes are disclosed below.

Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017. The Group evaluated the impact and concluded that the amendment has no effect on the Group's statement of cash flows.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Application of the standard has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments are not expected to have any impact to the Group as the Group does not have any interest in a subsidiary, a joint venture or an associate that is classified as held for sale.

Early adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group early adopted the new standard starting 1 January 2017 using the modified retrospective application method.

In applying IFRS 15, the Group considered the following:

(a) Revenue from sales of pharmaceuticals and Revenue from healthcare services

The accounting for pharma contracts with wholesale customers in which drugs sale is the only performance obligation did not change as a result of IFRS 15. Revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(i) Variable consideration

Invoices sent to state and insurance companies are subject to follow up from counterparties that have a predetermined period to correct invoices in case of any substantive or technical errors. In prior periods the Group recognised the effect of corrections and rebates when it received corrected invoices. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Due to the provisions of IFRS 15, invoice corrections fall under the definition of variable consideration under IFRS 15, and are required to be estimated at contract inception. Due to the fact that corrected invoices are sometimes received with a three months lag, estimation is necessary. The impact of early adoption on consolidated retained earnings as at 1 January 2017 was GEL 1,049, with corresponding decrease of receivables from healthcare services.

(ii) Warranty obligations

Due to the nature of its business activities, the Group does not provide any warranties to clients.

(iii) Loyalty points programme (Zgarbi)

The Group determines that the loyalty programme offered within the pharma business gives rise to a separate performance obligation because it provides a material right to the customer. Thus, it will need to allocate a portion of the transaction price to the loyalty programme based on the relative stand-alone selling price. The Group concluded that the current accounting treatment applied to the customer loyalty programme is substantially in line with IFRS 15 requirements.

(b) Rendering of services

The Group provides healthcare services to clients. The Group has assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group did not have any impact from these service contracts as a result of early adoption of IFRS 15.

(c) Equipment received from customers

When an entity receives, or expects to receive, non-cash consideration, IFRS 15 requires that the fair value of the non-cash consideration is included in the transaction price. An entity would have to measure the fair value of the non-cash consideration in accordance with IFRS 13 Fair Value Measurement. The Group's pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers (so called "netting"). The consideration received is assessed with reference to its actual wholesale price. This is consistent with the requirements of IFRS 15 and therefore the Group did not have any impact in this area.

No other new or revised IFRS during the six months ended 30 June 2017 had an impact on the Group's financial position or performance.

(Thousands of Georgian Lari unless otherwise stated)

4. Business Combinations

Acquisitions in period ended 30 June 2017 (unaudited)

JSC ABC Pharmacy

On 6 January 2017, JSC GEPHA ("Acquirer"), a wholly owned subsidiary of the Group acquired 67% of JSC ABC Pharmacy ("ABC"), a pharmaceutical company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of ABC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	4,184
Receivables from sales of pharmaceuticals[1]	8,050
Inventory[1]	44,572
Property and equipment, net	10,987
Intangible assets, net	322
Current income tax assets	270
Prepayments	1,413
Other assets	1,045
Total assets	**70,843**
Liabilities	
Accounts payable	27,525
Accruals for employee compensation	1,861
Other liabilities	1,122
Total liabilities	**30,508**
Total identifiable net assets	**40,335**
Non-controlling interest	13,312
Goodwill arising on acquisition	46,796
Consideration[2]	**73,819**

1. The fair value of the receivables from healthcare services amounted to GEL 8,050. The gross amount of receivables is GEL 9,452. GEL 1,402 of the receivables have been impaired. The fair value of the inventory amounted to GEL 44,572. The gross amount of inventory was GEL 48,176. GEL 3,604 of the inventory have been impaired.
2. Consideration comprised GEL 73,819, of which GEL 10,347 is 33% share of JSC GPC, GEL32,501 has been already paid and remaining amount is due in tranches within 5 years.

Net cash outflow for the acquisition was as follows:

Cash paid	32,501
Cash acquired with the subsidiary	(4,184)
Net cash outflow	**28,317**

The Group decided to increase its presence and investment in the pharmaceuticals segment through the acquisition of ABC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, ABC has recorded GEL 139,812 and GEL 15,354 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari unless otherwise stated)

4. Business Combinations (continued)

Acquisitions in period ended 31 December 2016

JSC GPC

On 4 May 2016, JSC GHG ("Acquirer"), a wholly owned subsidiary of the Group, acquired 100% of the shares of JSC GPC ("GPC"), a pharmaceuticals company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of the GPC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	1,455
Receivables from sales of pharmaceuticals[1]	6,461
Inventory	30,329
Investment in associate	2,116
Property and equipment	8,105
Intangible assets	861
Current income tax assets	352
Deferred income tax assets	200
Prepayments	2,264
Other assets	2,593
Total assets	**54,736**
Liabilities	
Borrowings	15,198
Accounts payable	31,523
Accruals for employee compensation	1,555
Other liabilities	4,714
Total liabilities	**52,990**
Total identifiable net assets	**1,746**
Non-controlling interests	–
Goodwill arising on acquisition	30,959
Consideration[2]	**32,705**

1. The fair value of the receivables from sales of pharmaceuticals amounted to GEL 6,461. The gross amount of receivables is GEL 10,884. GEL 4,423 of the receivables have been impaired.
2. Consideration comprised GEL 32,705, which consists of cash payment of GEL 26,686 and a holdback amount with a fair value of GEL 6,019.

Net cash outflow for the acquisition was as follows:

Cash paid	26,686
Cash acquired with the subsidiary	(1,455)
Net cash outflow	**25,231**

The Group decided to increase its presence and investment in the healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GPC has recorded GEL 133,002 and GEL 1,924 of revenue and profit respectively in 2016. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 199,916 and GEL 1,705 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 490,667 and GEL 61,112 of revenue and profit respectively in the year ended 31 December 2016.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari unless otherwise stated)

4. Business Combination (continued)

Acquisitions in year ended 31 December 2016 (continued)

LLC Emergency Service

On 20 May 2016, JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, obtained de-facto control on LLC Emergency Service ("ES"), a healthcare company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of the ES as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	6
Receivables from healthcare services[1]	418
Inventory	1
Property and equipment	637
Total assets	**1,062**
Liabilities	
Borrowings	137
Accounts payable	344
Accruals for employee compensation	199
Total liabilities	**680**
Total identifiable net assets	**382**
Non-controlling interests	382
Goodwill arising on acquisition	2,850
Consideration[2]	**2,850**

1. The fair value of the receivables from healthcare services amounted to GEL 418. The gross amount of receivables is GEL 555. GEL 137 of the receivables has been impaired.
2. Consideration comprised GEL 2,850, of which GEL 500 has been already paid and remaining amount is due within 3 years.

Net cash outflow for the acquisition was as follows:

Cash paid	500
Cash acquired with the subsidiary	(6)
Net cash outflow	**494**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring ES. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, ES has recorded GEL 2,588 and GEL 481 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 4,077 and GEL 654 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 425,242 and GEL 61,504 of revenue and profit respectively in the year ended 31 December 2016.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari unless otherwise stated)

4. Business Combination (continued)

Acquisitions in year ended 31 December 2016 (continued)

JSC Pediatry

On 6 July 2016, JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 76% of JSC Pediatry ("Pediatry") shares from individual investors and signed a contract, which mandates purchase of remaining 24% shares. Pediatry is a healthcare company operating in Georgia. The fair values of identifiable assets and liabilities of Pediatry as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	14
Receivables from healthcare services1	303
Inventory	4
Property and equipment	402
Intangible assets	15
Total assets	**738**
Liabilities	
Accounts payable	62
Accruals for employee compensation	101
Current income tax liabilities	67
Other liabilities	24
Total liabilities	**254**
Total identifiable net assets	**484**
Non-controlling interests	–
Goodwill arising on acquisition	963
Consideration[2]	**1,447**

1. The fair value of the receivables from healthcare services amounted to GEL 303. The gross amount of receivables is GEL 541. GEL 238 of the receivables has been impaired.
2. Consideration comprised GEL 1,447, which consists of cash payment of GEL 1,100 and a holdback amount with a fair value of GEL 347.

Net cash outflow for the acquisition was as follows:

Cash paid	1,100
Cash acquired with the subsidiary	(14)
Net cash outflow	**1,086**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Pediatry. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Pediatry has recorded GEL 886 and GEL 121 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,764 and GEL 237 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,631 and GEL 61,447 of revenue and profit respectively in the year ended 31 December 2016.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari unless otherwise stated)

4. Business Combination (continued)

Acquisitions in year ended 31 December 2016 (continued)

LTD Patgeo

On 1 August 2016, JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group acquired 100% of LTD Patgeo ("Patgeo"), a healthcare company operating in Georgia from individual investors. The fair values of identifiable assets and liabilities of Patgeo as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	43
Receivables from healthcare services[1]	119
Inventory	36
Property and equipment	28
Other assets	2
Total assets	**228**
Liabilities	
Accounts payable	33
Accruals for employee compensation	30
Current income tax liabilities	25
Other liabilities	34
Total liabilities	**122**
Total identifiable net assets	**106**
Non-controlling interests	–
Goodwill arising on acquisition	1,450
Consideration[2]	**1,556**

1. The fair value of the receivables from healthcare services amounted to GEL 119. The gross amount of receivables is GEL 263. GEL 144 of the receivables has been impaired.
2. Consideration comprised GEL 1,556, which consists of cash payment of GEL 800 and a holdback amount with a fair value of GEL 756.

Net cash outflow for the acquisition was as follows:

Cash paid	800
Cash acquired with the subsidiary	(43)
Net cash outflow	**757**

The Group decided to increase its presence and investment in the regional healthcare market by acquiring Patgeo. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, Patgeo has recorded GEL 718 and GEL 114 of revenue and profit respectively. For the year ended 31 December 2016 revenue and profit of the acquired entity were GEL 1,716 and GEL 262 respectively.

If the combination had taken place at the beginning of the year, the Group would have recorded GEL 424,751 and GEL 61,479 of revenue and profit respectively in the year ended 31 December 2016.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

(Thousands of Georgian Lari unless otherwise stated)

5. Segment Information

For management purposes, the Group is organised into three operating segments based on the products and services – Healthcare services, Pharma 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 Group's wholly owned subsidiary Imedi L.

Pharma comprises a wide range of drugs and parapharmacy products which are offered through a chain of well-developed drug-stores by the Group'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.

Transactions between operating segments are on an arm's length basis as with transactions with third parties.

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 2017 or 30 June 2016.

(Thousands of Georgian Lari unless otherwise stated)

5. Segment Information (continued)

Statement of comprehensive income and selected items from the statement of financial position as at 30 June 2017 by segments are presented below:

	Unaudited Period ended 30 June 2017				
	Healthcare Services	***Pharma***	***Medical Insurance***	***Intersegment transactions and consolidation***	***Total***
Revenue from healthcare services and medical trials	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 and medical trials	(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	(500)	1,915	36	–	1,451
Net non-recurring income/(expense)	(2,531)	(882)	(198)	341	(3,270)
Profit before income tax expense	**15,132**	**11,484**	**(2,267)**	**–**	**24,349**
Income tax benefit (expense)/income	(11)	214	(310)	–	(107)
Profit for the period	**15,121**	**11,698**	**(2,577)**	**–**	**24,242**
Assets and liabilities					
Total assets	729,650	263,140	56,473	16,264	1,065,527
Total liabilities	364,839	123,459	45,886	(3,305)	530,879
Other segment information					
Property and equipment	582,437	23,746	5,976	–	612,159
Intangible assets	16,187	1,639	2,372	–	20,198

(Thousands of Georgian Lari unless otherwise stated)

5. Segment Information (continued)

Statement of comprehensive income and selected items from the statement of financial position as at 30 June 2016 by segments are presented below:

	Unaudited Period ended 30 June 2016				
	Healthcare Services	***Pharma***	***Medical Insurance***	***Intersegment transactions and consolidation***	***Total***
Revenue from healthcare services and medical trials	118,096	–	–	(4,746)	113,350
Revenue from pharma	–	30,691	–	–	30,691
Net insurance premiums earned	–	–	29,128	(54)	29,074
Revenue	**118,096**	**30,691**	**29,128**	**(4,800)**	**173,115**
Cost of healthcare services and medical trials	(64,397)	–	–	2,697	(61,700)
Cost of sales of pharmaceuticals	–	(25,059)	–	–	(25,059)
Cost of insurance services and agents' commissions	–	–	(26,836)	2,049	(24,787)
Costs of services	**(64,397)**	**(25,059)**	**(26,836)**	**4,746**	**(111,546)**
Gross profit	**53,699**	**5,632**	**2,292**	**(54)**	**61,569**
Other operating income	1,871	191	35	–	2,097
Salaries and other employee benefits	(11,369)	(2,690)	(2,147)	54	(16,152)
General and administrative expenses	(6,000)	(2,533)	(1,427)	–	(9,960)
Impairment of healthcare services, insurance premiums and other receivables	(1,978)	–	(238)	–	(2,216)
Other operating expenses	(1,235)	(46)	(46)	–	(1,327)
	(20,582)	**(5,269)**	**(3,858)**	**54**	**(29,655)**
EBITDA	**34,988**	**554**	**(1,531)**	**–**	**34,011**
Depreciation and amortisation	(8,382)	(258)	(406)	–	(9,046)
Interest income	645	–	697	(649)	693
Interest expense	(5,903)	(427)	(137)	649	(5,818)
Net (losses)/gains from foreign currencies	(2,122)	(272)	170	–	(2,224)
Net non-recurring income/(expense)	157	–	(973)	–	(816)
Profit before income tax expense	**19,383**	**(403)**	**(2,180)**	**–**	**16,800**
Income tax benefit (expense)/income	28,105	–	320	–	28,425
Profit for the period	**47,488**	**(403)**	**(1,860)**	**–**	**45,225**
Assets and liabilities					
Total assets	675,998	56,334	71,120	10,637	814,089
Total liabilities	216,391	55,225	54,229	(18,984)	306,861
Other segment information					
Property and equipment	488,105	7,950	5,684	–	501,739
Intangible assets	7,412	829	2,629	–	10,870

(Thousands of Georgian Lari unless otherwise stated)

6. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	Unaudited 30-Jun-17	31-Dec-16
Current and on-demand accounts with banks	14,604	22,604
Cash on hand	2,768	635
Total cash and cash equivalents	**17,372**	**23,239**

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 1,038 (2016: GEL 4,362). 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 621 (2016: GEL 701). 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.

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	Unaudited 30-Jun-17	31-Dec-16
Time deposits with banks, foreign currency	19,366	22,832
Time deposits with banks, local currency	314	1,044
Total amounts due from credit institutions	**19,680**	**23,876**

As at 30 June 2017, 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 8.25% (2016: 1.45% to 8.5%). As at 30 June 2017 amounts due from credit institutions include restricted cash of GEL 13,138 (2016: GEL 2,357), of which GEL 2,143 (2016: GEL 2,357) is pledged under the export facility agreement with ING Bank N.V, GEL 1,313 (2016: GEL 0) is pledged under currency forward contracts and the remaing GEL 9,682 (2016: GEL 0) is pledged under credit facilities.

8. Insurance Premiums Receivables

Insurance premiums receivables comprise:

	Unaudited 30-Jun-17	31-Dec-16
Insurance premiums receivable from policyholders	29,242	26,726
Less – Allowance for impairment	(2,306)	(2,519)
Total insurance premiums receivables, net	**26,936**	**24,207**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2017 and 31 December 2016.

(Thousands of Georgian Lari unless otherwise stated)

9. Receivables from Healthcare Services

Receivables from healthcare services comprise:

	Unaudited 30-Jun-17	31-Dec-16
Receivables from State	80,963	71,343
Receivables from individuals and other	24,774	20,824
Receivables from insurance companies	4,642	790
	110,379	**92,957**
Less – Allowance for impairment	(13,595)	(11,030)
Total receivables from healthcare services, net	**96,784**	**81,927**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2017 and 31 December 2016.

The Group's largest receivable is from the State, representing amounts receivable under the Universal Healthcare Programme ("UHC") introduced by the State in March 2013. Through the UHC, the State provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. Currently fully operational, the implementation of UHC took place in several stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by State or private insurance programmes (accounting for approximately 2 million people, including children above the age of six and adults);
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses;
- April 2014. UHC superseded the State Insurance Programme (SIP) – the first of two existing State insurance programmes that had provided healthcare coverage to "economically vulnerable" citizens since 2007;
- September 2014. UHC superseded the second SIP (under the Decree №165) that covered pensioners, children under 6 and students.

A summary description of UHC is as follows:

- UHC is fully financed by the Georgian Government and administered by the Social Service Agency. In most cases beneficiaries have an annual limit of 15,000 Lari per incident. This threshold limits the services to which a patient can have access, resulting in the need for co-payment for most critical elective services;
- UHC beneficiaries are eligible to select a healthcare provider of their choice, as long as it is enrolled in the programme;
- Any provider, private or public, is eligible to participate in the programme;
- The actual prices that are charged to patients by healthcare providers are not regulated by the State. However, the reimbursement scheme (i.e. the amount paid by the State to healthcare providers) differs depending on the type of services:
    - The capitation method is used for elective outpatient services;
    - Emergency medical care tariffs are based on the minimum historic prices under the previous State medical insurance programmes, with the possibility of changes over time;
    - For elective in-patient services, the amount reimbursed by the State is based on the average of the lowest 25th percentile of the prices charged by countrywide providers, with the patient making a co-payment for any excess charges.

UHC reimbursement scheme for the selected services in Georgia is as follows:

Service	**Reimbursement from the State**
Scheduled ambulatory service	70%
Service of a family doctor and basic laboratory tests	100%
Emergency in-patient services	70/100% with a limit for a single accident of 15,000 Lari
Scheduled surgeries and associated tests	70%; annual limit –15,000 Lari
Treatment of oncology diseases	80%; annual limit –12,000 Lari
Childbirth	500 Lari; caesarean section –800 Lari

(Thousands of Georgian Lari unless otherwise stated)

10. Property and Equipment

The movements in property and equipment were as follows:

	Land and office buildings	*Hospitals & clinics*	*Furniture and fixtures*	*Computers*	*Medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost									
1 January 2016	**3,588**	**312,490**	**9,825**	**8,313**	**115,636**	**4,714**	**7,169**	**12,477**	**474,212**
Acquisition through business combinations	4,640	13,296	1,088	1,323	1,282	1,019	1,063	–	23,711
Revaluation (Note 22)	–	12,846	–	–	–	–	–	–	12,846
Additions	–	52,444	4,046	3,339	44,803	163	1,316	5,134	111,245
Disposals	–	(6,276)	(188)	(500)	(298)	(917)	(149)	–	(8,328)
Transfers and corrections[1]	(46)	16,859	(1,948)	(1,836)	(15,884)	(635)	(137)	(16,859)	(20,486)
31 December 2016	**8,182**	**401,659**	**12,823**	**10,639**	**145,539**	**4,344**	**9,262**	**752**	**593,200**
Acquisition through business combinations (Note 4)	6,829	–	1,445	996	–	1,129	589	–	10,988
Additions	2,753	9,839	3,074	2,882	17,081	326	890	437	37,282
Disposals	–	–	(73)	(126)	–	(149)	(13)	–	(361)
30 June 2017(Unaudited)	**17,764**	**411,498**	**17,269**	**14,391**	**162,620**	**5,650**	**10,728**	**1,189**	**641,109**
Accumulated Depreciation									
1 January 2016	**153**	**6,326**	**2,552**	**3,019**	**16,492**	**719**	**233**	**–**	**29,494**
Depreciation charge	39	1,965	1,433	1,545	11,307	832	781	–	17,902
Disposals	–	(297)	(155)	(141)	(237)	(29)	(8)	–	(867)
Revaluation	–	(7,814)	–	–	–	–	–	–	(7,814)
Transfers and corrections	–	–	(1,963)	(1,836)	(15,884)	(635)	(169)	–	(20,487)
31 December 2016	**192**	**180**	**1,867**	**2,587**	**11,678**	**887**	**837**	**–**	**18,228**
Depreciation charge	29	1,622	608	1,340	6,576	369	535	–	11,079
Disposals	–	–	(71)	(186)	–	(99)	(1)	–	(357)
30 June 2017(Unaudited)	**221**	**1,802**	**2,404**	**3,741**	**18,254**	**1,157**	**1,371**	**–**	**28,950**
Net book value:									
1 January 2016	**3,435**	**306,164**	**7,273**	**5,294**	**99,144**	**3,995**	**6,936**	**12,477**	**444,718**
31 December 2016	**7,990**	**401,479**	**10,956**	**8,052**	**133,861**	**3,457**	**8,425**	**752**	**574,972**
30 June 2017(Unaudited)	**17,543**	**409,696**	**14,865**	**10,650**	**144,366**	**4,493**	**9,357**	**1,189**	**612,159**

[1] Transfers and corrections relate allocation of costs as a result of stock taking in 2016.

(Thousands of Georgian Lari unless otherwise stated)

10. Property and Equipment (continued)

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the buildings pledged as at 30 June 2017 was GEL 399,471 (2016: GEL 410,221). During 2016 the Group changed its accounting policy with respect to the hospitals and clinics. The Group engaged an independent appraiser to determine the fair value of its land and office buildings and hospitals and clinics on 1 July 2016. As a result, the Group posted a revaluation surplus of GEL 20,804 of which GEL 19,645 was attributable to shareholders of the Company and GEL 1,159 was attributable to non-controlling interest. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was dated 1 July 2016. 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 2017 and 31 December 2016 would be as follows:

	Unaudited *30-Jun-17*	*31-Dec-16*
Cost	416,972	397,062
Accumulated depreciation and impairment	(9,714)	(8,245)
Net carrying amount	**407,258**	**388,817**

11. Goodwill and Other Intangible Assets

The movements in goodwill were as follows:

	Goodwill
31 December 2015	**20,713**
Acquisition through business combinations	33,149
Change in GNCo Goodwill	853
31 December 2016	**54,715**
Acquisition through business combinations (Note 4)	46,796
Change in provisional value of goodwill of GPC	1,933
Change in provisional value of goodwill of Patgeo	756
Change in provisional value of goodwill of Emergency Service	383
Change in provisional value of goodwill of HTMC	(291)
30 June 2017(Unaudited)	**104,292**

Other intangible assets comprise of licenses and computer software with carrying value as at 30 June 2017 of GEL 20,198 (2016: GEL 15,624). As at 30 June 2017 the cost of other intangible assets equalled GEL 23,416 (2016: GEL 17,607) and accumulated amortisation and impairment equalled GEL 3,218 (2016: GEL 1,983). The Group performed impairment tests and identified impairment of intangible assets of GEL 606 as at 30 June 2017, which was charged to profit or loss.

The table below presents carrying values of goodwill by subsidiary companies.

	Effective annual growth rate in three-year financial budgets	*WACC applied for impairment*	*Unaudited* *30 June 2017*	*31 December 2016*
JSC Insurance Company Aldagi	10.00%	13.00%	3,260	3,260
JSC My Family Clinic	10.00%	13.00%	508	508
JSC Insurance Company Partner	10.00%	13.00%	103	103
JSC Insurance Company Imedi L International	10.00%	13.00%	99	99
Caraps Medline	10.00%	13.00%	3,534	3,534
Traumatology	10.00%	13.00%	911	911
GNCo	10.00%	13.00%	11,991	12,282
LLC Catastrophe Medicine Paediatric Centre	10.00%	13.00%	869	869
JSC GPC	10.00%	13.00%	30,958	29,025
LLC Emergency Service	10.00%	13.00%	2,850	2,467
JSC Pediatry	10.00%	13.00%	963	963
LTD Patgeo	10.00%	13.00%	1,450	694
JSC ABC Pharmacy	10.00%	13.00%	46,796	-
Total			**104,292**	**54,715**

(Thousands of Georgian Lari unless otherwise stated)

11. Goodwill and Other Intangible Assets (continued)

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 a capital asset pricing model based on the group's shares market beta.
- 2018, 2019 and 2020 years' cash flow projections were modelled applying 10% growth.
- Moderate, stable 4% real GPD growth was assumed based on the external statistical forecasts for 2021 and beyond.

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount of CGUs will not result in an impairment of goodwill. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 30 June 2017. In 2017 the reporting segments were considered as CGUs for the purposes of goodwill impairment testing. The Group did not identify any impairment of goodwill as at 30 June 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 three-year period, historical price-to-tangible book value multiple and price earnings ratio multiple.

12. Taxation

The corporate income tax expense comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Current tax benefit	202	828
Deferred tax (expense)/ benefit – origination and reversal of temporary differences	(309)	27,597
Income tax (expense)/ benefit	**(107)**	**28,425**

Georgian legal entities must file individual tax declarations. The statutory corporate tax rate was zero rate on retained earnings and 15% tax rate on distributed earnings in the period ended 30 June 2017 and 15% in the period ended 30 June 2016.

In May 2016, the parliament of Georgia signed a document approving a change in the current corporate taxation model which is applicable starting from 1 January 2017 for all entities apart from financial institutions, including insurance business and is applicable starting from 1 January 2019 to financial institutions, including our medical insurance subsidiary – Imedi L. The new model implies zero rate on retained earnings and 15% tax rate on distributed earnings. The Group considered the new regime as substantively enacted effective June 2016 and thus re-measured its deferred tax assets and liabilities. The change had an immediate impact on deferred tax asset and deferred tax liability balances. The whole amount of deferred tax assets and liabilities was written off.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
IFRS income before tax	**24,349**	**16,800**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**3,652**	**2,520**
Georgian tax code change effect	309	(25,135)
Correction of prior year declaration	(202)	–
Recovery of deferred tax assets	–	(4,176)
Non-taxable income	(3,652)	(1,857)
Non-deductible expenses	–	223
Income tax expense/(benefit)	**107**	**(28,425)**

(Thousands of Georgian Lari unless otherwise stated)

12. Taxation (continued)

Deferred tax assets and liabilities as at 30 June 2016 and their movements for the period then ended comprise:

	1-Jan-16	*In the income statement*	*Acquired through business combination*	*31-Dec-16*	*In the income statement*	*Acquired through business combination*	*30-Jun-17*
Tax effect of deductible temporary differences							
Tax loss carried forward	4,147	(4,147)	–	–	–	–	–
Insurance premiums receivables	1,120	(607)	–	513	(513)	–	–
Receivable from healthcare services	1,530	(1,530)	–	–	–	–	–
Receivable from sale of pharmaceuticals	–	(214)	214	–	–	–	–
Accruals for employee compensation	1,854	(2,054)	200	–	–	–	–
Borrowings	23	64	–	87	(87)	–	–
Accounts payable	–	(63)	63	–	–	–	–
Other assets	314	(251)	–	63	(63)	–	–
Deferred tax assets	**8,988**	**(8,802)**	**477**	**663**	**(663)**	–	–
Tax effect of taxable temporary differences:							
Property and equipment	26,974	(28,860)	1,915	29	(29)	–	–
Investment in associate	–	(289)	289	–	–	–	–
Debt securities issued	117	(117)	–	–	–	–	–
Insurance contract liabilities	43	(78)	–	(35)	35	–	–
Intangible assets	355	5	–	360	(360)	–	–
Other liabilities	9	533	(542)	–	–	–	–
Deferred tax liabilities	**27,498**	**(28,806)**	**1,662**	**354**	**(354)**		
Net deferred tax (liability) asset	**(18,510)**	**20,004**	**(1,185)**	**309**	**(309)**		
Deferred income tax assets	796	**(964)**	**477**	309	**(309)**	**–**	**–**
Deferred income tax liabilities	**(19,306)**	**20,968**	**(1,662)**	–	–	–	–

(Thousands of Georgian Lari unless otherwise stated)

12. Taxation (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Georgia currently has a number of laws related to various taxes imposed by State governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and a turnover based tax, amongst others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia that are substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Group's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Group could have a material impact on the Group's operations or its financial position in Georgia.

13. Inventory

The caption includes GEL 92,167 inventory held by pharma business (JSC GEPHA), increase year over year is mainly caused by the acquisition of ABC (note 4). Our pharma business uses specific identification method for inventory accounting.

14. Prepayments

Prepayments comprise:

	Unaudited 30-Jun-17	*31-Dec-16*
Prepayments for property and equipment and intangible assets	7,097	24,914
Prepayments for operating expenses	18,253	5,604
Total prepayments	**25,350**	**30,518**

The prepayments mainly comprise advances to the constuctors of Deka and Sunstone hospitals.

15. Other Assets

Other assets comprise:

	Unaudited 30-Jun-17	*31-Dec-16*
Call option	4,691	–
Non-medical receivables	3,201	5,599
Loans issued	2,221	2,963
Lease deposit	1,637	1,853
Deferred acquisition costs	1,467	1,341
Prepaid operating taxes	749	237
Derivative financial assets	–	6,277
Other	4,318	3,201
Total other assets, gross	**18,284**	**21,471**
Less – allowance for impairment	(3,201)	(3,201)
Total other assets, net	**15,083**	**18,270**

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 pharma business during the period from 1 january 2023 to 31 December 2023. In accordance with IFRS requirments the Group recognized a GEL 4,691 asset.

(Thousands of Georgian Lari unless otherwise stated)

15. Other Assets (continued)

Loans issued as at 30 June 2017 mainly comprise debt securities issued by JSC m2 Real Estate and LLC Georgian Leasing Company that are owned by the Group. Both companies represent related party entities of the Group. As at 30 June 2017, lease deposit comprises advances paid to a lease contractor on the rent of an ambulatory clinic. Lease payments are netted against the deposited amount upon payment due date.

16. Insurance Contract Liabilities

Insurance contract liabilities comprise:

	Unaudited 30-Jun-17	*31-Dec-16*
Insurance contracts liabilities		
- Unearned premiums reserve ("UPR")	23,889	22,372
- Reserves for claims reported but not settled ("RBNS")	2,201	2,625
- Reserves for claims incurred but not reported ("IBNR")	339	1,790
Total insurance contracts liabilities	**26,429**	**26,787**

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

	Unaudited 30-Jun-17	*31-Dec-16*
At the beginning of the period	**26,787**	**21,351**
Premiums written during the period	30,012	65,491
Premiums earned during the period	(27,032)	(61,104)
Claims incurred during the period	18,634	45,544
Claims paid during the period	(21,972)	(44,495)
At the end of the period	**26,429**	**26,787**

17. Borrowings

Borrowings comprise:

	Unaudited 30-Jun-17	*31-Dec-16*
Borrowings from local financial institutions	113,610	79,417
Borrowings from foreign financial institutions	159,057	99,541
Borrowings from shareholders	6,037	5,756
Overdrafts from local commercial banks	1,779	2,843
Total borrowings	**280,483**	**187,557**

In the period ended 30 June 2017 borrowings from local financial institutions had an average interest rate of 11.61% per annum (2016: 10.66%), maturing on average in 1,191 days (2016: 1,299 days). Borrowings from international financial institutions had an average interest rate of 9.04% (2016: 6.31%), maturing in 2,318 days (2016: 2,213 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. At 30 June 2017 and 31 December 2016 the Group complied with all these lender covenants. As at 30 June 2017, the Group had undrawn loan commitment of USD 5.5 million from Procredit Bank and Bank of Georgia. As at 31 December 2016 the Group had undrawn loan commitment of USD 25 million from International Finance Corporation and undrawn loan commitment of USD 4 million from Proparco.

(Thousands of Georgian Lari unless otherwise stated)

18. Accounts Payable

Accounts payable comprise:

	Unaudited 30-Jun-2017	31-Dec-16
Accounts payable for materials and supplies	68,294	39,424
Accounts payable for property and equipment	8,313	9,744
Accounts payable for office supplies	6,573	7,646
Accounts payable for healthcare services	3,374	3,902
Other accounts payable	1,137	3,651
Total accounts payable	**87,691**	**64,367**

19. 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.

As at 30 June 2017, payable for share acquisitions comprised a holdback for the acquisition of ABC of GEL 85,960, for acquisition of LLC Emergency Service of GEL 2,850, for JSC Pediatry of GEL 347 and for acquisition of LLC Patgeo of GEL 756.

As at 31 December 2016, payable for share acquisitions comprised a holdback for the acquisition of JSC GPC of GEL 5,210, a holdback for acquisition of LLC Emergency Service of GEL 2,850 and a holdback for acquisition of JSC Pediatry of GEL 347.

From JSC ABC holdback of GEL 85,960, GEL 58,096 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 measured at amortized cost using initial effective interest rate on US Dollar denominated borrowings.

20. Finance Lease Liabilities

Finance lease liabilities comprise the minimum lease payments and the repurchase option price, exercisable in up to a one year, of an ambulatory clinic located in Tbilisi. As at 30 June 2017, the net carrying value of the property held under finance leases equalled GEL 3,591. The undiscounted value of the future minimum lease payments and the repurchase options equalled GEL 3,082 while the present value of these amounts equalled GEL 2,933. The difference of GEL 149 between the two values fully comprised a discount applying a 6% implicit rate. At the option expiration, the embedded purchase option in the finance lease agreements is renewed automatically unless the counterparty comes up with a new repurchase price within several days from the option expiration. All payments under finance lease contracts are due in no later than one year.

(Thousands of Georgian Lari unless otherwise stated)

21. Other Liabilities

Other liabilities comprise:

	Unaudited 30-Jun-2017	31-Dec-16
Operating taxes payable	6,113	5,648
Deferred revenues	3,607	4,427
Provisions for ongoing litigation	2,646	2,141
Insurance claims payable	3,138	2,283
Derivative financial liabilities	2,068	–
Commissions payable	1,467	1,341
Other	2,971	412
Total other liabilities	**22,010**	**16,252**

Provisions for ongoing litigation mainly result from acquired companies GEL 2,359 (2016:GEL 2,141). The provisions were created on acquisition and were taken into account in the process of determining the consideration for the business combinations. There have been no changes in provisions for ongoing litigation the since acquisition dates. Another portion of litigation reserves was recognised in the period ended 30 June 2017 (GEL 287) and mainly relates to litigation started in the last 6 months.

22. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and the Company are 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 or the Company.

Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	Unaudited 30-Jun-17	31-Dec-16
Capital commitments	8,598	12,914
Lease commitments		
- Leases expiring not later than 1 year	19,401	14,200
- Leases expiring later than 1 year but not later than 5 years	62,714	61,824
Total financial commitments and contingencies	**90,713**	**88,938**

In the six months ended 30 June 2017 as well as in the year ended 31 December 2016, capital commitments comprisedcontracts related to the construction of ambulatory clinics in Georgia. The commitments fully result from subsidiaries. The Company does not have any commitments or contingencies. The Group did not have contingent rents or sublease payments. The Company does not have any lease commitments. The amount of operating lease expense recognised is disclosed in Note 31.

(Thousands of Georgian Lari unless otherwise stated)

22. Commitments and Contingences (continued)

As at 30 June 2017, the Group had litigation with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 8,187 (2016: GEL 3,765) and litigation with its associate company Geolab in relation to an amount of GEL 2,024 (2016: 0). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process, while the litigation with Geolab related to the provision of laboratory services by Geolab which were invoiced with procedural violations and therefore not paid by the Group. The Group's legal department identified the related risks as possible but not probable.

23. Equity

As part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined pharma 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 pharma business, GEL 22 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 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 amortized cost 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).

The impact of early adoption of IFRS 15, GEL 1,049 was debited to Retained Earnings in accordance with the modified retrospective application method.

In January 2016, the Group undertook a reduction of capital in order to create distributable reserves for the Company. The difference between the nominal value of the Company's shares (GBP 0.01) and the aggregate carrying value of the Group's Share Capital, Additional paid-in capital and Treasury shares was credited to the merger reserve created in connection with the capital reduction. It was the intention of the Group that the maximum amount of distributable reserves be created. The Group implemented a Court-approved reduction of capital which reduced the original nominal value of GHG shares thereby creating distributable reserves.

In the six month period ended 30 June 2017 and in the year ended 31 December 2016 the following changes occurred in the amount of issued shares:

	Number of ordinary shares	*Amount of ordinary shares*
1 January 2016	**131,681,820**	**47,842**
Capital reduction	–	(43,058)
31 December 2016	**131,681,820**	**4,784**
	–	–
30 June 2017	**131,681,820**	**4,784**

The number of treasury shares held by the Company as at 30 June 2017 was 3,452,534 (31 December 2016: 3,727,835). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation.

The Share capital of the Company was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the IPO. After establishment of GHG PLC (Note 1) the Company share capital was denominated in GBP and shareholders were entitled to dividends in GBP. No dividends were announced or distributed in the period ended 30 June 2017 or 2016 year.

In 2016 GEL 20,804 was recognised in other comprehensive income as a revaluation surplus on hospitals and clinics. From the total amount, GEL 19,645 was attributable to shareholders of the Company and GEL 1,159 was attributable to non-controlling interests.

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 1,500, of which 80% 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.

(Thousands of Georgian Lari unless otherwise stated)

23. Equity (continued)

For the purpose of calculating basic earnings per share the Group used profit for the year attributable to shareholders of the Company of GEL 15,004 (30 June 2016: GEL 37,676) as a numerator and the weighted average number of shares outstanding during the period ended 30 June 2017 of 128,091,636 (30 June 2016: 128,181,820) 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 2017 of 131,681,820 (2016: 131,681,820) as a denominator.

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 decreases to the extent that such decrease reverses an increase in the fair value of the same asset previously recognised in equity. As at 30 June 2017, revaluation reserve for property and equipment equalled GEL 20,104 (2016: GEL 20,104).

Losses from sale/acquisition of shares in existing subsidiaries

In March 2016, the Group acquired the remaining 33.3% minority shareholding of its largest pediatric hospital, Iashvili Referral Hospital. The Group has held a 66.7% controlling interest in Iashvili since February 2014. In exchange for the 33.3% minority shareholding in Iashvili, GHG paid cash consideration of USD 1.0 million and transferred non-cash consideration - all of its fixed assets in Tbilisi Maternity Hospital "New Life" - to the seller of the minority stake. The resulting gain from the acquisition was GEL 468.

As at 30 June 2017, Losses from sale/acquisition of shares in existing subsidiaries equalled GEL (44,692) (2016: GEL (15,282)).

24. Revenue from healthcare services and medical trials

Revenue from healthcare services and medical trials comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
State	90,641	88,346
Out-of-pocket and other	31,356	23,605
Insurance companies	5,442	2,533
Less: Corrections & rebates	(1,283)	(1,134)
Revenue from healthcare services and medical trials	**126,156**	**113,350**

Revenue from the State represents the revenue through UHC. A full description of the programme is provided in Note 9 above.

25. Revenue from pharma

Revenue from pharma comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Retail	164,083	23,066
Wholesale	52,494	7,625
Total revenue from pharma	**216,577**	**30,691**

(Thousands of Georgian Lari unless otherwise stated)

26. Net Insurance Premiums Earned

Net insurance premiums earned comprise:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Gross premiums written	30,012	41,651
Change in unearned premiums reserve	(2,980)	(12,577)
Total net insurance premiums earned	**27,032**	**29,074**

27. Cost of Healthcare Services and medical trials

Cost of healthcare services comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Cost of salaries and other employee benefits	(45,654)	(37,950)
Cost materials and supplies	(17,761)	(18,052)
Cost of utilities and other	(6,234)	(4,904)
Cost of providers	(776)	(794)
Total cost of healthcare services and medical trials	**(70,425)**	**(61,700)**

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 and medical trials in the period ended 30 June 2017 amounted to GEL 36,152 (period ended 30 June 2016: GEL 16,152) 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 2017 amounted to GEL 81,806 (period ended 30 June 2016: GEL 54,102).

28. Cost of sales of pharmaceuticals

Cost of sales of pharmaceuticals comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Retail	(123,744)	(18,514)
Wholesale	(45,486)	(6,545)
Total cost of sales of pharmaceuticals	**(169,230)**	**(25,059)**

29. Cost of insurance services and agents' commissions

Cost of insurance services and agents' commissions comprises:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Insurance claims paid	(21,972)	(23,894)
Change in insurance contract liabilities	3,338	987
Net insurance claims incurred	**(18,634)**	**(22,907)**
Agents, brokers and employee commissions	(1,704)	(1,880)
Cost of insurance services and agents' commissions	**(20,338)**	**(24,787)**

(Thousands of Georgian Lari unless otherwise stated)

30. Other Operating Income

	Unaudited Period ended 30 June 2017	Unaudited Period ended 30 June 2016
Gain from call option	4,691	-
Gain from lease derecognition	2702	-
Rent Income	932	612
Gain from rent liability derecognition	514	-
Revenue from sale of drugs	241	612
Income from Associate	211	-
Gain from PPE sold	98	304
Revenue from realized stationery	13	110
Other	784	459
Total other operating income	**10,186**	**2,097**

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 pharma business during the period from 1 January 2023 to 31 December 2023. In accordance with IFRS requirments the Group recognized GEL 4,691 gain from the call option.

The Group recognized a gain from derecognition of one of its finance leases arising from the option price of leased property and the actual acquisition.

31. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	Unaudited Period ended 30 June 2017	Unaudited Period ended 30 June 2016
Salaries and other benefits	(33,017)	(14,235)
Cash bonuses	(2,673)	(791)
Share-based compensation	(462)	(1,126)
Total salaries and other employee benefits	**(36,152)**	**(16,152)**

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 2017, equaled 13,785 (30 June 2016: 10,797).

32. General and Administrative Expenses

General and administrative expenses comprise:

	Unaudited Period ended 30 June 2017	Unaudited Period ended 30 June 2016
Operating lease expense	(9,747)	(2,670)
Marketing and advertising	(3,397)	(1,225)
Office supplies	(1,919)	(1,510)
Professional services	(1,659)	(875)
Administrative utilities	(939)	(66)
Representative expense	(899)	(298)
Communication	(813)	(510)
Travel	(535)	(341)
Bank fees and commissions	(473)	(244)
Security	(382)	(136)
Other	(3,989)	(1,393)
Total general and administrative expenses	**(24,752)**	**(9,268)**

In the six month period ended 30 June 2017 and 30 June 2016 other general and administrative expenses mainly comprised training, property tax, property insurance and other operating tax expenses.

(Thousands of Georgian Lari unless otherwise stated)

33. Other Operating Expenses

Other operating expenses comprise:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016 as reclassified*
Repair and maintenance expense	(1,187)	(692)
Penalty expense	(1,141)	-
Impairment of intangible assets	(606)	-
Impairment expense on PPE	(295)	-
Loss from litigations	(1,092)	-
Impairment of prepayments	(225)	-
Expense on corporate event	(168)	-
Loss from receivables write-off	(141)	-
Loss from PPE sold	(20)	(93)
Other	(900)	(1,234)
Total other operating expense	**(5,775)**	**(2,019)**

In the six month period ended 30 June 2017 penalty expenses mainly related to procedural violations in medical documentation as well as billing and invoicing process.

34. Interest Income and Interest Expense

Interest income and interest expense comprise:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Interest income		
Interest income from amounts due from credit institutions	909	609
Interest income from loans issued	314	84
Total interest income	**1,223**	**693**
Interest expense		
Interest expense on borrowings	(12,706)	(3,927)
Interest expense on debt securities issued	(1,151)	(1,891)
Total interest expense	**(13,857)**	**(5,818)**

In the six months period ended 30 June 2017 the amount of borrowing costs capitalised in relation to qualifying items of property and equipment amounted to GEL 2,838 (30 June 2016: GEL 846).

35. Net Non-Recurring Expense

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;

35. Net Non-Recurring Expense (continued)

Net non-recurring expense for the six month period ended 30 June 2016 comprises:

- GEL 2,348 gain from disposal of New Life clinic;
- GEL 2,973 loss from one-off write-off of old receivables;
- GEL 1,615 gain from write-off of waived payables;
- GEL 738 loss on contract terms which are expected to be improved in the second half of the year 2016;
- GEL 441 loss from one-off compensations to employees;
- GEL 336 one-off currency conversion loss from settlement of consideration paid for acquisition of JSC GPC.
- GEL 200 one-off income from penalties to constructors.
- GEL 418 loss from write-off of other assets.
- GEL 73 net loss from other individually insignificant transactions.

36. Net gains/(losses) from foreign currencies and cost of currency derivatives

The caption includes GEL 2,313 cost of currency derivatives (2016: GEL 0).

37. Share-based Compensation

Sanne Fiduciary Services (the "Trustee") acts as the trustee of the Group's Employee Benefit Trust, (EBT), which was founded in 2015. The EBT was established for the purposes of satisfying deferred share compensation awarded to Executive Directors and other members of executive and senior management.

Due to the fact that the Group does not expect payments of any dividends in subsequent years, they were not incorporated into the measurement of fair value of the plans.

GHG Senior Executive Plans

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 of grant date. The fair values were identified based on market prices on grant date. As at 30 June 2017 no 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 of grant date. The fair values were identified based on market prices on grant date. As at 30 June 2017, one third 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 instalments 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 of the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 30 June 2017, 4% of the shares have been vested.

(Thousands of Georgian Lari unless otherwise stated)

37. Share-based Compensation (continued)

BGEO Senior Executive Plans

In March 2015, the Board of Directors of BGEO resolved to award 24,576 ordinary shares of BGEO to 4 executives of the Group. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for the awards. The Group considers 19 March 2015 as the grant date for the awards. The Group estimates that the fair value of the shares awarded on 19 March 2015 was GEL 57.41 per share. The fair value was identified based on market prices on grant date. As at 30 June 2017, two thirds of the discretionary shares have been vested.

38. 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 within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also 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 2017 and year ended 31 December 2016 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".

The Statutory Reserve requirement for Imedi L as at 30 June 2017 equals to the minimum amount of liquid assets of GEL 6,207 (2016: GEL 7,007). The insurance company is fully compliant with the requirement by holding actual GEL 6,354 (2016: GEL 9,693) of total eligible liquid assets.

(Thousands of Georgian Lari unless otherwise stated)

39. 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 2017 (unaudited)	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	17,372	–	17,372
Amounts due from credit institutions	19,680	–	19,680
Insurance premiums receivables	26,936	–	26,936
Receivables from healthcare services	96,784	–	96,784
Receivables from sales of pharmaceuticals	15,550	–	15,550
Investment in associate	–	2,581	2,581
Inventory	107,169	–	107,169
Prepayments	18,253	7,097	25,350
Property and equipment	–	612,159	612,159
Goodwill and other intangible assets	–	124,490	124,490
Current income tax assets	2,373	–	2,373
Other assets	9,772	5,311	15,083
Total assets	**313,889**	**751,638**	**1,065,527**
Liabilities			
Accruals for employee compensation	21,146	–	21,146
Accounts payable	87,691	–	87,691
Payable for share acquisitions	31,817	58,096	89,913
Insurance contract liabilities	26,429	–	26,429
Borrowings	59,792	220,691	280,483
Finance lease liabilities	2,933	–	2,933
Current income tax liabilities	274	–	274
Other liabilities	22,010	–	22,010
Total liabilities	**252,092**	**278,787**	**530,879**
Net position	**61,797**	**472,851**	**534,648**
Accumulated gap	**61,797**	**534,648**	

(Thousands of Georgian Lari unless otherwise stated)

39. Maturity analysis (continued)

31 December 2016	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	23,239	–	23,239
Amounts due from credit institutions	23,876	–	23,876
Insurance premiums receivables	24,207	–	24,207
Receivables from healthcare services	81,927	–	81,927
Receivables from sales of pharmaceuticals	5,105	–	5,105
Investment in associate	–	2,370	2,370
Inventory	54,920	–	54,920
Prepayments	5,604	24,914	30,518
Property and equipment	–	574,972	574,972
Goodwill and other intangible assets	–	70,339	70,339
Current income tax assets	2,511	–	2,511
Deferred income tax assets	–	309	309
Other assets	18,270	–	18,270
Total assets	**239,659**	**672,904**	**912,563**
Liabilities			
Accounts payable	64,367	–	64,367
Accruals for employee compensation	16,001	–	16,001
Payable for share acquisitions	5,210	3,197	8,407
Insurance contract liabilities	26,787	–	26,787
Borrowings	42,414	145,143	187,557
Debt securities issued	36,024	–	36,024
Finance lease liabilities	14,878	–	14,878
Current income tax liabilities	258	–	258
Other liabilities	16,252	–	16,252
Total liabilities	**222,191**	**148,340**	**370,531**
Net position	**17,468**	**524,564**	**542,032**

The amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on 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.

40. 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.

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:

(Thousands of Georgian Lari unless otherwise stated)

40. Related Party Transactions (continued)

	Unaudited Period ended 30 June 2017		*Year ended 31 December 2016*	
	*Entities under common control**	*Other***	*Entities under common control***	*Other****
Assets				
Cash and cash equivalents	4,585	–	14,428	–
Amounts due from credit institutions	10,954	–	8,017	–
Insurance premiums receivable	1,427	–	1,727	–
Other assets: Non-medical receivables	323	–	1,010	–
Other assets: Derivative financial assets	–	–	6,277	–
Other assets: Loans issued and lease deposit	2,063	1,637	1,999	2,547
Prepayments and other assets	357	–	17	–
	19,709	**1,637**	**33475**	**2,547**
Liabilities				
Derivative financial liabilities	2,068	–	–	–
Borrowings	62,110	–	37,495	–
Insurance contract liabilities	1,577	–	1,904	–
Accounts payable	428	–	1,949	–
Other liabilities	77	–	–	–
	66,260	**–**	**41,348**	**–**

	Unaudited Period ended 30 June 2017		*Unaudited Period ended 30 June 2016*	
	*Entities under common control**	*Other***	*Entities under common control**	*Other***
Income and expenses				
Net insurance premiums earned	1,766	–	1,475	–
General and administrative expenses	(712)	–	(436)	–
Interest income	687	–	129	–
Interest expense	(5,567)	–	(2,880)	–
Net gains from foreign currencies	4,272	–	–	–
Other operating expenses	(457)	–	–	–
Cost of healthcare services and medical trials	(476)	–	–	–
	(487)	**–**	**(1,712)**	**–**

* Entities under common control include BGEO Group PLC subsidiaries
** Other related party comprises of single entity to which the Group provides management services.

Compensation of key management personnel comprised the following:

	Unaudited Period ended 30 June 2017	*Unaudited Period ended 30 June 2016*
Salaries and cash bonuses	2,402	1,559
Share-based compensation	1,383	1,028
Total key management compensation	**3,785**	**2,587**

(Thousands of Georgian Lari unless otherwise stated)

41. 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.

Fair value hierarchy (continued)

The following tables show the analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. It also includes a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities carried at cost:

(Unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total fair value 30-Jun-2017*	*Carrying value 30-Jun-2017*	*Unrecognised gain (loss) 30-Jun-2017*
Assets measured at fair value						
Property and equipment	-	-	427,239	**427,239**	427,239	-
Other assets: call opition	-	-	4,691	4,691	4,691	-
Assets for which far values are disclosed						
Cash and cash equivalents	-	17,372	-	**17,372**	17,372	-
Amounts due from credit institutions	-	-	19,680	**19,680**	19,680	-
Receivables from healthcare services	-	-	96,784	**96,784**	96,784	-
Receivables from sales of pharmaceuticals	-	-	15,550	**15,550**	15,550	-
Other assets: loans issued and lease deposit	-	-	3,858	**3,858**	3,858	-
Other assets: non-medical receivables	-	-	3,201	**3,201**	3,201	-
Liabilities for which fair values are disclosed						
Borrowings	-	-	247,730	**247,730**	280,483	32,753

The Group only carries land and office buildings at fair value (level 3). Refer to Note 10.

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 approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively.

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 January 1, 2013 till 30 June 2017 period, which equalled 37.3%. If the volatility was 10% higher, fair value of call option would increase by GEL 1,219 if volatility was 10% lower call option value would decrease by GEL 1,249. The Group recognised GEL 4,691 unrealised gains on the call option during the period ended 30 June 2017.

(Thousands of Georgian Lari unless otherwise stated)

41. 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

(unaudited)	**30 June 2017**	**Valuation technique**	**Significant unobservable inputs**	**Range**	**Other key information**	**Range**	**Sensitivity of the input to fair value**
Property and equipment							
Land and office buildings	17,543	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	409,696	Market approach	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.

42. Events After The Reporting Period

In July 2017 EVEX issued two-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.5% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds will be used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned ongoing capital expenditures.

In July 2017 the Group signed a Sale and Purchase Agreement (SPA) to acquire a 100% equity stake in Khashuri and Qareli community hospitals from IC Group member companies. IC Group is an insurance company operating in Georgia and owns several small-to-medium sized hospitals.

Annexes:

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

COMPANY INFORMATION

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