2nd quarter and half-year 2019 Results

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

An investor/analyst conference call, organised by GHG, will be held on Wednesday, 14 August 2019, at 15:00 UK / 16:00 CET / 10:00 U.S Eastern Time. The duration of the call will be 60 minutes and will consist of a 15-minute update and a 45-minute Q&A session.

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Georgia Healthcare Group PLC ("**GHG**" or the "**Group**" – LSE: GHG LN), announces the Group's second quarter and half-year 2019 consolidated financial results. Unless otherwise mentioned, comparatives are for the second quarter of 2018. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted in the European Union ("**EU**"), are unaudited and extracted from management accounts.

FINANCIAL PERFORMANCE HIGHLIGHTS

GHG announces today the Group's 2Q19 and 1H19 consolidated results, reporting 12.7% y-o-y growth in half-year revenues to GEL 472.9 million (US$164.8 million/GBP 130.0 million) and a 70 basis point improvement in adjusted ROIC[1]. The Group posted half-year profit of GEL 31.3 million (US$10.9 million/GBP 8.6 million) and earnings per share ("**EPS**") of GEL 0.15 (US$0.05 per share/GBP 0.04 per share), both excluding IFRS 16 lease accounting impact.

In order to permit meaningful comparisons between reporting periods, in the table below Net Profit, EBITDA, EBITDA margin and EPS data, for GHG as well as for each segment, exclude IFRS 16 financial impact. For the same reason, the discussions throughout this report of 2019 quarterly and half-year results for the Group and each business line also focus on the numbers excluding the IFRS 16 impact. Each financial table, on the other hand, shows both - the results with and without IFRS 16 impact. We are adopting this convention for 2019 only because 2018 figures have not been restated on an IFRS 16 basis.

GHG - *the market leader in Georgia's healthcare ecosystem*

GEL million; unless otherwise noted	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**
Revenue, gross	237.7	211.8	12.2%	472.9	419.5	12.7%
EBITDA *excluding IFRS 16*	37.4	31.2	19.6%	74.8	62.6	19.4%
Net Profit *excluding IFRS 16*	13.0	12.4	5.2%	31.3	28.4	10.2%
EPS adjusted[1], GEL *excluding IFRS 16*	0.09	0.06	51.0%	0.19	0.14	33.1%
ROIC adjusted[2] *(%)*	14.4%	13.8%	0.6 ppts	14.4%	13.7%	0.7 ppts
Hospitals business						
Revenue, gross	74.2	67.8	9.5%	149.0	132.1	12.8%
EBITDA *excluding IFRS 16*	18.8	17.4	8.1%	38.0	34.5	10.1%
EBITDA margin *(%) excluding IFRS 16*	25.4%	25.7%	-0.3 ppts	25.5%	26.1%	-0.6 ppts
Net Profit *excluding IFRS 16*	4.2	4.5	-7.9%	10.1	10.5	-4.0%
Clinics business						
Revenue, gross	10.9	10.0	9.2%	22.0	19.4	13.3%
EBITDA *excluding IFRS 16*	1.9	1.4	38.6%	4.0	2.8	44.8%
EBITDA margin *(%) excluding IFRS 16*	17.5%	13.8%	3.7 ppts	18.1%	14.2%	3.9 ppts
Net Profit *excluding IFRS 16*	(0.4)	(0.9)	-54.4%	(0.6)	(1.5)	-62.1%
Pharmacy and distribution business						
Revenue	149.4	127.3	17.4%	295.2	254.2	16.1%
Gross profit margin *(%)*	24.1%	24.7%	-0.6%	25.2%	24.7%	0.5%
EBITDA *excluding IFRS 16*	15.3	11.9	28.8%	30.9	24.6	25.8%
EBITDA margin *(%) excluding IFRS 16*	10.3%	9.4%	0.9 ppts	10.5%	9.7%	0.8 ppts
Net Profit *excluding IFRS 16*	8.2	8.5	-2.6%	20.4	19.3	5.7%
Medical insurance business						
Net insurance premiums earned	18.9	13.7	37.7%	36.4	27.0	34.7%
Loss ratio *(%)*	82.6%	82.4%	0.2 ppts	83.9%	83.4%	0.5 ppts
Combined ratio (%) *excluding IFRS 16*	94.5%	97.6%	-3.1 ppts	96.1%	98.8%	-2.7 ppts
EBITDA *excluding IFRS 16*	1.2	0.5	138.9%	1.8	0.7	149.3%
Net Profit/ (Loss) *excluding IFRS 16*	1.0	0.3	218.7%	1.5	0.2	512.7%

[1] Adjusted for non-recurring items and foreign currency losses

[2] Return on invested capital ("ROIC") adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase

Diagnostic						
Revenue	1.1	0.7	65.8%	2.3	1.4	65.8%
Gross profit margin *(%)*	31.6%	17.4%	14.2 ppts	29.8%	21.8%	8.0 ppts
EBITDA *excluding IFRS 16*	0.0	(0.0)	NMF	0.1	0.1	29.3%
EBITDA margin (%) *excluding IFRS 16*	4.3%	NMF	NMF	4.2%	5.4%	NMF
Net Profit/ (Loss) *excluding IFRS 16*	(0.0)	(0.1)	NMF	(0.0)	(0.0)	NMF

CHIEF EXECUTIVE OFFICER'S STATEMENT

During the first half of 2019, the Group continued to deliver strong core earnings momentum, improved cash generation and a significant improvement in the Group's return on capital invested. Each of its businesses made important progress on their strategic goals. Our first half performance demonstrates the value we have begun to capture from our investment in the business over the last few years, with double-digit revenue growth in each business. Going forward, we expect to continue this double-digit growth throughout the business by leveraging the strength of our existing franchises without having to make significant further investment capital expenditure. We are actively building out a number of growth opportunities, such as in medical tourism, retail laboratory diagnostic services, outpatient clinics and dental service expansion, new pharmacies and new products such as private label personal care products. As a result, we are well positioned to grow the business over the medium-term, improve our operating cash flows, reduce debt and balance sheet leverage and continue to improve returns on invested capital.

With effect from 1 January 2019, the Group adopted IFRS 16 "Leases". For comparison purposes, the commentaries in this report and statement exclude the impact of IFRS 16, however the financial statements (pages 32-63) show the full statutory reporting position.

<u>The Group.</u> In the first half of 2019, Group revenue increased by double digits (13%) to GEL 473 million on the back of strong organic growth. EBITDA grew 19% to GEL 75 million reflecting both the revenue growth and effective cost management, which led to positive operating leverage despite the impact of new pension system (that became mandatory in Georgia from January 2019, explained in detail below on page 8), which increased our salary expense in 1H19 by more than GEL 2 million.

The Group incurred a significant foreign currency exchange loss in the second quarter, mainly due to the revaluation of foreign currency denominated payable balances of pharmacy and distribution business, after more than 6% devaluation of the Georgian Lari against both the US dollar and the Euro, driven by spillovers from regional tensions including the Russian government decision to cancel all air connections with Georgia which had a negative effect on tourism and fed depreciation expectations.

The Group delivered a profit of GEL 31 million in the first half of 2019, an increase of 10% compared to the first half of last year. We made strong progress in both revenues and bed utilisation in our two flagship hospitals, as they execute their utilisation programmes. The roll-out and patient number growth in our polyclinic network also continues to deliver a strong revenue uplift. Further sales growth in pharmacy business drove continued EBITDA margin expansion and earnings growth. The medical insurance business continues to improve profitability.

The Group's robust balance sheet strengthened further during the half year, with borrowings declining by GEL 21 million from their December 2018 level. Earnings per share, excluding the FX loss and non-recurring expenses increased by more than 33%. The Group improved its adjusted return on invested capital, from 13.7% to 14.4%, and posted improved operating cash in 1H19, translating into a 74% EBITDA to cash conversion ratio. On top of improved operating cash, being up 25% in 1H19 y-o-y, the cash used in investing activities more than halved during the same period, another significant achievement for the year. Operating cash net of outflows from investing activities swung from negative GEL 11.2 million in 1H18 to positive GEL 32.0 million in 1H19.

<u>Hospitals business.</u> Our hospitals business delivered GEL 149 million revenue in 1H19, an increase of 13% y-o-y. This growth was driven by both the continuing ramp-up of our newly launched hospitals, and good momentum in our existing facilities where occupancy rates increased by 250 basis points from 63.1% in 1H18 to 65.6% in 1H19. At Regional Hospital, our early recruitment of a number of specialist elective care medical teams has ensured that initial utilisation rates have been very strong, and the occupancy rate was nearly 40% in the quarter. The bed occupancy rate of Tbilisi Referral Hospital stood at 47% in the same period. Both Regional Hospital and Tbilisi Referral Hospital are now delivering EBITDA margins in excess of 17%, and we expect these to continuing increasing as we work over the rest of the year to build both hospitals towards maturity. EBITDA margin of the overall hospitals business remained strong and stood at 25.5% in 1H19 (27.7% excluding the roll-out impact).

Clinics business. Our polyclinic network continues to grow. These polyclinics clearly stand out from their competition as new, modern facilities that provide a diverse range of high-quality services in one location. We continue to improve the overall patient experience, and the number of registered patients in Tbilisi has grown to c.172,000, up c.55,000 patients since June 2018. In December last year, we entered the Georgian dental market and we now have dental clinics in eight polyclinics in Tbilisi and other large cities in the regions. In 1H19 clinics overall (which also includes community clinics) posted a 13% growth in revenues (with the polyclinics part growing by 20%), EBITDA grew by 45% and EBITDA margin increased by 390 basis points y-o-y, up to 18.1%.

Pharmacy and Distribution business. Our pharmacy chain and distribution business posted record half-yearly revenues of GEL 295 million, with 16% year-on-year growth supported by strong organic growth, the transfer of our hospitals' centralised medicine procurement entity to the distribution part of the business and the further expansion in the number of pharmacies - which now total 279 in major cities. Excluding newly transferred entity, the business y-o-y revenue growth was at 10%. The first private label para-pharmacy products were introduced in our pharmacies in March, under the brand name "Attirance", to supplement the 37 private label medicines already sold through our pharmacies. The growth in the business's EBITDA reached 26% driven by the revenue growth and cost discipline maintained, notwithstanding the increased costs following the Georgian pension system reforms, and this supported positive operating leverage of 490 basis points. The business EBITDA margin continues to exceed our expectations, increasing by 80 basis points year-on-year to 10.5%. This is an extremely strong performance and 150 bps in excess of our targeted "more than 9%" margin.

Medical insurance business. Our medical insurance business has made substantial progress over the last 12 months and continues to increase its client base and is now contributing to the profitability of the Group. Net insurance premiums earned increased by 35% in 1H19, supported by the acquisition of a single large client in the first quarter, and the combined ratio improved by 270 basis points to 96.1%. More importantly, we continue to improve the level of medical insurance claims retained within the Group and, in the first half of 2019, 41% of medical expense claims were retained within the Group. We expect this ratio to continue to increase further over the next few years.

Diagnostics business. In December 2018, we completed the construction of and opened Mega Lab, the largest diagnostics laboratory in Georgia and the Caucasus region. The diagnostics business has already delivered break-even EBITDA, with costs of our lab services at Group's healthcare facilities having been maintained at the same level. Over 350,000 tests were performed in the first half – a significant achievement.

We have already started to develop a retail network for the lab by capitalising on the scale of our pharmacy and distribution business. We launched the first blood collection point in one of GHG pharmacies in June and currently have three such points, with the plan to increase that number to around 50 in coming years. The business will also work on additional external contracts, serving healthcare facilities outside the Group.

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I am pleased with the Group's progress made during the first half, and the Group also marked a significant milestone in July with the payment of our first shareholder dividend. Each business continues to achieve strong operational performance, and the Group overall is delivering excellent momentum in its earnings growth, internal cash generation, balance sheet deleveraging, and improving return on invested capital priorities. As our business matures, our focus is not only on growth. We are also steadily improving our management of risk.

Another key milestone for the Group is the launch of electronic medical record (EMR) in all our Tbilisi polyclinics, that will help us manage our customers more efficiently and deliver a better care to them, and electronic medical ordering system in most of our referral hospitals. GHG is the first healthcare company in the country implementing fully integrated health information system. To improve the quality management process, in 2019 we have established clinical boards which endorse standards of practice at hospitals level by measuring clinical quality with a recently implemented key performance indicator monitoring system, further contributing to quality enhancement in our healthcare facilities.

We had to absorb the impact of the weakening Lari in 1H19, and in July the national currency depreciated a further 3% against the dollar. On August 1 the National Bank of Georgia, which had accumulated record high reserves at US$3.7 billion as of June 2019, intervened in the market to curb the depreciation expectations, and since August 1 the Lari has gained around 2%. The Georgian macro outlook remains strong with real GDP growth of 4.9% in 1H19, backed by improved net export and fiscal stimulus. Strong external demand and declining pressure on imported goods led current accounts deficit to shrink significantly to 6.2% of GDP in 1Q19 compared to 11.9% of GDP in 1Q18. FX inflows, including from tourism, are expected to remain strong despite the Russian flight cancellation. Barring further negative external factors, we expect the macro-economic fundamentals to support further stabilisation of the national currency in the near to medium term.

Nikoloz Gamkrelidze,
CEO of Georgia Healthcare Group PLC
13 August 2019

DISCUSSION OF GROUP RESULTS

GHG overview

Georgia Healthcare Group is the largest and the only fully integrated healthcare provider in the fast-growing, predominantly privately-owned Georgian healthcare ecosystem with an aggregate annual value of c.GEL 3.8 billion. Georgia Healthcare Group PLC is the UK incorporated holding company of the Group and is listed on the premium segment of the London Stock Exchange.

Starting from 2019 the Group has updated its business structure and the healthcare services business was divided into the following two segments: **clinics**, which include polyclinics and community clinics, and **hospitals**, which include referral hospitals. Now GHG comprises five business lines: hospitals, clinics, pharmacy and distribution, medical insurance and diagnostics. Each business line has its own chief operating officer reporting to the Group CEO, pursuing significant growth, profit and ROIC opportunities and concentrating on a clearer strategy. Each business line also has its own finance and back office function overseen by the Group CFO.

GHG is the single largest market participant in the healthcare services industry in Georgia, accounting for more than 23% of the country's total hospital bed capacity, as of 30 June 2019. Our healthcare services business offers the most comprehensive range of inpatient and outpatient services targeting virtually all segments of the Georgian market, through its vertically integrated network of hospitals and clinics. Currently:

- **hospitals business** operates 18 referral hospitals with a total of 2,967 beds, providing secondary or tertiary level healthcare services, located in Tbilisi and major regional cities.
- **clinics business** operates 34 healthcare facilities, out of which:
  - 19 are community clinics with a total of 353 beds, providing outpatient and basic inpatient healthcare services, located in regional towns and municipalities.
  - 15 are district polyclinics, providing outpatient diagnostic and treatment services, located in Tbilisi and major regional cities.

GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with a c.30% market share by revenue. Our **pharmacy and distribution business** consists of a retail pharmacy chain and a wholesale business, selling pharmaceuticals and medical supplies to hospitals and other pharmacies. The pharmacy chain operates under two separate brand names, **Pharmadepot** and **GPC**, with a total of 279 pharmacies, of which 21 are located within our healthcare facilities. The pharmacy and distribution business is the country's largest retailer in terms of both revenue and number of bills issued.

GHG is also the largest provider of medical insurance in Georgia, with a 31.1% market share based on 1Q19 net insurance premiums. Our **medical insurance business** consists of private medical insurance operations in Georgia. We have a wide distribution network and offer a variety of medical insurance products primarily to the Georgian corporate sector and also to retail clients. We have c.230,000 persons insured as at June 2019. The medical insurance business plays an important role in our business model, as it is a significant feeder for our polyclinics, pharmacies and hospitals.

GHG recently opened the largest diagnostics laboratory in Georgia and the entire Caucasus region. In December 2018, we added **diagnostics business** under GHG, an important new business line for the Group, by opening Mega Laboratory ("**Mega Lab**"). The multi-disciplinary laboratory, equipped with latest infrastructure and state-of-the-art equipment, covers 7,500 square metres. High-capacity automated systems enable GHG to provide accurate, high-quality results to the entire population of the country. In addition to basic laboratory tests, the new laboratory allows us to offer complex tests for oncology and a molecular lab. Some of the lab tests offered by Mega Lab have never been available in Georgia - in the past blood samples had to be sent abroad.

Significant external events, accounting change and legislative developments affecting 2019 results

- **Lari depreciation.** During the second quarter, the Georgian Lari depreciated more than 6% against both the US dollar and the Euro. The Lari depreciation led to a significant foreign currency exchange loss in the second quarter which (excluding the IFRS 16 effect) was mainly due to the revaluation of foreign currency denominated payable balances of pharmacy and distribution business. In July the national currency depreciated a further 3% against the dollar. On August 1 the National Bank of Georgia, which had accumulated record high reserves at US$3.7 billion as of June 2019, intervened in the market to curb the depreciation expectations, and since August 1 the Lari has gained around 2%.
  The Lari decline was driven by spillovers from regional tensions including the Russian government decision to cancel all air connections with Georgia, which in turn had a negative effect on tourism and fed depreciation expectations. See page 6 for additional information. Barring further negative external factors, the Group expects the macro-economic fundamentals to support further stabilisation of the national currency in near to medium term. Exchange rate developments depend on many factors and by their nature are very difficult to predict.

- **New pension reform.** In January 2019, a new pension system became mandatory in Georgia, with participation mandatory for employees under the age of 40, and optional for employees older than 40. Each employee contributes 2% of their income to an individual retirement account, which then benefits from further 2% contributions from both the employer, and (subject to ceilings based on income) the Government. The group participates in this programme, and the total anticipated cost to the Group in 2019 is approximately GEL 4.5 million.

- **IFRS 16 impact.** The Group adopted IFRS 16 "Leases" from 1 January 2019. The key change arising from IFRS 16 is that rent expense is reclassified from operating expense to interest and depreciation expense. IFRS 16 impact on Group's EBITDA was GEL 5.3 million in 2Q19 and GEL 10.4 million in HY19, out of which the pharmacy and distribution business accounted for GEL 4.7 million and GEL 9.1 million, respectively. The negative impact on the Group's net profit was GEL 5.2 million in 2Q19 and GEL 6.2 million in HY19, out of which GEL 4.5 million and GEL 4.8 million respectively, resulted from foreign exchange loss on the revaluation of the finance lease liabilities balance. About 85% of the finance lease liabilities balance represents foreign currency denominated leases the value of which increased in line with the depreciation of the national currency at the end of second quarter. As this negative impact is solely the result of the accounting change, we do not comment on it further in this report although the full effects are reflected in the accounts.

  According to the Group's preliminary calculation, IFRS 16 annual positive impact on the Group's 2019 EBITDA will be around GEL 20 million, of which the pharmacy and distribution business will account for c.GEL 18 million. The negative impact on the Group's 2019 net profit is estimated around GEL 2.5 million (excluding FX movement); however, this negative impact on net profit is just a timing difference that decreases over time and eventually reaches net effect of zero. Assets and liabilities also increased by the amount of discounted cash flows of future rent payments. Below in this report, to allow for comparisons, the numbers are disclosed with and excluding IFRS 16.

Income statement, GHG consolidated

GEL thousands; unless otherwise noted	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**
Revenue, gross	**237,660**	**211,791**	**12.2%**	**472,872**	**419,480**	**12.7%**
Corrections & rebates	(605)	(1,087)	-44.3%	(1,164)	(1,780)	-34.6%
Revenue, net	**237,055**	**210,704**	**12.5%**	**471,708**	**417,700**	**12.9%**
Costs of services	(163,163)	(145,694)	12.0%	(321,660)	(288,847)	11.4%
Gross profit	**73,892**	**65,010**	**13.7%**	**150,048**	**128,853**	**16.4%**
Salaries and other employee benefits	(23,922)	(20,793)	15.1%	(47,317)	(41,232)	14.8%
General and administrative expenses *excluding IFRS 16 impact*	(15,290)	(13,565)	12.7%	(30,097)	(26,202)	14.9%
Impairment of receivables	(1,140)	(1,213)	-6.0%	(2,312)	(2,401)	-3.7%
Other operating income	3,826	1,793	113.4%	4,454	3,613	23.3%
EBITDA excluding IFRS 16	**37,365**	**31,232**	**19.6%**	**74,776**	**62,631**	**19.4%**
IFRS 16 impact on EBITDA[3]	5,261	-	NMF	10,387	-	NMF
Depreciation and amortization excluding IFRS 16	*(8,975)*	*(8,847)*	*1.4%*	*(17,654)*	*(16,562)*	*6.6%*
Depreciation and amortisation	(13,633)	(8,847)	54.1%	(26,809)	(16,562)	61.9%
Net interest income (expense) excluding IFRS 16	*(10,341)*	*(9,587)*	*7.9%*	*(20,702)*	*(18,150)*	*14.1%*
Net interest income (expense)	(11,715)	(9,587)	22.2%	(23,353)	(18,150)	28.7%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(4,388)*	*351*	*NMF*	*(4,244)*	*2,250*	*NMF*
Net gains/(losses) from foreign currencies	(8,846)	351	NMF	(8,995)	2,250	NMF
Net non-recurring income/(expense)	(371)	(656)	-43.5%	(527)	(1,662)	-68.3%
Profit before income tax expense	**8,062**	**12,493**	**-35.5%**	**25,479**	**28,507**	**-10.6%**
Income tax benefit/(expense)	(272)	(115)	NMF	(357)	(117)	205.1%
Profit for the period excluding IFRS 16	**13,019**	**12,378**	**5.2%**	**31,292**	**28,390**	**10.2%**
Profit for the period	**7,790**	**12,378**	**-37.1%**	**25,122**	**28,390**	**-11.5%**

Gross Revenue. We delivered double digit revenue growth in both reporting periods, driven by the double-digit revenue growth across almost all GHG segments.

In HY19, the Group's revenue diversification across its segments was: 58% from pharmacy and distribution, 29% from the hospitals, 8% from medical insurance, 4% from clinics, and the remaining 1% from the newly added diagnostics business. By payor mix, 53% of the Group's total revenue was from out-of-pocket payments[4]; 25% from UHC payments; and 22% from other sources.

Gross Profit. The Group continued to deliver increasing gross profit and improved its gross margin by 100 bps y-o-y, reaching 31.7% in HY19. Quarterly gross margin was also up 40 bps y-o-y, to 31.1%. The pharmacy and distribution business, excluding the effect of intercompany sales which are eliminated upon consolidation, contributed a major part of the growth. The next largest contributor to the Group margin improvement was our hospitals business, despite the impact of the mandatory pension reform (effective from January 2019), which increased cost of salaries and other employee benefits by c.2%.

In total, the pension reform increased the Group's salary expenses by GEL c.1.1 million in 2Q19 and by c.2.1 million in HY19. Despite this, as a result of well-managed efficiency and cost control measures, the cost base on a gross profit as well as on the operating expenses level were well controlled and the Group delivered positive operating leverage in both reporting periods of 5.6 ppts and 2.7 ppts in 2Q19 and HY19, respectively.

EBITDA *excluding IFRS 16*. The Group delivered strong quarterly and half year EBITDA growth, up 19.6% and 19.4% y-o-y, respectively. The hospitals business was the main contributor to the Group's 1H19 EBITDA, contributing 51% in total, with a 25.5% EBITDA margin. The next largest contributor was the pharmacy and distribution business, with a 41% share, posting a strong double-digit EBITDA margin of 10.5%. Our clinics and medical insurance businesses contributed 5% and 3% to the Group's half year EBITDA respectively.

Depreciation and amortisation *excluding IFRS 16*. After completing a number of sizeable development projects, Group depreciation expense stabilised. Slight y-o-y and q-o-q movements mainly relate to small investments by all segments in different capital expenditure projects.

Net interest expense *excluding IFRS 16*. The y-o-y increase in net interest expense was in line with the increased balance of borrowed funds to finance planned capital expenditure. As the Group is now out of heavy capex mode, its leverage started to decrease gradually in line with the debt principal repayment schedule. Our q-o-q borrowings balance is down 1.3% translating in slight reduction in corresponding interest expense, down 20 bps.

Loss from foreign currencies *excluding IFRS 16*. The loss from foreign currency is mainly attributable to the pharmacy and distribution business. About 70% of inventory purchases in the pharmacy and distribution business are denominated in foreign currency: c.40% in EUR and c.30% in USD. In 2Q19, local currency devalued by more than 6% against USD and

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[3] Represents IFRS 16 impact on General and administrative expenses
[4] Includes: hospitals and clinics out-of-pocket revenue, pharmacy and distribution, medical insurance and diagnostics businesses' revenue from retail

EUR, which resulted in an increased quarterly FX loss from revaluation of accounts payable balances (as discussed on page 8 above, the loss including IFRS 16 is also attributable mainly to pharma).

Profit *excluding IFRS 16*. The result of all of the above was a meaningful increase in Group profit - up 5.2% and 10.2% in 2Q19 and 1H19, respectively - even in the face of the FX loss. The pharmacy and distribution business continues to be the main driver of 2Q19 and 1H19 Group profit, contributing 63% and 65% in total respectively, followed by the hospitals business, contributing 32% in both periods.

Selected balance sheet items, GHG consolidated

GEL thousands; unless otherwise noted	**30-Jun-19**	**31-Mar-19**	**Change, Q-o-Q**
Total assets, of which:	**1,345,810**	**1,331,760**	**1.1%**
Cash and bank deposits	27,207	27,596	-1.4%
Receivables from healthcare services	124,050	115,312	7.6%
Receivables from sale of pharmaceuticals	18,808	19,571	-3.9%
Insurance premiums receivable	44,737	53,244	-16.0%
Property and equipment, *of which*	769,092	767,454	0.2%
IFRS 16 impact	*79,908*	*76,379*	*4.6%*
Goodwill and other intangible assets	156,042	151,561	3.0%
Inventory	157,132	146,499	7.3%
Prepayments	14,156	17,579	-19.5%
Other assets	34,586	32,944	5.0%
Total liabilities, of which:	**757,709**	**747,390**	**1.4%**
Borrowed funds	368,895	373,745	-1.3%
Accounts payable	119,784	104,001	15.2%
Insurance contract liabilities	43,160	50,420	-14.4%
Finance lease liabilities	85,942[5]	78,145	10.0%
Other liabilities	139,928	141,079	-0.8%
Total shareholders' equity attributable to:	**588,101**	**584,370**	**0.6%**
Shareholders of the Company	*518,286*	*516,252*	*0.4%*
Non-controlling interest	*69,815*	*68,118*	*2.5%*

- The increase in receivables from healthcare services corresponds increased revenues from hospitals and clinics business.
- The majority of medical insurance contracts mature and renew in January every year, causing the insurance premium receivable as well as insurance contract liabilities balances to increase in 1Q19 and reduce gradually in line with contract amortisation terms.
- The q-o-q increase in accounts payable is attributable to pharmacy and distribution business, mainly due to increased stock (inventory balance increased by GEL 10.6 million, up 7.3% q-o-q) to support sales growth and due to revaluation of foreign currency denominated accounts payable balances, explained above.

[5] Out of which GEL 77.2 million accounts for IFRS 16 impact

Statements of cash flows, GHG consolidated[6]

GEL thousands; unless otherwise noted	**HY19**	**HY18**	**Change, Y-o-Y**
EBITDA	74,776	62,631	19.4%
Net cash flows from operating activities	**55,170**	**44,242**	**24.7%**
EBITDA to Cash Conversion	**73.8%**	**70.6%**	**3.2%**
Net cash used in investing activities, *of which*:	**(23,205)**	**(55,400)**	**-58.1%**
Purchase of PPE and intangibles	*(20,665)*	*(43,856)*	*-52.9%*
Net cash flows from financing activities	**(52,615)**	**(20,378)**	**158.2%**
Effect of exchange rate changes	6	(776)	NMF
Net increase (decrease) in cash and cash equivalents	**(20,644)**	**(32,312)**	**-36.1%**
Cash at period, beginning	36,154	48,840	-26.0%
Cash at period, ending	15,510	16,528	-6.2%
Bank deposits, beginning	11,807	14,768	-20.1%
Bank deposits, ending	11,697	10,167	15.0%
Cash and bank deposits, beginning	**47,961**	**63,608**	**-24.6%**
Cash and cash deposits, ending	**27,207**	**26,695**	**1.9%**

Cash flows from operating activities. Net cash flows from operating activities increased in 1H19 on the back of stronger EBITDA and an improved EBITDA to cash conversion ratio (up 3.2% to 73.8%). As the newly opened facilities and services progress towards their run rate the benefits of these projects have begun to materialise, including the gradual reduction in working capital needs. Going forward we expect further improvement of the cash conversion ratio.

Cash flows from investing activities. Net cash used in investing activities continues to decline and more than halved in 1H19. 2018 was the final year of our major investment programme and investment volume slowed further in 2019 (outflow for purchase of PPE and intangibles down 52.9% y-o-y) as the projects completed. In 1H19, net cash used in investing activities also includes GEL 5.2 million (GEL 12.9 million in 1H18) payment of holdback for the pharmacy and distribution business acquisition.

Cash flows from financing activities. With our improved operational cash flow and lower capital investment requirements, the Group has stabilised needs for borrowings and started to repay its loans in line with the debt repayment schedules. Net outflow from financing activities reflects reduction of borrowings balance by c.GEL 21.5 million since 31 December 2018 (down 5.5%), interest payments and the dividend paid to non-controlling interest shareholders of GEL 5 million.

The overall effect resulted in cash and bank deposits at 30 June 2019 of GEL 27.2 million.

Going forward a continuing increase in operating cash flow, an improved EBITDA to cash conversion ratio and substantially reduced investment programme should allow us to both further reduce debt and increase cash year on year.

[6] Statement of cash flows is presented excluding IFRS 16 impact. Refer to back section of the release (page 38) to see the full statement of cash flows (including IFRS 16 impact).

DISCUSSION OF SEGMENT RESULTS

The segment results discussion is presented for hospitals, clinics, pharmacy and distribution, medical insurance and diagnostics businesses.

Discussion of Hospitals Business Results

Operational highlights:

- Following the split of our healthcare services business (described on page 7), our management has revised the classification of our hospitals and clinics. Three of our clinics have become sufficiently large to merit hospitals classification and one of our hospitals was classified as a clinic due to the nature of services offered. For comparison purposes, we will discuss our hospitals and clinics results for both, 2019 and 2018 reporting periods according to the new structure.

- Our adjusted hospital bed occupancy rate[7] was at 64.1% in 2Q19 and at 65.6% 1H19 (61.2% and 63.1% in 2Q18 and 1H18, respectively).

- The average length of stay at hospitals[8] was at 5.4 days in 2Q19 as well as in 1H19 (5.4 days in 2Q18 and 5.5 days in 1H18).

Income Statement, Hospitals business

GEL thousands; unless otherwise noted	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Hospitals revenue, gross	**74,218**	**67,790**	**9.5%**	**148,992**	**132,080**	**12.8%**
Corrections & rebates	(532)	(867)	-38.6%	(994)	(1,462)	-32.0%
Hospitals revenue, net	**73,686**	**66,923**	**10.1%**	**147,998**	**130,618**	**13.3%**
Costs of hospitals business	**(42,640)**	**(38,875)**	**9.7%**	**(85,661)**	**(75,358)**	**13.7%**
Gross profit	**31,046**	**28,048**	**10.7%**	**62,337**	**55,260**	**12.8%**
Salaries and other employee benefits	(8,157)	(7,235)	12.7%	(16,109)	(14,065)	14.5%
General and administrative expenses *excluding IFRS 16*	(3,861)	(3,759)	2.7%	(7,288)	(7,086)	2.9%
Impairment of receivables	(1,128)	(1,271)	-11.3%	(2,265)	(2,457)	-7.8%
Other operating income	940	1,639	-42.6%	1,327	2,878	-53.9%
EBITDA excluding IFRS 16	**18,840**	**17,421**	**8.1%**	**38,002**	**34,530**	**10.1%**
EBITDA margin excluding IFRS 16	*25.4%*	*25.7%*		*25.5%*	*26.1%*	
IFRS 16 impact on EBITDA[9]	120	-	NMF	299	-	NMF
Depreciation and amortization excluding IFRS 16	*(6,728)*	*(6,771)*	*-0.6%*	*(13,244)*	*(12,342)*	*7.3%*
Depreciation and amortisation	(6,920)	(6,771)	2.2%	(13,599)	(12,342)	10.2%
Net interest income (expense) excluding IFRS 16	*(6,586)*	*(5,844)*	*12.7%*	*(13,168)*	*(10,556)*	*24.7%*
Net interest income (expense)	(6,620)	(5,844)	13.3%	(13,233)	(10,556)	25.4%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(1,052)*	*60*	*NMF*	*(1,145)*	*39*	*NMF*
Net gains/(losses) from foreign currencies	(1,437)	60	NMF	(1,552)	39	NMF
Net non-recurring income/(expense)	(288)	(247)	16.5%	(392)	(1,126)	-65.2%
Profit before income tax expense	**3,695**	**4,619**	**-20.0%**	**9,525**	**10,545**	**-9.7%**
Income tax benefit/(expense)	-	(74)	NMF	-	(74)	NMF
Profit for the period excluding IFRS 16	**4,186**	**4,545**	**-7.9%**	**10,053**	**10,471**	**-4.0%**
Profit for the period	**3,695**	**4,545**	**-18.7%**	**9,525**	**10,471**	**-9.0%**

Revenue, *hospitals*

Our hospitals business y-o-y revenue growth in both reporting periods was mainly driven by the continuing ramp-up of our newly launched hospitals. Our existing facilities also contributed to the overall growth, where the y-o-y occupancy rates were also up 290 bps and 250 bps in 2Q19 and 1H19 respectively.

Progress of our newly opened hospitals

Regional Hospital (fully opened in March 2018) continues its progress and in 2Q19 the hospital posted record high revenue of GEL 9.5 million, up 6.0% q-o-q with the occupancy rate being also up 3.0% for the same period, reaching 38.6%. Positioned as hospital of choice, the Regional Hospital is already in the country's top five largest hospitals by revenue. As planned, the hospital is generating around 60% of its revenue from elective care services, which is reflected in the lower

[7] Adjusted to exclude the Tbilisi Referral Hospital and Regional Hospital; the calculation also excludes emergency beds
[8] The calculation excludes emergency beds
[9] Represents IFRS 16 impact on General and administrative expenses

occupancy rates and mostly out-of-pocket source of payment (41.6% of total revenue). The hospital's EBITDA margin reached 17.6% in 2Q19.

Tbilisi Referral Hospital (fully opened in December 2017) posted GEL 5.9 million revenue in 2Q19 (up 43.8% y-o-y; down 7.7% q-o-q) with a 46.9% occupancy rate, and GEL 12.3 million in 1H19 (up 57.4% y-o-y). The quarterly revenue decline is attributable to the temporary discontinuation of several medical services due to technical reasons in 2Q19, out of which most have been already reinstated. The hospital is still in its ramp up phase and over the next few quarters we expect that, by renewing the medical services temporarily discontinued in 2Q19 and adding some new ones, revenue will increase gradually as planned. The hospital posted strong quarterly EBITDA margin of 17.1%, up 110 bps q-o-q.

Revenue by sources of payment

(GEL thousands, unless otherwise noted)	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**
Hospitals revenue, net	**73,686**	**66,923**	**10.1%**	**147,998**	**130,618**	**13.3%**
Government-funded healthcare programmes	51,035	45,319	12.6%	102,605	88,182	16.4%
Out-of-pocket payments by patients	17,691	17,157	3.1%	35,387	33,432	5.8%
Private medical insurance companies, *of which*	4,960	4,447	11.5%	10,006	9,004	11.1%
GHG medical insurance	2,918	1,671	74.6%	5,427	3,377	60.7%

All payment sources contributed to our revenue growth, while the Government-funded healthcare programme remains the main contributor, accounting 69.3%[10] in total revenue from hospitals business.

Gross profit, *hospitals*

Cost of hospitals as % of revenue	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**
Direct salary rate	35.3%	35.6%	-0.3 ppts	34.5%	34.9%	-0.4 ppts
Materials rate	16.5%	16.3%	+0.2 ppts	17.0%	16.4%	+0.6 ppts
Gross margin	**41.8%**	**41.4%**	**+0.4 ppts**	**41.8%**	**41.8%**	**0.0 ppts**

Despite our two flagships remaining in their roll-out phase, which naturally increases our cost base, in 2Q19 costs were almost in line with net revenue growth rates. Despite the new pension reform (described on page 8 above in more detail) which increased our cost of salaries and other employee benefits by c.2%, as a result of focused efficiency initiatives the direct salary rate was down in 2Q19 and HY19. The increase in the materials rate reflects the roll-out of the new hospitals. Excluding the effect of newly launched hospitals, the materials rate remained well-controlled and stood at 14.9% in 2Q19 (down 60 bps y-o-y) and 15.3% in 1H19 (down 60 bps y-o-y).

As a result, y-o-y the hospitals quarterly gross margin improved by 40 bps y-o-y and remained flat in 1H19, at 41.8%.

Operating expenses, *hospitals*

On the back of business expansion and the new mandatory pension reform the salaries and other employee benefits increased y-o-y. General and administrative expenses were maintained (excluding IFRS 16 impact) at a favourable level, showing modest y-o-y growth of below 3% in 2Q19 as well as 1H19.

The decrease in other operating income reflects the transfer of hospitals centralised medicine procurement entity to the GHG pharmacy and distribution business in 2019. In 2Q18 and 1H18 the business also generated higher gain from the sale of PPE than respective periods in 2019.

EBITDA excluding IFRS 16, *hospitals*

The healthy increase in our quarterly and half year EBITDA reflects the contributions of our two new flagship hospitals, increased demand for current services at our existing facilities and recently implemented efficiency initiatives. Y-o-y EBITDA margins, however, were slightly down, 30 bps in 2Q19 and 60 bps 1H19, and stood at 25.4% and 25.5% respectively. The reduction was mainly due to the new pension reform, that added GEL 0.7 million and GEL 1.4 million in quarterly and half year salary expense and translated in 90 bps reductions in respective EBITDA margins, and the decrease in other operating income explained above. Excluding the dilutive effect of roll-outs, despite the new pension reform, the hospitals business posted strong EBITDA margin of 27.5% in 2Q19 and 27.7% in 1H19.

[10] Government funded healthcare programmes revenue share in total revenues from hospitals is higher compared to the same share in revenues from healthcare services that we used to report (which now, due to the split of hospitals and clinics results, are reported separately). This is because UHC mostly covers inpatient services, while the revenue share from government in our clinics business is lower, at 55.1%, due to the limited coverage of outpatient services from UHC that our polyclinics provide.

Profit, *hospitals*

As the business completed its intensive capital expenditure phase, the depreciation and amortisation expense started to stabilise. On the back of almost flat q-o-q borrowed funds balance the interest expense also remained flat, which is expected to decline over the next periods, as we continue to reduce our debt balance. Foreign currency loss recorded in 2Q19 is the result of a foreign currency exposure, arising from small unhedged portion of USD denominated borrowing from a DFI.

Other highlights:

- In 2Q19 hospitals business signed a cooperation agreement (the “transaction”) with JSC David Davarashvili Clinic, which provides maternity and gynaecology services and is one of the country’s leading maternity houses (the “Maternity Clinic”). Under the transaction, the Maternity Clinic will lease an unused 2,400 sq.m space at GHG’s referral hospital, Iashvili Tertiary Referral Hospital (“Iashvili Hospital”). Iashvili Hospital is the cornerstone of GHG’s neonatal and paediatric services and offers the most comprehensive portfolio of such services in Georgia. The collaboration of these two leading healthcare facilities will form the country’s strongest location for all types of neonatal and maternal services, further increasing Iashvili Hospital’s patient footprint and occupancy rates. It will also help to strengthen our position in the maternity business where we have low market share. The transaction also represents strong progress towards hospitals business’ strategy, to optimise its unused assets and increase the utilisation of its healthcare facilities, further improving the Hospital’s return on invested capital.

Discussion of Clinics Business Results[11]

Operational highlights:

- In December 2018 we entered into the Georgian dental market by launching dental clinics in the Group’s polyclinics. Currently eight of our polyclinics, located in Tbilisi and in other large cities, house dental offices.
- The number of registered patients in Tbilisi polyclinics has now reached c.172,000 (compared to c.157,000 in March 2019). We aim to further grow our polyclinic business both organically and through further acquisitions.

Income Statement, Clinics Business

GEL thousands; unless otherwise noted	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Clinics revenue, gross	**10,877**	**9,963**	**9.2%**	**21,984**	**19,397**	**13.3%**
Corrections & rebates	(73)	(220)	-66.8%	(170)	(318)	-46.5%
Clinics revenue, net	**10,804**	**9,743**	**10.9%**	**21,814**	**19,079**	**14.3%**
Costs of clinics business	**(6,223)**	**(5,521)**	**12.7%**	**(12,467)**	**(10,944)**	**13.9%**
Gross profit	**4,581**	**4,222**	**8.5%**	**9,347**	**8,135**	**14.9%**
Salaries and other employee benefits	(1,783)	(1,647)	8.3%	(3,539)	(3,290)	7.6%
General and administrative expenses *excluding IFRS 16*	(1,092)	(1,055)	3.5%	(2,174)	(1,957)	11.1%
Impairment of receivables	(15)	(28)	NMF	(90)	(44)	104.5%
Other operating income	216	(116)	NMF	439	(93)	NMF
EBITDA excluding IFRS 16	**1,907**	**1,376**	**38.6%**	**3,983**	**2,751**	**44.8%**
EBITDA margin excluding IFRS 16	*17.5%*	*13.8%*		*18.1%*	*14.2%*	
IFRS 16 impact on EBITDA[12]	301	-	NMF	755	-	NMF
Depreciation and amortization excluding IFRS 16	*(1,257)*	*(1,265)*	*-0.6%*	*(2,485)*	*(2,614)*	*-4.9%*
Depreciation and amortisation	(1,664)	(1,265)	31.6%	(3,290)	(2,614)	25.9%
Net interest income (expense) excluding IFRS 16	*(998)*	*(974)*	*2.5%*	*(1,955)*	*(1,954)*	*0.1%*
Net interest income (expense)	(1,126)	(974)	15.6%	(2,212)	(1,954)	13.2%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(35)*	*(3)*	*NMF*	*(62)*	*(7)*	*NMF*
Net gains/(losses) from foreign currencies	(834)	(3)	NMF	(895)	(7)	NMF
Net non-recurring income/(expense)	(15)	(10)	50.0%	(67)	276	NMF
Profit before income tax expense	**(1,431)**	**(876)**	**63.4%**	**(1,726)**	**(1,548)**	**11.5%**
Income tax benefit/(expense)	-	2	NMF	-	-	-
Profit for the period excluding IFRS 16	**(398)**	**(874)**	**-54.4%**	**(586)**	**(1,548)**	**-62.1%**
Profit for the period	**(1,431)**	**(874)**	**63.8%**	**(1,726)**	**(1,548)**	**11.5%**

[11] Under the Group’s new structure, the clinics business results now includes community clinics and polyclinics, explained in more details on page 7
[12] Represents IFRS 16 impact on General and administrative expenses

Revenue, *clinics*

Our clinics business also posted strong revenue growth driven by both, the polyclinics double-digit revenue growth as well as community clinics.

Revenue by types of clinics

(GEL thousands, unless otherwise noted)	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Clinics revenue, net	**10,804**	**9,743**	**10.9%**	**21,814**	**19,079**	**14.3%**
Polyclinics	5,692	4,895	*16.3%*	11,254	9,402	*19.7%*
Community	5,112	4,848	*5.4%*	10,560	9,677	*9.1%*

In 1H19, 52% of the clinics' revenue came from polyclinics and 48% from community clinics.

The growth in revenue from polyclinics was fully organic, driven by new service initiatives and increased number of registered patients in Tbilisi, up c.55,000 patients y-o-y in 2Q19, reaching c.172,000 patients as of now. The growth in our polyclinics is also supported by dental clinics - we have opened dental offices in eight different polyclinics since December 2018. We will continue to pursue our polyclinics expansion strategy: to consolidate our position as the largest player in the highly fragmented outpatient market in Georgia through organic growth and further acquisitions.

The y-o-y increase in revenue from community clinics, which play a feeder role for the referral hospitals, was fully organic.

Revenue by sources of payment in clinics

(GEL thousands, unless otherwise noted)	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Healthcare services revenue, net	**10,804**	**9,743**	**10.9%**	**21,814**	**19,079**	**14.3%**
Government-funded healthcare programmes	5,916	5,495	*7.7%*	12,022	10,781	*11.5%*
Out-of-pocket payments by patients	2,888	2,895	*-0.2%*	6,024	5,657	*6.5%*
Private medical insurance companies, *of which*	2,000	1,353	*47.8%*	3,768	2,641	*42.7%*
GHG medical insurance	1,857	1,154	*60.9%*	3,446	2,281	*51.1%*

The main contributor to clinics revenue growth was Government-funded healthcare programmes, accounting for a c.55% share in total revenue from clinics in both periods. The slight decline in out-of-pocket payments is attributable to community clinics where the main part of the revenue is generated from UHC, while in our polyclinics revenue the same source of payment was up 2.4% in 2Q19 and up 7.9% 1H19 y-o-y. The strong growth in clinics revenue from private insurance companies is mainly supported by the increased number of GHG insured clients, who prefer to use our polyclinics, due to the different incentives such as direct settlement of claims, and quality of care.

Gross profit, *clinics*

Cost of clinics as % of revenue	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Direct salary rate	34.8%	35.8%	-1.0 ppts	34.7%	36.1%	-1.4 ppts
Materials rate	6.6%	6.7%	-0.1 ppts	6.4%	6.5%	-0.1 ppts
Gross margin	**42.1%**	**42.4%**	**-0.3 ppts**	**42.5%**	**41.9%**	**0.6 ppts**

Despite the new pension reform, as a result of efficiency and cost control measures the direct salary rate significantly improved y-o-y. The y-o-y decrease in cost of materials rate is partially attributable to redirecting the laboratory tests to Mega Lab, eliminating cost of reagents while increasing the cost of medical service providers for the same period. As the polyclinics progress during their ramp-up phase, the cost of utilities increased y-o-y in both reporting periods. All this translated in slight reduction in quarterly gross margin, while the half year gross margin was up 60 bps, reaching 42.5%.

Operating expenses, *clinics*

Our focus on efficiency initiatives resulted in only moderate growth in salaries and other employee benefits and in general and administrative expenses (excluding IFRS 16 impact), both favourably lagging respective revenue growth. Other operating income derives mainly from renting the spaces to pharmacies and other minor retailers in our polyclinics. As a result, the clinics business posted strong y-o-y positive operating leverage of 14.5 ppts and 15.3 ppts in 2Q19 and 1H19.

EBITDA excluding IFRS 16, *clinics*

Increased revenue and the well-controlled cost base translated into strong EBITDA growth for both periods. Clinics business has also significantly improved its EBITDA margin, which was supported by EBITDA margin improvement in polyclinics as a number of them are making progress towards their run rate potential and the base of registered patients continues to increase. The polyclinics' EBITDA margin rose to 16.3% in 2Q19 (up 70 bps y-o-y) and to 15.6% in 1H19 (up 80 bps y-o-y).

Profit, *clinics*

As a number of polyclinics still remain in their roll-out phase, the clinics contributed negatively to the Group's profit. Currently the main priority of the clinics business remains the polyclinics chain expansion and increasing the base of registered customers, as our polyclinics represent a first point of customer interaction for our overall business, bringing additional referrals to our hospitals and pharmacies. Combined with the newly launched dental offices, we believe that the polyclinics business will become one of the largest sources of future growth, while we expect only moderate growth from the community clinics.

Discussion of Pharmacy and Distribution Business Results

Operating highlights:

- 279 pharmacies as of June 2019 (259 as of June 2018)
- Average retail customer interactions per month was c.2.4 in 2Q19 (c.2.2 in 2Q18) and c.2.4 in 1H19 (c.2.2 in 1H18)
- Average bill size was GEL 14.2 in 2Q19 (GEL 13.0 in 2Q18) and GEL 13.8 in 1H19 (GEL 13.9 in 1H18)
- c.0.8 million loyalty card members as at 30 June 2019

Income Statement, pharmacy and distribution business

GEL thousands; unless otherwise noted	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Pharmacy and distribution revenue	**149,414**	**127,323**	**17.4%**	**295,193**	**254,191**	**16.1%**
Costs of Pharmacy and distribution	**(113,463)**	**(95,862)**	**18.4%**	**(220,944)**	**(191,412)**	**15.4%**
Gross profit	**35,951**	**31,461**	**14.3%**	**74,249**	**62,779**	**18.3%**
Salaries and other employee benefits	(12,580)	(11,299)	11.3%	(25,244)	(22,493)	12.2%
General and administrative expenses *excluding IFRS 16*	(9,885)	(8,473)	16.7%	(19,794)	(16,723)	18.4%
Impairment of receivables	(121)	(5)	NMF	(179)	(25)	NMF
Other operating income	1,982	233	NMF	1,876	1,023	83.4%
EBITDA excluding IFRS 16	**15,347**	**11,917**	**28.8%**	**30,908**	**24,561**	**25.8%**
EBITDA margin excluding IFRS 16	*10.3%*	*9.4%*		*10.5%*	*9.7%*	
IFRS 16 impact on EBITDA[13]	4,739	-	NMF	9,141	-	NMF
Depreciation and amortization excluding IFRS 16	*(738)*	*(576)*	*28.1%*	*(1,426)*	*(1,124)*	*26.9%*
Depreciation and amortisation	(4,702)	(576)	NMF	(9,240)	(1,124)	NMF
Net interest income (expense) excluding IFRS 16	*(2,943)*	*(2,758)*	*6.7%*	*(5,892)*	*(5,515)*	*6.8%*
Net interest income (expense)	(4,141)	(2,758)	50.1%	(8,193)	(5,515)	48.6%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(3,294)*	*243*	*NMF*	*(3,088)*	*2,129*	*NMF*
Net gains/(losses) from foreign currencies	(6,519)	243	NMF	(6,546)	2,129	NMF
Net non-recurring income/(expense)	(68)	(374)	-81.8%	(62)	(785)	-92.1%
Profit before income tax expense	**4,656**	**8,452**	**-44.9%**	**16,008**	**19,266**	**-16.9%**
Income tax benefit/(expense)	(69)	-	NMF	(69)	-	NMF
Profit for the period excluding IFRS 16	**8,235**	**8,452**	**-2.6%**	**20,371**	**19,266**	**5.7%**
Profit for the period	**4,587**	**8,452**	**-45.7%**	**15,939**	**19,266**	**-17.3%**

Revenue, *pharmacy and distribution*

We enjoyed strong revenue growth in both periods in our retail and distribution businesses as shown in the table below.

Revenue by types, pharmacy and distribution

(GEL thousands, unless otherwise noted)	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Pharmacy and distribution revenue	**149,414**	**127,323**	**17.4%**	**295,193**	**254,191**	**16.1%**
Revenue from Retail	106,024	93,309	13.6%	209,697	188,389	11.3%
Revenue from Distribution	43,390	34,014	27.6%	85,496	65,802	29.9%
Gross profit Margin	**24.1%**	**24.7%**	**-0.6 ppts**	**25.2%**	**24.7%**	**0.5 ppts**

[13] Represents IFRS 16 impact on General and administrative expenses

The increase in y-o-y revenues from retail is attributable to expansion and organic sales growth in the business. Over the last 12 months we have added 20 new pharmacies to our chain. The number of bills issued as well average bill size was up 4.9% and 8.9% in 2Q19, respectively. This translated into a same-store growth rate of 8.0% in 2Q19. The business also posted positive 6.1% same-store growth rate for the half year. The share of para-pharmacy sales in retail revenue further improved to 31.4% in 2Q19 (30.1% in 2Q18) and to 30.3% in 1H19 (29.4% in 1H18).

The pharmacy and distribution business continues to make strong progress in growing wholesale revenue by signing new corporate accounts. Apart from new clients, the distribution revenue growth relates to the transfer of our hospitals' centralised medicine procurement entity ("ELG") to the GHG pharmacy and distribution business wholesale segment in 2019. This resulted increased intercompany sales with GHG hospitals and clinics businesses.

Excluding the ELG sales, y-o-y revenue growth from distribution was 1.8% in 2Q19 and 6.7% in 1H19, translating into pharmacy and distribution business total y-o-y revenue growth of 10.5% and 10.1%, respectively.

Gross profit, *pharmacy and distribution*

Quarterly gross margin in the pharmacy and distribution business was down 60 bps y-o-y due to the reduced wholesale margin resulting from the increased intercompany sales mentioned above (which is eliminated upon consolidation). Excluding these intercompany sales the quarterly gross margin improved 70 bps. The improvement is partially a result of costs of pharma slightly benefiting from realising previously purchased inventory at a lower foreign currency exchange rate. Though, increased FX rates in 2Q19 increased our payable balances for these inventories, resulting in loss from foreign currencies in the same period.

Apart from the quarterly reasons stated above, half year gross profit margin improvement was driven by the increased margin on non-medication categories (personal care, beauty and other para-pharmacy products), total sales of which were GEL 67.4 million in 1H19 with 30.4% gross profit margin, compared to GEL 57.4 million in 1H18 with 28.7% gross profit margin.

Our gross profit margins also benefited from the increased sales of private label products. Currently, 37 private label medicines are presented in our pharmacies, with annualised revenue contribution of c.GEL 5 million. In May, private label personal care products were also introduced in our pharmacies under the brand name "Attirance", posting around GEL 0.1 million in 2Q19.

Operating expenses, *pharmacy and distribution*

The business posted y-o-y positive operating leverage of 8.9 ppts in 2Q19 and 4.9 ppts in 1H19. Salaries and other employee benefits, despite the pension reform, favourably lagged behind the same period revenue growth. Apart from business expansion, the y-o-y increase in general and administrative expenses (excluding IFRS 16 impact) is attributable to the marketing activities and promotions to support retail sales growth and increased rent expense of pharmacies (about 85% of rental contracts are denominated in foreign currency) due to the GEL devaluation.

Other operating income at the business increased by GEL 1.7 million, reflecting principally the gain on the sale of unused land and building (see note 26 to the financial statements).

EBITDA and profit, *pharmacy and distribution*

Our 2Q19 and 1H19 EBITDA margins, at 10.3% and 10.5% respectively, continue to substantially exceed our updated target of 9% (previously 8%+).

Profit, *pharmacy and distribution*

In 2Q19 interest expense included GEL 0.2 million on the mark to market of the Pharmadepot (the pharmacy and distribution brand acquired in 2017) acquisition holdback (GEL 0.3 million in 2Q18) which is a non-cash expense.

The foreign currency loss reflects the increase in the GEL value of US Dollar and EUR denominated payables to suppliers due to the devaluation of GEL in 2Q19, also explained in more details on page 9, the effect of which is partially mitigated by increased quarterly retail gross margin.

Discussion of Medical Insurance Business Results

Operating highlights:

- As at 31 March 2019, business market share based on net insurance premium revenue was 31.1%.
- In 2019, we became the largest medical insurer in Georgia with c.230,000 insured (c.157,000 in December 2018).
- Our insurance renewal rate was 81.3% in 2Q19 (70.1% in 2Q18) and 77.5% in 1H19 (71.8% in 1H18).

Income Statement, medical insurance business

GEL thousands; unless otherwise noted	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Net insurance premiums earned	**18,873**	**13,703**	**37.7%**	**36,366**	**27,005**	**34.7%**
Cost of insurance services	**(16,233)**	**(11,898)**	**36.4%**	**(31,916)**	**(23,792)**	**34.1%**
Gross profit	**2,640**	**1,805**	**46.3%**	**4,450**	**3,213**	**38.5%**
Salaries and other employee benefits	(1,189)	(1,063)	11.9%	(2,106)	(1,846)	14.1%
General and administrative expenses *excluding IFRS 16*	(469)	(332)	41.3%	(909)	(682)	33.3%
Impairment of receivables	(114)	(61)	86.9%	(217)	(159)	36.5%
Other operating income	355	163	117.8%	567	190	198.4%
EBITDA excluding IFRS 16	**1,223**	**512**	**138.9%**	**1,785**	**716**	**149.3%**
EBITDA margin excluding IFRS 16	*6.5%*	*3.7%*		*4.9%*	*2.7%*	
IFRS 16 impact on EBITDA[14]	96	-	NMF	181	-	NMF
Depreciation and amortisation excluding IFRS 16	*(191)*	*(187)*	*2.1%*	*(380)*	*(391)*	*-2.8%*
Depreciation and amortisation	(279)	(187)	49.2%	(548)	(391)	40.2%
Net interest income/ (expense) excluding IFRS 16	*186*	*(11)*	*NMF*	*313*	*(125)*	*NMF*
Net interest income/ (expense)	173	(11)	NMF	286	(125)	NMF
Net gains/(losses) from foreign currencies excluding IFRS 16	*8*	*50*	*-84.0%*	*71*	*88*	*-19.3%*
Net gains/(losses) from foreign currencies	(41)	50	NMF	18	88	-79.5%
Net non-recurring income/(expense)	-	-	-	-	-	-
Profit before income tax expense	**1,172**	**364**	**222.0%**	**1,722**	**288**	**497.9%**
Income tax benefit/(expense)	(203)	(43)	NMF	(288)	(43)	NMF
Profit / (Loss) for the period excluding IFRS 16	**1,023**	**321**	**218.7%**	**1,501**	**245**	**NMF**
Profit / (Loss) for the period	**969**	**321**	**201.9%**	**1,434**	**245**	**NMF**
Loss ratio *(%)*	82.6%	82.4%	0.2 ppts	83.9%	83.4%	0.5 ppts
Expense ratio without IFRS 16 *(%)*	11.9%	15.2%	-3.3 ppts	12.3%	15.4%	-3.1 ppts
Combined ratio without IFRS 16 *(%)*	94.5%	97.6%	-3.1 ppts	96.1%	98.8%	-2.7 ppts

Revenue, medical insurance

Our medical insurance business posted strong y-o-y double-digit revenue growth, driven by the increased number of new corporate clients. The business started to benefit from the Group's scale that gives us an advantage to offer more competitive prices on the market. Out of new clients, the largest new contract is with the Ministry of Defence ("MOD"), acquired through tender process starting from February 2019. Apart from business growth, the increased number of insured clients further increases our medical insurance claims retention rate within the Group – which, apart from expansion, is the business' main priority.

Gross profit, medical insurance

Medical insurance claims expenses accounts for almost all of the cost of insurance services. In 1H19, our medical insurance claims expense was GEL 30.5 million, of which GEL 12.8 million (41.9% of the total) was inpatient, GEL 12.4 million (40.8% of total) was outpatient and GEL 5.3 million (17.3% of total) was accounted for by drugs. In 2019 loss ratio was slightly up y-o-y (up 20 bps at 82.6% in 2Q19; up 50 bps at 83.9% at 1H19) due to the addition of big clients, such as MOD, having slightly higher loss ratio compared to small corporate clients.

Claims retention rates

Our insurance business expansion has significantly improved claims retention rates within the Group, as the business plays a feeder role in originating and directing patients to our healthcare facilities, mainly to polyclinics and to pharmacies.

[14] Represents IFRS 16 impact on General and administrative expenses

	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Total claims retained within the Group	43.0%	38.1%	4.9%	41.1%	38.2%	2.9%
Total claims retained in outpatient	40.7%	38.4%	2.3%	40.6%	38.5%	2.1%

Due to the medical insurance business' increased client base (reaching c.230,000 insured as of June 2019) and new flagship hospital launches in Tbilisi, where our medical insurance business has the highest concentration of its insured clients, more of our medical insurance customers will be utilising our inpatient services. At the same time, with our polyclinics expansion strategy, we expect the retention rate to improve further in the future, on a larger base, providing a significant revenue boost for our clinics and hospitals. Our facilities are increasingly favoured by customers over competitor facilities due to the quality and convenience of our service, access to one-stop-shop style polyclinics and the ease of claim reimbursement procedures.

Operating expenses, *medical insurance*

Operating expenses growth significantly lagged behind revenue growth, translating into strong positive operating leverage of 36.7 ppts in 2Q19 and 31.8 ppts in 1H19.

Last year, our medical insurance business began participating in the Compulsory Motor Third Party Liability Insurance Programme, effective in the country from 1 March 2018. The profit from this is shown in other operating income. Staring from 2019 the business renegotiated and increased the fee from this service which resulted in y-o-y increase in other operating income.

As a result, y-o-y expense ratio (excluding IFRS 16 impact) was down 330 bps at 11.9% in 2Q19 and down 310 bps at 12.3% in 1H19. Consequently, the combined ratio (excluding IFRS 16 impact) improved by 310 bps to 94.5% in 2Q19 and by 270 bps to 96.1% in 1H19.

Discussion of Diagnostics Business Results

Overview, diagnostics

In December 2018, we completed construction and opened Mega Lab, the largest diagnostics laboratory in Georgia and the entire Caucasus region. The multi-disciplinary laboratory is equipped with the most modern infrastructure and state-of-the-art equipment and in addition to basic laboratory tests, the new laboratory allows us to offer complex tests for oncology and molecular lab, some of which have never previously been available in Georgia and for which blood samples used to be sent abroad. The launch is in line with our strategy to invest in and develop new medical services to keep filling existing service gaps in the country, supporting the market's continuing development and our service export strategy.

Mega Lab is an important, separate, business line for the Group, the results of which are shown below in detail. Currently the process of centralising Group's internal lab demand – through collecting samples from the Group's hospitals and polyclinics throughout Georgia - is ongoing and will be completed by September of this year. Test results are distributed electronically to each hospital and polyclinic within the Group through the internal Laboratory Information Management System ("LIMS"), enabling us to be more efficient and provide a reliable service to our patients. Apart from serving the Group facilities, which cover only one-fourth of the laboratory's capacity, Mega Lab started to develop a retail network and capitalise on our pharmacy and distribution business' scale - being the largest retailer in the country. We have already opened a blood collection point in one of our pharmacies in June 2019 and plan to continue the process to arrive at c.50 blood collection points in coming years. The Mega Lab will also work on additional external contracts, serving healthcare facilities outside the Group.

Before opening Mega Lab, most of the Group's healthcare facilities had their own laboratory units and the Group owned one smaller scale lab facility (Patgeo, acquired in 2016). The results below for 2Q18 and 1H18 shows the numbers for Patgeo, which after opening Mega Lab, was fully consolidated into the diagnostics business 2019 results. The Group's healthcare facilities cost base for lab services remained the same with the opening of Mega Lab. Costs previously reflected as salaries and materials (mainly reagents) have simply been shifted to cost of providers.

Operating highlights:

- Number of patients served in 2Q19 – c.60,000; in 1H19 – c.127,000
- Number of tests performed in 2Q19 – c.184,000; in 1H19 – c.356,000
- Average number of tests per patient in 2Q19 – c.3.1; in 1H19 – c.2.8

Income Statement, Diagnostics

GEL thousands; unless otherwise noted	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Diagnostics revenue	**1,131**	**682**	**65.8%**	**2,285**	**1,378**	**65.8%**
Costs of diagnostics	**(774)**	**(563)**	**37.5%**	**(1,605)**	**(1,077)**	**49.0%**
Gross profit	**357**	**119**	**NMF**	**680**	**301**	**NMF**
Salaries and other employee benefits	(281)	(45)	NMF	(515)	(90)	NMF
General and administrative expenses *excluding IFRS 16*	(76)	(76)	0.3%	(160)	(132)	21.2%
Impairment of receivables	-	-	-	(4)	-	NMF
Other operating income	49	-	NMF	96	(4)	NMF
EBITDA excluding IFRS 16	**49**	**(2)**	**NMF**	**97**	**75**	**29.3%**
EBITDA margin excluding IFRS 16	*4.3%*	*NMF*		*4.2%*	*5.4%*	
IFRS 16 impact on EBITDA[15]	5	-	NMF	11	-	NMF
Depreciation and amortisation excluding IFRS 16	*(60)*	*(47)*	*27.8%*	*(119)*	*(91)*	*30.8%*
Depreciation and amortisation	(67)	(47)	42.7%	(132)	(91)	45.1%
Net interest income/ (expense) excluding IFRS 16	*-*	*-*	*NMF*	*-*	*-*	*-*
Net interest income (expense)	(1)	-	NMF	(1)	-	NMF
Net gains/(losses) from foreign currencies excluding IFRS 16	*(14)*	*1*	*NMF*	*(20)*	*1*	*NMF*
Net gains/(losses) from foreign currencies	(14)	1	NMF	(20)	1	NMF
Net non-recurring income/(expense)	-	(16)	NMF	(5)	(27)	NMF
Profit before income tax expense	**(29)**	**(64)**	**NMF**	**(50)**	**(42)**	**NMF**
Income tax benefit/(expense)	-	-	-	-	-	-
Profit for the period excluding IFRS 16	**(26)**	**(64)**	**-59.9%**	**(47)**	**(42)**	**11.9%**
Profit for the period	**(29)**	**(64)**	**-55.1%**	**(50)**	**(42)**	**19.0%**

Revenue by types, diagnostics

(GEL thousands, unless otherwise noted)	2Q19	2Q18	Change, Y-o-Y	1H19	1H18	Change, Y-o-Y
Diagnostics revenue	**1,131**	**682**	NMF	**2,285**	**1,378**	65.8%
Contracts	1,071	682	NMF	2,180	1,378	58.2%
Walk-in	60	-	NMF	105	-	NMF

In 2Q19 and 1H19 well over 90% of our diagnostics business revenue came from contracts, as mentioned above mainly from the Group's hospitals and clinics, by consolidating the demand for planned laboratory tests in Mega Lab. The c.5% of revenue from walk-in patients represents retail revenue which we plan to increase as the business continues to develop retail blood collection points as discussed above.

The diagnostics business continued its positive trend and, as in the first quarter, reached break even EBITDA in 2Q19, a significant achievement for a newly launched segment. The cost base for lab tests are the same as it was for our previously operated separate lab units in our healthcare facilities while the newly added diagnostics business already posts a positive margin due to the reduced cost of tests as a result of consolidation.

[15] Represents IFRS 16 impact on General and administrative expenses

SELECTED FINANCIAL INFORMATION

Income Statement, *half-year*	**Hospitals**			**Clinics**			**Pharmacy and distribution**			**Medical insurance**			**Diagnostics**			**Eliminations**		**GHG**		
GEL thousands, unless otherwise noted	**1H19**	**1H18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Q-o-Q**	**1H19**	**1H18**	**Change, Y-o-Y**	**1H19**	**1H18**	**Change, Y-o-Y**	**1H19**	**1H18**	**1H19**	**1H18**	**Change, Y-o-Y**
Revenue, gross	**148,992**	**132,080**	**12.8%**	**21,984**	**19,397**	**13.3%**	**295,193**	**254,191**	**16.1%**	**36,366**	**27,005**	**34.7%**	**2,285**	**1,378**	**65.8%**	**(31,948)**	**(14,571)**	**472,872**	**419,480**	**12.7%**
Corrections & rebates	(994)	(1,462)	-32.0%	(170)	(318)	-46.5%	-	-	-	-	-	-	-	-	-	-	-	(1,164)	(1,780)	-34.6%
Revenue, net	**147,998**	**130,618**	**13.3%**	**21,814**	**19,079**	**14.3%**	**295,193**	**254,191**	**16.1%**	**36,366**	**27,005**	**34.7%**	**2,285**	**1,378**	**65.8%**	**(31,948)**	**(14,571)**	**471,708**	**417,700**	**12.9%**
Costs of services	**(85,661)**	**(75,358)**	**13.7%**	**(12,467)**	**(10,944)**	**13.9%**	**(220,944)**	**(191,412)**	**15.4%**	**(31,916)**	**(23,792)**	**34.1%**	**(1,605)**	**(1,077)**	**49.0%**	**30,933**	**13,736**	**(321,660)**	**(288,847)**	**11.4%**
Cost of salaries and other employee benefits	(51,430)	(46,069)	11.6%	(7,632)	(7,011)	8.9%	-	-	-	-	-	-	(549)	(478)	14.9%	3,078	2,015	(56,533)	(51,543)	9.7%
Cost of materials and supplies	(25,300)	(21,693)	16.6%	(1,398)	(1,270)	10.1%	-	-	-	-	-	-	(821)	(586)	40.1%	3,042	4,726	(24,477)	(18,823)	30.0%
Cost of medical service providers	(2,107)	(1,760)	19.7%	(2,247)	(1,612)	39.4%	-	-	-	-	-	-	(46)	-	NMF	2,531	1,889	(1,869)	(1,483)	26.0%
Cost of utilities and other	(6,824)	(5,836)	16.9%	(1,190)	(1,051)	13.2%	-	-	-	-	-	-	(189)	(13)	NMF	423	260	(7,780)	(6,640)	17.2%
Net insurance claims incurred	-	-	-	-	-	-	-	-	-	(30,501)	(22,512)	35.5%	-	-	-	7,061	4,846	(23,440)	(17,666)	32.7%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	-	(1,415)	(1,280)	10.5%	-	-	-	-	-	(1,415)	(1,280)	10.5%
Cost of pharma – wholesale	-	-	-	-	-	-	(71,214)	(53,303)	33.6%	-	-	-	-	-	-	14,798	-	(56,416)	(53,303)	5.8%
Cost of pharma - retail	-	-	-	-	-	-	(149,730)	(138,109)	8.4%	-	-	-	-	-	-	-	-	(149,730)	(138,109)	8.4%
Gross profit	**62,337**	**55,260**	**12.8%**	**9,347**	**8,135**	**14.9%**	**74,249**	**62,779**	**18.3%**	**4,450**	**3,213**	**38.5%**	**680**	**301**	**125.9%**	**(1,015)**	**(835)**	**150,048**	**128,853**	**16.4%**
Salaries and other employee benefits	(16,109)	(14,065)	14.5%	(3,539)	(3,290)	7.6%	(25,244)	(22,493)	12.2%	(2,106)	(1,846)	14.1%	(515)	(90)	NMF	196	552	(47,317)	(41,232)	14.8%
General and administrative expenses	(7,288)	(7,086)	2.9%	(2,174)	(1,957)	11.1%	(19,794)	(16,723)	18.4%	(909)	(682)	33.3%	(160)	(132)	21.2%	228	378	(30,097)	(26,202)	14.9%
Impairment of receivables	(2,265)	(2,457)	-7.8%	(90)	(44)	104.5%	(179)	(25)	NMF	(217)	(159)	36.5%	(4)	-	NMF	443	284	(2,312)	(2,401)	-3.7%
Other operating income	1,327	2,878	-53.9%	439	(93)	NMF	1,876	1,023	83.4%	567	190	198.4%	96	(4)	NMF	149	(381)	4,454	3,613	23.3%
EBITDA excluding IFRS 16	**38,002**	**34,530**	**10.1%**	**3,983**	**2,751**	**44.8%**	**30,908**	**24,561**	**25.8%**	**1,785**	**716**	**149.3%**	**97**	**75**	**29.3%**	**1**	**(2)**	**74,776**	**62,631**	**19.4%**
EBITDA margin excluding IFRS 16	***25.5%***	***26.1%***		***18.1%***	***14.2%***		***10.5%***	***9.7%***		***4.9%***	***2.7%***		***4.2%***	***5.4%***						
IFRS 16 impact on EBITDA[16]	299	-	NMF	755	-	NMF	9,141	-	NMF	181	-	NMF	11	-	NMF	-	-	10,387	-	
EBITDA as per financial statements	**38,301**	**34,530**	**10.9%**	**4,738**	**2,751**	**72.2%**	**40,049**	**24,561**	**63.1%**	**1,966**	**716**	**174.6%**	**108**	**75**	**44.0%**	**1**	**(2)**	**85,163**	**62,631**	**36.0%**
Depreciation and amortization excluding IFRS 16	*(13,244)*	*(12,342)*	*7.3%*	*(2,485)*	*(2,614)*	*-4.9%*	*(1,426)*	*(1,124)*	*26.9%*	*(380)*	*(391)*	*-2.8%*	*(119)*	*(91)*	*30.8%*	*-*	*-*	*(17,654)*	*(16,562)*	*6.6%*
Depreciation and amortization	(13,599)	(12,342)	10.2%	(3,290)	(2,614)	25.9%	(9,240)	(1,124)	NMF	(548)	(391)	40.2%	(132)	(91)	45.1%	-	-	(26,809)	(16,562)	61.9%
Net interest income (expense) excluding IFRS 16	*(13,168)*	*(10,556)*	*24.7%*	*(1,955)*	*(1,954)*	*0.1%*	*(5,892)*	*(5,515)*	*6.8%*	*313*	*(125)*	*NMF*	*-*	*-*	*-*	*-*	*-*	*(20,702)*	*(18,150)*	*14.1%*
Net interest income (expense)	(13,233)	(10,556)	25.4%	(2,212)	(1,954)	13.2%	(8,193)	(5,515)	48.6%	286	(125)	NMF	(1)	-	NMF	-	-	(23,353)	(18,150)	28.7%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(1,145)*	*39*	*NMF*	*(62)*	*(7)*	*NMF*	*(3,088)*	*2,129*	*NMF*	*71*	*88*	*NMF*	*(20)*	*1*	*NMF*	*-*	*-*	*(4,244)*	*2,250*	*NMF*
Net gains/(losses) from foreign currencies	(1,552)	39	NMF	(895)	(7)	NMF	(6,546)	2,129	NMF	18	88	NMF	(20)	1	NMF	-	-	(8,995)	2,250	NMF
Net non-recurring income/(expense)	(392)	(1,126)	-65.2%	(67)	276	NMF	(62)	(785)	-92.1%	-	-	-	(5)	(27)	-81.5%	(1)	-	(527)	(1,662)	-68.3%
Profit before income tax expense	**9,525**	**10,545**	**-9.7%**	**(1,726)**	**(1,548)**	**11.5%**	**16,008**	**19,266**	**-16.9%**	**1,722**	**288**	**NMF**	**(50)**	**(42)**	**19.0%**	**-**	**(2)**	**25,479**	**28,507**	**-10.6%**
Income tax benefit/(expense)	-	(74)	NMF	-	-	-	(69)	-	NMF	(288)	(43)	NMF	-	-	-	-	-	(357)	(117)	**205.1%**
Profit for the period excluding IFRS 16	**10,053**	**10,471**	**-4.0%**	**(586)**	**(1,548)**	**-62.1%**	**20,371**	**19,266**	**5.7%**	**1,501**	**245**	**512.7%**	**(47)**	**(42)**	**11.9%**	**-**	**(2)**	**31,292**	**28,390**	**10.2%**
Attributable to:																				
- shareholders of the Company	7,282	8,256	-11.8%	(620)	(1,502)	-58.7%	12,162	11,234	8.3%	1,501	245	NMF	(47)	(42)	11.9%	-	(2)	20,278	18,189	11.5%
- non-controlling interests	2,771	2,215	25.1%	34	(46)	NMF	8,209	8,032	2.2%	-	-	-	-	-	-	-	-	11,014	10,201	8.0%
Profit for the period	**9,525**	**10,471**	**-9.0%**	**(1,726)**	**(1,548)**	**11.5%**	**15,939**	**19,266**	**-17.3%**	**1,434**	**245**	**485.3%**	**(50)**	**(42)**	**19.0%**	**-**	**(2)**	**25,122**	**28,390**	**-11.5%**
Attributable to:																				
- shareholders of the Company	6,754	8,256	-18.2%	(1,760)	(1,502)	17.2%	9,193	11,234	-18.2%	1,434	245	485.3%	(50)	(42)	19.0%	-	(2)	15,571	18,189	-14.4%
- non-controlling interests	2,771	2,215	25.1%	34	(46)	NMF	6,746	8,032	-16.0%	-	-	-	-	-	-	-	-	9,551	10,201	-6.4%

[16] Represents IFRS 16 impact on General and administrative expenses

Income Statement, *Quarterly*

GEL thousands, unless otherwise noted

Hospitals

	2Q19	2Q18	Change, Y-o-Y	1Q19	Change, Q-o-Q
Revenue, gross	74,218	67,790	9.5%	74,774	-0.7%
Corrections & rebates	(532)	(867)	-38.6%	(462)	15.1%
Revenue, net	73,686	66,923	10.1%	74,312	-0.8%
Costs of services	(42,640)	(38,875)	9.7%	(43,021)	-0.9%
Cost of salaries and other employee benefits	(26,189)	(24,117)	8.6%	(25,241)	3.8%
Cost of materials and supplies	(12,281)	(11,041)	11.2%	(13,019)	-5.7%
Cost of medical service providers	(1,095)	(922)	18.8%	(1,012)	8.2%
Cost of utilities and other	(3,075)	(2,794)	10.1%	(3,749)	-18.0%
Net insurance claims incurred	-	-	-	-	-
Agents, brokers and employee commissions	-	-	-	-	-
Cost of pharma – wholesale	-	-	-	-	-
Cost of pharma - retail	-	-	-	-	-
Gross profit	31,046	28,048	10.7%	31,291	-0.8%
Salaries and other employee benefits	(8,157)	(7,235)	12.7%	(7,952)	2.6%
General and administrative expenses	(3,861)	(3,759)	2.7%	(3,427)	12.7%
Impairment of receivables	(1,128)	(1,271)	-11.3%	(1,137)	-0.8%
Other operating income	940	1,639	-42.6%	387	142.9%
EBITDA *excluding IFRS 16*	18,840	17,421	8.1%	19,162	-1.7%
EBITDA margin excluding IFRS 16	25.4%	25.7%		25.6%	
IFRS 16 impact on EBITDA[17]	120	-	NMF	179	
EBITDA as per financial statements	18,960	17,421	8.8%	19,341	-2.0%
Depreciation and amortization excluding IFRS 16	(6,728)	(6,771)	-0.6%	(6,516)	3.3%
Depreciation and amortization	(6,920)	(6,771)	2.2%	(6,679)	3.6%
Net interest income (expense) excluding IFRS 16	(6,586)	(5,844)	12.7%	(6,582)	0.1%
Net interest income (expense)	(6,620)	(5,844)	13.3%	(6,613)	0.1%
Net gains/(losses) from foreign currencies excluding IFRS 16	(1,052)	60	NMF	(93)	NMF
Net gains/(losses) from foreign currencies	(1,437)	60	NMF	(115)	NMF
Net non-recurring income/(expense)	(288)	(247)	16.5%	(104)	176.8%
Profit before income tax expense	3,695	4,619	-20.0%	5,830	-36.6%
Income tax benefit/(expense)	-	(74)	NMF	-	-
Profit for the period excluding IFRS 16	4,186	4,545	-7.9%	5,867	-28.6%
Attributable to:					
- shareholders of the Company	2,927	3,749	-21.9%	4,354	-32.8%
- non-controlling interests	1,259	796	58.2%	1,513	-16.8%
Profit for the period	3,695	4,545	-18.7%	5,830	-36.6%
Attributable to:					
- shareholders of the Company	2,436	3,749	-35.0%	4,317	-43.6%
- non-controlling interests	1,259	796	58.2%	1,513	-16.8%

Clinics

	2Q19	2Q18	Change, Y-o-Y	1Q19	Change, Q-o-Q
Revenue, gross	10,877	9,963	9.2%	11,107	-2.1%
Corrections & rebates	(73)	(220)	-66.8%	(97)	-24.7%
Revenue, net	10,804	9,743	10.9%	11,010	-1.9%
Costs of services	(6,223)	(5,521)	12.7%	(6,244)	-0.3%
Cost of salaries and other employee benefits	(3,789)	(3,563)	6.3%	(3,843)	-1.4%
Cost of materials and supplies	(721)	(669)	7.8%	(677)	6.5%
Cost of medical service providers	(1,183)	(817)	44.8%	(1,064)	11.2%
Cost of utilities and other	(530)	(472)	12.3%	(660)	-19.7%
Net insurance claims incurred	-	-	-	-	-
Agents, brokers and employee commissions	-	-	-	-	-
Cost of pharma – wholesale	-	-	-	-	-
Cost of pharma - retail	-	-	-	-	-
Gross profit	4,581	4,222	8.5%	4,766	-3.9%
Salaries and other employee benefits	(1,783)	(1,647)	8.3%	(1,756)	1.5%
General and administrative expenses	(1,092)	(1,055)	3.5%	(1,082)	0.9%
Impairment of receivables	(15)	(28)	-46.8%	(75)	-80.0%
Other operating income	216	(116)	NMF	223	-3.1%
EBITDA *excluding IFRS 16*	1,907	1,376	38.6%	2,076	-8.1%
EBITDA margin excluding IFRS 16	17.5%	13.8%		18.7%	
IFRS 16 impact on EBITDA[17]	301	-	NMF	454	
EBITDA as per financial statements	2,208	1,376	60.5%	2,530	-12.7%
Depreciation and amortization excluding IFRS 16	(1,257)	(1,265)	-0.6%	(1,228)	2.4%
Depreciation and amortization	(1,664)	(1,265)	31.6%	(1,626)	2.4%
Net interest income (expense) excluding IFRS 16	(998)	(974)	2.5%	(957)	4.3%
Net interest income (expense)	(1,126)	(974)	15.6%	(1,086)	3.7%
Net gains/(losses) from foreign currencies excluding IFRS 16	(35)	(3)	NMF	(27)	30.0%
Net gains/(losses) from foreign currencies	(834)	(3)	NMF	(61)	NMF
Net non-recurring income/(expense)	(15)	(10)	50.0%	(52)	-71.2%
Profit before income tax expense	(1,431)	(876)	63.4%	(295)	NMF
Income tax benefit/(expense)	-	2	NMF	-	-
Profit for the period excluding IFRS 16	(398)	(874)	-54.4%	(188)	112.0%
Attributable to:					
- shareholders of the Company	(412)	(857)	-51.9%	(208)	98.0%
- non-controlling interests	14	(17)	NMF	20	-31.1%
Profit for the period	(1,431)	(874)	63.8%	(295)	NMF
Attributable to:					
- shareholders of the Company	(1,445)	(857)	68.7%	(315)	NMF
- non-controlling interests	14	(17)	NMF	20	-31.1%

Pharmacy and distribution

	2Q19	2Q18	Change, Y-o-Y	1Q19	Change, Q-o-Q
Revenue, gross	149,414	127,323	17.4%	145,779	2.5%
Corrections & rebates	-	-	-	-	-
Revenue, net	149,414	127,323	17.4%	145,779	2.5%
Costs of services	(113,463)	(95,862)	18.4%	(107,481)	5.6%
Cost of salaries and other employee benefits	-	-	-	-	-
Cost of materials and supplies	-	-	-	-	-
Cost of medical service providers	-	-	-	-	-
Cost of utilities and other	-	-	-	-	-
Net insurance claims incurred	-	-	-	-	-
Agents, brokers and employee commissions	-	-	-	-	-
Cost of pharma – wholesale	(37,097)	(27,206)	36.4%	(34,117)	8.7%
Cost of pharma - retail	(76,366)	(68,656)	11.2%	(73,364)	4.1%
Gross profit	35,951	31,461	14.3%	38,298	-6.1%
Salaries and other employee benefits	(12,580)	(11,299)	11.3%	(12,664)	-0.7%
General and administrative expenses	(9,885)	(8,473)	16.7%	(9,909)	-0.2%
Impairment of receivables	(121)	(5)	NMF	(58)	108.6%
Other operating income	1,982	233	NMF	(106)	NMF
EBITDA *excluding IFRS 16*	15,347	11,917	28.8%	15,561	-1.4%
EBITDA margin excluding IFRS 16	10.3%	9.4%		10.7%	
IFRS 16 impact on EBITDA[17]	4,739	-	NMF	4,402	7.7%
EBITDA as per financial statements	20,086	11,917	68.5%	19,963	0.6%
Depreciation and amortization excluding IFRS 16	(738)	(576)	28.1%	(688)	7.3%
Depreciation and amortization	(4,702)	(576)	NMF	(4,538)	3.6%
Net interest income (expense) excluding IFRS 16	(2,943)	(2,758)	6.7%	(2,949)	-0.2%
Net interest income (expense)	(4,141)	(2,758)	50.1%	(4,052)	2.2%
Net gains/(losses) from foreign currencies excluding IFRS 16	(3,294)	243	NMF	206	NMF
Net gains/(losses) from foreign currencies	(6,519)	243	NMF	(27)	NMF
Net non-recurring income/(expense)	(68)	(374)	-81.8%	6	NMF
Profit before income tax expense	4,656	8,452	-44.9%	11,352	-59.0%
Income tax benefit/(expense)	(69)	-	NMF	-	NMF
Profit for the period excluding IFRS 16	8,235	8,452	-2.6%	12,136	-32.1%
Attributable to:					
- shareholders of the Company	4,770	4,500	6.0%	7,392	-35.5%
- non-controlling interests	3,465	3,952	-12.3%	4,744	-27.0%
Profit for the period	4,587	8,452	-45.7%	11,352	-59.6%
Attributable to:					
- shareholders of the Company	2,326	4,500	-48.3%	6,867	-66.1%
- non-controlling interests	2,261	3,952	-42.8%	4,485	-49.6%

Medical insurance

	2Q19	2Q18	Change, Y-o-Y	1Q19	Change, Q-o-Q
Revenue, gross	18,873	13,703	37.7%	17,493	7.9%
Corrections & rebates	-	-	-	-	-
Revenue, net	18,873	13,703	37.7%	17,493	7.9%
Costs of services	(16,233)	(11,898)	36.4%	(15,683)	3.5%
Cost of salaries and other employee benefits	-	-	-	-	-
Cost of materials and supplies	-	-	-	-	-
Cost of medical service providers	-	-	-	-	-
Cost of utilities and other	-	-	-	-	-
Net insurance claims incurred	(15,587)	(11,294)	38.0%	(14,914)	4.5%
Agents, brokers and employee commissions	(646)	(604)	7.0%	(769)	-16.0%
Cost of pharma – wholesale	-	-	-	-	-
Cost of pharma - retail	-	-	-	-	-
Gross profit	2,640	1,805	46.3%	1,810	45.9%
Salaries and other employee benefits	(1,189)	(1,063)	11.9%	(917)	29.7%
General and administrative expenses	(469)	(332)	41.3%	(440)	6.6%
Impairment of receivables	(114)	(61)	86.9%	(103)	10.7%
Other operating income	355	163	117.8%	212	67.5%
EBITDA *excluding IFRS 16*	1,223	512	138.9%	562	117.6%
EBITDA margin excluding IFRS 16	6.5%	3.7%		3.2%	
IFRS 16 impact on EBITDA[17]	96	-	NMF	85	12.9%
EBITDA as per financial statements	1,319	512	157.6%	647	103.9%
Depreciation and amortization excluding IFRS 16	(191)	(187)	2.1%	(189)	1.1%
Depreciation and amortization	(279)	(187)	49.2%	(269)	3.7%
Net interest income (expense) excluding IFRS 16	186	(11)	NMF	127	46.5%
Net interest income (expense)	173	(11)	NMF	113	53.1%
Net gains/(losses) from foreign currencies excluding IFRS 16	8	50	-84.0%	63	-87.3%
Net gains/(losses) from foreign currencies	(41)	50	NMF	59	NMF
Net non-recurring income/(expense)	-	-	-	-	-
Profit before income tax expense	1,172	364	222.0%	550	113.1%
Income tax benefit/(expense)	(203)	(43)	NMF	(85)	138.8%
Profit for the period excluding IFRS 16	1,023	321	218.7%	478	114.0%
Attributable to:					
- shareholders of the Company	1,023	321	218.7%	478	114.0%
- non-controlling interests	-	-	-	-	-
Profit for the period	969	321	201.9%	465	108.4%
Attributable to:					
- shareholders of the Company	969	321	201.9%	465	108.4%
- non-controlling interests	-	-	-	-	-

17 Represents IFRS 16 impact on General and administrative expenses

Income Statement, *Quarterly*	**Diagnostics**					**Eliminations**			**GHG**				
GEL thousands, unless otherwise noted	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1Q19**	**Change, Q-o-Q**	**2Q19**	**2Q18**	**1Q19**	**2Q19**	**2Q18**	**Change, Y-o-Y**	**1Q19**	**Change, Q-o-Q**
Revenue, gross	**1,131**	**682**	**65.8%**	**1,154**	**-2.0%**	**(16,853)**	**(7,670)**	**(15,095)**	**237,660**	**211,791**	**12.2%**	**235,211**	**1.0%**
Corrections & rebates	-	-	-	-	-	-	-	-	(605)	(1,087)	-44.3%	(559)	8.2%
Revenue, net	**1,131**	**682**	**NMF**	**1,154**	**-2.0%**	**(16,853)**	**(7,670)**	**(15,095)**	**237,055**	**210,704**	**12.5%**	**234,652**	**1.0%**
Costs of services	**(774)**	**(563)**	**37.5%**	**(831)**	**-6.9%**	**16,170**	**7,024**	**14,763**	**(163,163)**	**(145,694)**	**12.0%**	**(158,497)**	**2.9%**
Cost of salaries and other employee benefits	(260)	(238)	9.2%	(289)	-10.0%	1,660	1,077	1,418	(28,578)	(26,842)	6.5%	(27,955)	2.2%
Cost of materials and supplies	(428)	(318)	34.6%	(393)	8.9%	1,366	2,542	1,676	(12,064)	(9,486)	27.2%	(12,413)	-2.8%
Cost of medical service providers	(45)	-	NMF	(1)	NMF	1,253	989	1,278	(1,070)	(750)	42.7%	(799)	33.9%
Cost of utilities and other	(41)	(7)	NMF	(148)	-72.3%	203	203	220	(3,443)	(3,070)	12.1%	(4,337)	-20.6%
Net insurance claims incurred	-	-	-	-	-	3,775	2,213	3,286	(11,812)	(9,080)	30.1%	(11,628)	1.6%
Agents, brokers and employee commissions	-	-	-	-	-	-	-	-	(646)	(604)	7.0%	(769)	-16.0%
Cost of pharma – wholesale	-	-	-	-	-	7,913	-	6,885[18]	(29,184)	(27,206)	7.3%	(27,232)	7.2%
Cost of pharma - retail	-	-	-	-	-	-	-	-	(76,366)	(68,656)	11.2%	(73,364)	4.1%
Gross profit	**357**	**119**	**200%**	**323**	**10.5%**	**(683)**	**(646)**	**(332)**	**73,892**	**65,010**	**13.7%**	**76,155**	**-3.0%**
Salaries and other employee benefits	(281)	(45)	NMF	(234)	20.0%	67	495	129	(23,922)	(20,793)	15.1%	(23,395)	2.3%
General and administrative expenses	(76)	(76)	0.3%	(84)	-9.3%	93	130	135	(15,290)	(13,565)	12.7%	(14,808)	3.3%
Impairment of receivables	-	-	-	(4)	NMF	238	152	205	(1,140)	(1,213)	-6.0%	(1,172)	-2.7%
Other operating income	49	-	NMF	47	4.3%	284	(134)	(135)	3,826	1,793	113.4%	629	NMF
EBITDA excluding IFRS 16	**49**	**(2)**	**NMF**	**48**	**2.2%**	**(1)**	**(2)**	**2**	**37,365**	**31,232**	**19.6%**	**37,409**	**-0.1%**
EBITDA margin excluding IFRS 16	***4.3%***	***NMF***		***4.2%***		-			***15.7%***	***14.7%***		***15.9%***	
IFRS 16 impact on EBITDA[19]	5	-	NMF	6	-16.7%	-	-	-	5,261	-	NMF	5,126	2.6%
EBITDA as per financial statements	**54**	**(2)**	**NMF**	**54**	**0.0%**	**(1)**	**(2)**	**2**	**42,626**	**31,232**	**36.5%**	**42,535**	**0.2%**
Depreciation and amortization excluding IFRS 16	*(60)*	*(47)*	*27.8%*	*(59)*	*1.8%*	-	-	-	*(8,975)*	*(8,847)*	*1.4%*	*(8,679)*	*3.4%*
Depreciation and amortization	(67)	(47)	42.7%	(65)	3.2%	-	-	-	(13,633)	(8,847)	54.1%	(13,177)	3.5%
Net interest income (expense) excluding IFRS 16	*-*	*-*	*NMF*	*-*	*NMF*	-	-	-	*(10,341)*	*(9,587)*	*7.9%*	*(10,362)*	*-0.2%*
Net interest income (expense)	(1)	-	NMF	-	NMF	-	-	-	(11,715)	(9,587)	22.2%	(11,638)	0.7%
Net gains/(losses) from foreign currencies excluding IFRS 16	*(14)*	*1*	*NMF*	*(6)*	*140.0%*	-	-	-	*(4,388)*	*351*	*NMF*	*145*	*NMF*
Net gains/(losses) from foreign currencies	(14)	1	NMF	(6)	140.0%	-	-	-	(8,846)	351	NMF	(148)	NMF
Net non-recurring income/(expense)	-	(16)	NMF	(5)	NMF	-	-	(1)	(371)	(656)	-43.5%	(155)	139.3%
Profit before income tax expense	**(29)**	**(64)**	**-55.1%**	**(22)**	**30.6%**	**(1)**	**(2)**	**1**	**8,062**	**12,493**	**-35.5%**	**17,417**	**-53.7%**
Income tax benefit/(expense)	-	-	-	-	-	-	-	-	(272)	(115)	NMF	(85)	220.0%
Profit for the period excluding IFRS 16	**(26)**	**(64)**	**-59.9%**	**(22)**	**16.6%**	**(1)**	**(2)**	**1**	**13,019**	**12,378**	**5.2%**	**18,273**	**-28.8%**
Attributable to:													
- shareholders of the Company	(26)	(64)	-59.9%	(22)	16.6%	(1)	(2)	1	8,281	7,647	8.3%	11,995	-31.0%
- non-controlling interests	-	-	-	-	-	-	-	-	4,738	4,731	0.1%	6,277	-24.5%
Profit for the period	**(29)**	**(64)**	**-55.1%**	**(22)**	**30.6%**	**(1)**	**(2)**	**1**	**7,790**	**12,378**	**-37.1%**	**17,332**	**-55.1%**
Attributable to:													
- shareholders of the Company	(29)	(64)	-55.1%	(22)	30.6%	(1)	(2)	1	4,256	7,647	-44.3%	11,310	-62.4%
- non-controlling interests	-	-	-	-	-	-	-	-	3,534	4,731	-25.3%	6,022	-41.3%

[18] Elimination of cost of pharmaceuticals of the centralised medicine procurement entity (the entity which was transferred from healthcare services business to pharmacy and distribution business) was re-allocated from cost of materials and supplies to cost of pharmaceuticals. This is just a reclassification between the two elimination lines and does not affect either gross profit, EBITDA of net profit of the Group

[19] Represents IFRS 16 impact on General and administrative expenses

Selected Balance Sheet items

GEL thousands; unless otherwise noted

	Hospitals					Clinics					Pharmacy and distribution				
	30-Jun -19	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**	**30-Jun -19**	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**	**30-Jun -19**	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**
Assets:															
Cash and bank deposits	2,907	9,172	-68.3%	7,536	-61.4%	283	1,841	-84.6%	616	-54.1%	9,702	5,210	86.2%	7,268	33.5%
Property and equipment, *of which*	525,783	522,885	0.6%	526,836	-0.2%	113,333	101,774	11.4%	112,850	0.4%	99,506	27,800	257.9%	97,317	2.2%
IFRS 16 impact	*1,929*	*-*		*1,930*		*8,297*	*-*		*8,322*		*68,902*	*-*		*65,307*	
Inventory	16,113	14,615	10.2%	17,439	-7.6%	1,106	821	34.7%	1,035	6.9%	138,813	98,208	41.3%	127,512	8.9%
Liabilities:															
Borrowed Funds	250,563	240,464	4.2%	246,565	1.6%	35,687	33,140	7.7%	34,592	3.2%	79,489	81,476	-2.4%	91,734	-13.3%
Accounts payable	30,436	26,974	12.8%	31,993	-4.9%	5,637	3,323	69.6%	3,499	61.1%	100,349	60,042	67.1%	81,055	23.8%
Finance lease liabilities	1,984	-	NMF	1,994	-0.5%	9,045	8,051	12.3%	8,615	5.0%	74,066	-	NMF	66,702	11.0%

Selected Balance Sheet items

GEL thousands; unless otherwise noted

	Medical Insurance					Diagnostics					Eliminations			GHG				
	30-Jun -19	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**	**30-Jun -19**	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**	**30-Jun -19**	**30-Jun-18**	**31-Mar-19**	**30-Jun -19**	**30-Jun-18**	**Change, Y-o-Y**	**31-Mar-19**	**Change, Q-o-Q**
Assets																		
Cash and bank deposits	14,228	10,343	37.6%	12,124	17.4%	87	129	-32.6%	52	67.3%	-	-	-	27,207	26,695	1.9%	27,596	-1.4%
Property and equipment, *of which*	15,939	15,021	6.1%	16,036	-0.6%	14,531	14,187	2.4%	14,415	0.8%	-	-	-	769,092	681,667	12.8%	767,454	0.2%
IFRS 16 impact	*780*	*-*		*810*		*-*			*9*		*-*	*-*	*-*	*79,908*	*-*		*76,379*	
Inventory	-		-	-	-	1,100	538	104.5%	512	114.8%	-	-	-	157,132	114,182	37.6%	146,499	7.3%
Liabilities:																		
Borrowed Funds	5,651	8,281	-31.8%	5,939	-4.8%	-	-	-	-	-	(2,495)	-	(5,085)	368,895	363,361	1.5%	373,745	-1.3%
Accounts payable	-	-	-	-	-	1,014	879	15.4%	937	8.2%	(17,652)	(7,911)	(13,482)	119,784	83,307	43.8%	104,001	15.2%
Finance lease liabilities	847	-	NMF	823	2.9%	-	-	-	10	NMF	-	-	-	85,942[20]	8,051	NMF	78,145	10.0%

[20] Out of which GEL 77.2 million accounts for IFRS 16 impact

Selected ratios and KPIs	2Q19	2Q18	1Q19	1H19	1H18
GHG					
EPS, GEL *excluding IFRS 16*	0.06	0.06	0.09	0.15	0.14
EPS adjusted[21], GEL *excluding IFRS 16*	0.09	0.06	0.09	0.19	0.14
ROIC *(%)*	12.2%	10.2%	12.3%	12.2%	10.4%
ROIC adjusted[22] *(%)*	14.4%	13.8%	14.4%	14.4%	13.7%
Group rent expenditure	6,118	4,754	5,896	12,014	9,478
of which, pharmacy and distribution business	*5,555*	*4,474*	*5,325*	*10,880*	8,529
Group capex (maintenance)	3,878	2,145	3,184	7,062	4,440
Group capex (growth)	7,282	13,555	6,321	13,603	36,060
Number of employees	16,173	15,544	16,092	16,173	15,544
Number of physicians	3,645	3,578	3,635	3,645	3,578
Number of nurses	3,425	3,323	3,404	3,425	3,323
Nurse to doctor ratio, referral hospitals	0.94	0.93	0.94	0.94	0.93
Number of pharmacists	2,983	2,762	2,971	2,983	2,762
Total number of shares	131,681,820	131,681,820	131,681,820	131,681,820	131,681,820
Less: Treasury shares	(2,452,449)	(2,763,916)	(2,777,744)	(2,452,449)	(2,763,916)
Shares outstanding	129,229,371	128,917,904	128,904,076	129,229,371	128,917,904
Of which:					
Total free float	54,110,868	53,799,401	54,154,256	54,110,868	53,799,401
Shares held by Georgia Capital PLC	75,118,503	75,118,503	74,749,820	75,118,503	75,118,503
Hospitals					
EBITDA margin *excluding IFRS 16*	25.4%	25.7%	25.6%	25.5%	26.1%
Direct salary rate (direct salary as % of revenue)	35.3%	35.6%	33.8%	34.5%	34.9%
Materials rate (direct materials as % of revenue)	16.5%	16.3%	17.4%	17.0%	16.4%
Administrative salary rate (administrative salaries as % of revenue)	11.0%	10.7%	10.6%	10.8%	10.6%
SG&A rate (SG&A expenses as % of revenue)	5.2%	5.5%	4.6%	4.9%	5.4%
Number of hospitals	18	18	18	18	18
Number of hospital beds	2,967	2,967	2,967	2,967	2,967
Hospitals bed occupancy rate[21]	59.6%	53.6%	62.3%	60.9%	56.1%
Hospitals bed occupancy rate, excluding Tbilisi Referral Hospital and Regional Hospital beds[23]	64.1%	61.2%	67.2%	65.6%	63.1%
Regional Hospital bed occupancy rate[21]	38.6%	N/A	35.6%	37.1%	N/A
Tbilisi Referral Hospital bed occupancy rate[21]	46.9%	34.2%	52.2%	49.5%	33.8%
Average length of stay (days)[21]	5.4	5.4	5.4	5.4	5.5
Clinics					
EBITDA margin *excluding IFRS 16*	17.5%	13.8%	18.7%	18.1%	14.2%
EBITDA margin of polyclinics *excluding IFRS 16*	16.3%	15.6%	14.6%	15.6%	14.8%
Direct salary rate (direct salary as % of revenue)	34.8%	35.8%	34.6%	34.7%	36.1%
Materials rate (direct materials as % of revenue)	6.6%	6.7%	6.1%	6.4%	6.5%
Number of community clinics	19	19	19	19	19
Number of community clinics beds	353	353	353	353	353
Number of polyclinics	15	16	16	15	16
Pharmacy and distribution					
EBITDA margin *excluding IFRS 16*	10.3%	9.4%	10.7%	10.5%	9.7%
Number of bills issued	7.07mln	6.74mln	7.16mln	14.24mln	13.44mln
Average bill size	14.2	13.0	13.7	13.8	13.9
Revenue from wholesale as a percentage of total revenue from pharma	29.0%	26.7%	28.9%	29.0%	25.9%
Revenue from retail as a percentage of total revenue from pharma	71.0%	73.3%	71.1%	71.0%	74.1%
Revenue from para-pharmacy as a percentage of retail revenue from pharma	31.4%	30.1%	29.3%	30.3%	29.4%
Number of pharmacies	279	259	276	279	259
Medical insurance					
Loss ratio	82.6%	82.4%	85.3%	83.9%	83.4%
Expense ratio *excluding IFRS 16, of which*	11.9%	15.2%	12.6%	12.3%	15.4%
Commission ratio	*3.4%*	*4.4%*	*4.4%*	*3.9%*	*4.7%*
Combined ratio *excluding IFRS 16*	94.5%	97.6%	97.9%	96.1%	98.8%
Renewal rate	81.3%	70.1%	74.4%	77.5%	71.8%
Diagnostics					
EBITDA margin *excluding IFRS 16 impact*	4.3%	NMF	4.2%	4.2%	5.4%
Number of patients served ('000)	60	N/A	67	127	N/A
Number of tests performed ('000)	184	N/A	172	356	N/A
Average revenue per test GEL	6.1	N/A	6.7	6.4	N/A
Average number of tests per patient	3.1	N/A	2.6	2.8	N/A

[21] Adjusted for non-recurring items and foreign currency losses
[22] Return on invested capital is adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase
[23] Excluding emergency beds

Principal risks and uncertainties

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

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

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Recruitment and retention of skilled medical practitioners		
Our performance depends on our ability to recruit and retain high-quality doctors, nurses and other healthcare professionals. The success of our healthcare services depends in part on our ability to recruit, train and retain an appropriate number of highly skilled physicians, nurses, technicians and other healthcare professionals in order to deliver international standards of care, offer greater diversity of services to better satisfy our population's needs, and provide the latest treatments using technologically advanced equipment. **Impact** If we are unable to effectively attract, recruit and retain qualified doctors, nurses and other healthcare professionals, our ability to provide efficient and diverse healthcare services and sophisticated treatments and retain and attract new patients, as well as our business and results of operations may be adversely affected.	There is a shortage of suitably skilled doctors, nurses and other healthcare professionals in Georgia. Our hospital and outpatient network has grown rapidly during the last several years, including 2019, and requires human resources with the skills and experience to service it across a range of specialties.	We prioritise investment in recruitment and talent development programmes, training and retention of our professionals. We operate incentive schemes, which for example offer bonuses and enhanced benefits. We have successfully attracted a number of western trained Georgian doctors to our Group and are continuing our efforts to that end. We continue to expand the size of both our nurse college and residency programme and to broaden the specialties covered in order to source specialists in the fields where we have a shortage of doctors. Incentives are offered to graduates of the programme to accept employment within our network. Engagement with medical schools and nursing programmes as well as our scholarship programmes enable us to recruit talented graduates. We are committed to expanding our programmes and increasing our capacity. Talent and training development programmes, have been successful in expanding our specialist capability, enhancing the skills of our experienced specialist doctors and nurses and creating an internal talent pipeline of younger doctors and nurses. We also offer programmes for doctors to study abroad as well as receive on-the-job training by our own specialists and doctors from abroad. We continue to expand our training and development programmes to a larger group of doctors and nurses.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Clinical risk		
Hospital acquired infections and communicable diseases at any of our facilities, and especially their epidemic or outbreak, could adversely affect our patients and our business, in common with other healthcare facilities worldwide. If our hospitals fail to carry out accurate and timely prevention activities, or to comply with internationally recognised clinical care and quality standards, previously uninfected people may contract and spread serious communicable diseases. Irrational use of antibiotics or neglecting to follow waste disposal or other clinical protocols could also have social or environmental impacts.	**Our operations involve treatment of patients with a variety of infections and communicable diseases.** Failures in prevention could result in intra-hospital infections, especially in high risk areas such as intensive care units, emergency departments and operating theatres. Infection control and prevention has to cover a variety of our activities, including: clinical practice, cleaning and sterilization, laundry, waste management, rational antibiotic use and protection from communicable diseases. Historical practices in Georgia, including in many of the facilities we have acquired in recent years, are well behind international best practices.	**We continue to prioritise and enhance our infection control and prevention (ICP) programme. ICP working groups and multidisciplinary infection control committees are established in the hospitals and in the head office. Infection control nurse position is set up in referral hospitals and specially selected and trained nurses are appointed.** ICP protocols and related standard operating procedures (SOPs) are standardized and implemented networkwide in accordance with national and international recommendations. Databases for hospital acquired infections, antimicrobial resistance (AMR) and antibiotic use have been created and are being used.
Safety is a cornerstone of clinical risk management in modern medical facilities and our risk management programme must focus on overall safety in hospitals for patients and for visitors and staff as well.	**Hospitals, by nature, are high risk area for injuries. Healthcare workers have a high risk of workplace injuries and illness.**	We also continue to work closely with the US Centre for Disease Control and Prevention representatives in South Caucasus (the CDC). CDC experts work closely with the Chief Quality Officer, Chief Medical Officer, Chief Epidemiologist and experienced practitioners

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Properly functioning medical equipment is another key to risk management for healthcare facilities worldwide. **Impact** **Failure to diagnose and/or adhere to standards and protocols for hospital associated infectious and communicable diseases could result in:** • damage to our patients and negatively impact outcome of treatment; • decreased patient trust in our services; • damage to our reputation which may result in an inability to attract new patients or retain existing patients; • claims for damages; • escalation of the epidemic or outbreak; • creation of bacteria resistant to antibiotics; • occupational health hazards for our staff and resulting staffing shortages; and/or • operational limitations imposed by our regulators. Improper disposal of waste increases these risks and can impact the environment. **Failures in patients', visitors' or staff safety may also result in:** • damage to our patients and negatively impact outcome of treatment; • decreased patient trust in our services; • damage to our reputation which may result in an inability to attract new patients or retain existing patients; • claims for damages; • occupational health hazards for our staff and resulting staffing shortages; and/or • operational limitations imposed by our regulators. **Failure to maintain medical equipment could result in:** • decrease in quality of patient care and safety; and decreased patient trust in our services which may result in an inability to attract new patients or retain existing patients.	**Our services involve using high-tech medical equipment which require regular maintenance and monitoring to ensure continuously high standard of patient care and avoid delays in service provision.**	responsible for overseeing infection and communicable disease control and prevention at our facilities. Infection control and prevention is a standing agenda item each time the Clinical Quality and Safety Committee meets (at least quarterly) to review our clinical services and performance, internal governance and controls as well as compliance. We have implemented strict procedures that adhere to regulations and best practice, including an Environmental and Social Policy, in relation to the proper handling of waste and its safe disposal. **We continue to improve the clinical risk management activities and incorporate them in overall risk management.** We have developed and implemented personnel safety policy, self-injury reporting system and injured personnel management system, which includes their treatment. Safety is one of our permanent priorities. It implies not only human activities but also safe construction and design of medical facilities. Therefore, our infection control and safety risk assessment principles are worked out and integrated in facility planning, design and construction activities. Members of the Clinical Quality and Safety Committee and the wider Board also perform on-site visits and hold discussions with management to review practices and to discuss quality and safety with key practitioners. Finally, accounting and post-exposure management of incidents is in place and we cover all expenses related to follow-up management and treatment of injured personnel. **We have an equipment maintenance and monitoring programme in place, which puts considerable emphasis on activities required for proper functioning of high-tech medical equipment. We regularly work to improve the programme and implement new and more effective approaches to medical equipment maintenance.**

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Concentration of revenue		
Our healthcare services business depends on revenue from the Georgian Government and a small number of private insurance providers. Payments by the Government under UHC may be delayed, whilst the private insurance companies we work with may experience financial difficulties and fail, or fail to pay the claims we submit to them for healthcare services provided to patients covered by their services. **Impact** Reduction of prices or increased time taken to pay, including delayed payment under the UHC, would affect the revenues, receivables outstanding and profitability of the Group.	Our ability to obtain favourable prices will depend in part on our ability to maintain good working relationships with private insurance providers and may be impacted by any changes to state-funded healthcare programmes. Government is considering changing reimbursement policy for healthcare services under UHC in 2020. However, exact timeline or effect of such change is not yet known.	The UHC remains a significant priority for the Government. Government expenditure on healthcare in 2019 is budgeted at GEL 1,146 million, which represents 8.8% of the approved state budget for 2019. We monitor the macroeconomic environment in Georgia and budgetary performance of the Government to assess the forecasted future cash flows from the State. We actively seek to increase our share in the outpatient and planned medical services markets, which are funded either by patients out-of-pocket or by private insurance, thus reducing our dependence on the state insurance programme. Our medical insurance business has won two large tenders close to year end, retaining the country's largest insurance client - the Ministry of Internal Affairs with c.75,000 insured and acquiring a significant new corporate client – the Ministry of Defense with c.60,000 insured. As a result, we expect the number of groups' insured individuals to increase and reach approximately 230,000 in 2019, which will make us the largest insurer in the country.
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. Our pharmacy leases are also denominated in dollars. A portion of our borrowings, particularly from Development Financial Institutions, is foreign-currency-denominated. The Group also faces macroeconomic risk. There could be developments which have an adverse effect on the country, regional or macro economy such as reduced GDP or significant inflation. **Impact** Depreciation of the Lari against the Dollar and/or Euro and/or negative macroeconomic developments may have an adverse effect on our business including putting adverse pressure on our business model, revenues, financial position and cash flows.	There have been significant fluctuations in foreign currency exchange rates during 1H2019 with the Lari eventually depreciating by 6.7% against the Dollar andby 6.0% against the Euro as of 30 June 2019 (compared to prior year end). Average Inflation in 1H2019 was slightly above the target at 3.6%, reflecting an increase in excise tax on tobacco and alcoholic beverages, which contributed by 1.4% in the annual inflation. The Georgian economy continues to perform well with 4.9% estimated real GDP growth in six months of 2019, compared to 5.6% growth in 2018 and a 4.8% growth in 2017 for the respective periods.	We actively monitor market conditions and our currency positions and performs stress and scenario tests in order to assess our financial position and adjust strategy accordingly. Foreign currency exposure is actively hedged by foreign currency forward contracts as well as regular operational decisions. We adjust our prices to reflect the fluctuations in foreign currency exchange rates and reduce their impact where possible. The Group takes into account the volatility of the Lari in pricing discussions with counterparties. In 2019, we remained focused on maintaining mostly local currency borrowings.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Information technology and operational		
We face information technology and operational risk. A cyber-attack, security breach or unauthorised access to our systems could cause important or confidential data to be misappropriated, misused, disseminated or lost. In addition, improper access or information misappropriation may lead to insider trading or other illegal actions by employees or others. Software or network disruption may also cause the Group to experience lost revenue, failed customer transactions or non-timely submission of mandatory or other reports. Non-recurring operational risks include incurring loss or unexpected expenses from system failure, human error, fraud or other unexpected events. **Impact** Any of the above could lead to disruption of our business and operations, affect patient and customer loyalty, subject us to State and Governmental investigation, litigation, damages, penalties and/or reputational damage.	We hold confidential data about our patients and customers given the nature of our healthcare services and must be vigilant to guard data privacy. Cyber security threats are increasing year after year. The Group has expanded and has increasingly complex operations to manage, including the pharmaceutical business acquired in the previous years.	In 2017-2018, we have formed an Information and Corporate Security Department at Group level and appointed experienced professionals to it. A strategy and action plan has been defined and set. We thoroughly follow that strategy and each year implement new features and processes that further help decreasing level of the risk. We have completed a centralized, GHG-wide IT infrastructure (hardware and network), that has enhanced the Group's overall information and cyber security level. In 2019 we are upgrading our Firewall and network significantly. We continue to design and implement new business processes and risk management structures to better manage the business and to help mitigate our operational risks. Internal Audit conducts regular reviews of IT controls such as the policies for information storage, availability and access, while updating its assessment of risks and recommendations. Internal Audit reports to the Audit Committee on its findings.

Principal Risk/Uncertainty	Key Drivers/Trends	Mitigation
Regional tensions		
The Georgian economy and our business may be adversely affected by regional tensions and instability. The Group's operations are located in, and its revenue is sourced from, Georgia. The Georgian economy is dependent on neighbouring economies, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners. There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position. **Impact** The prolongation or escalation of political instability, geopolitical conflict, economic decline of Georgia's trading partners and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia, which in turn may have an adverse effect on our business including putting adverse pressure on our business model, our revenues and our financial position.	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/South Ossetia regions. Russian troops continue to occupy the regions and tensions between Russia and Georgia persist. 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 also intensified tensions between the countries. Russia banned direct flights from July 8, 2019 and recommended to stop selling holiday packages to Georgia. The decision was made in response to the anti-occupation protests in Tbilisi. Risks of further economic sanctions have increased. The ongoing conflict between Russia and Ukraine, and Russia's and Turkey's worsening relations with the US increase uncertainties in the region. There is an ongoing conflict between Azerbaijan and Armenia which impacts the region.	We actively monitor risks related to regional tensions and political instability and develop responsive strategies and action 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. The ongoing action plan to further diversify tourism revenues will serve well to reduce exposure on Russia. While financial market turbulences and geopolitical tensions affects regional trading partners, Georgia's preferential trading regimes and free trade agreements support the country's efforts to enhance resilience to external shocks.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year and description of principal risks and uncertainties for the remaining six months of the year); and
- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

The Directors of Georgia Healthcare Group PLC are listed on pages 72 - 73 of the Group's 2018 Annual Report and Accounts.

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

By order of the Board

William (Bill) Huyett	**Nikoloz Gamkrelidze**
Chairman	Chief Executive Officer

13 August 2019

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 2019, which comprises the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 28. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

13 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited 30 June 2019*	*31 December 2018*
Assets			
Cash and cash equivalents	5	15,510	36,154
Amounts due from credit institutions	6	11,697	11,807
Insurance premiums receivable	7	44,737	23,643
Receivables from healthcare services	8	124,050	106,841
Receivables from sales of pharmaceuticals		18,808	20,440
Inventory	11	157,132	146,164
Prepayments		14,156	13,064
Current income tax assets		85	1,007
Investment in associate		3,441	3,124
Property and equipment	9	769,092	698,037
Goodwill and other intangible assets	10	156,042	152,298
Other assets		31,060	27,927
Total assets		**1,345,810**	**1,240,506**
Liabilities			
Accruals for employee compensation		26,951	26,615
Insurance contract liabilities	12	43,160	22,544
Accounts payable		119,784	105,092
Current income tax liabilities		290	41
Lease liabilities		85,942	8,676
Payables for share acquisitions	15	89,916	91,474
Borrowings	13	276,055	296,817
Debt securities issued	14	92,840	93,573
Other liabilities		22,771	20,643
Total liabilities		**757,709**	**665,475**
Equity			
Share capital	17	4,784	4,784
Additional paid-in capital	17	6,661	4,788
Treasury shares	17	(134)	(134)
Other reserves	17	(33,867)	(33,335)
Retained earnings	17	540,842	532,091
Total equity attributable to shareholders of the Company		**518,286**	**508,194**
Non-controlling interests		69,815	66,837
Total equity		**588,101**	**575,031**
Total equity and liabilities		**1,345,810**	**1,240,506**

The interim condensed consolidated financial statements on pages 35 to 63 were approved by the Board of Directors of Georgia Healthcare Group PLC on 13 August 2019 and signed on its behalf by:

Nikoloz Gamkrelidze Chief Executive Officer

13 August 2019

Irakli Gogia Chief Financial Officer

13 August 2019

Company registration number: 09752452

The accompanying notes on pages 39 to 63 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	***Unaudited Period ended 30 June 2019***	***Unaudited Period ended 30 June 2018***
Healthcare services revenue	18	160,846	143,590
Revenue from pharmacy and distribution	18	274,775	247,695
Net insurance premiums earned	19	36,087	26,415
Revenue		**471,708**	**417,700**
Cost of healthcare services	20	(90,659)	(78,490)
Cost of sales of pharmaceuticals	20	(206,146)	(191,412)
Cost of insurance services and agents' commissions	21	(24,855)	(18,945)
Costs of services		**(321,660)**	**(288,847)**
Gross profit		**150,048**	**128,853**
Other operating income		9,132	6,946
Salaries and other employee benefits		(47,317)	(41,232)
General and administrative expenses		(19,927)	(26,202)
Impairment of healthcare services, insurance premiums and other receivables		(2,312)	(2,401)
Other operating expenses		(4,461)	(3,333)
		(77,961)	**(73,168)**
EBITDA		**85,163**	**62,631**
Depreciation and amortisation		(26,809)	(16,562)
Interest income		661	592
Interest expense		(22,433)	(18,612)
Net gains from foreign currencies and currency derivatives		(10,576)	2,120
Net non-recurring expense	22	(527)	(1,662)
Profit before income tax expense		**25,479**	**28,507**
Income tax expense		(357)	(117)
Profit for the period		**25,122**	**28,390**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods: loss from currency translation difference		(40)	–
Total comprehensive income for the year		**25,082**	**28,390**
Profit for the year attributable to:			
- shareholders of the Company		15,609	18,189
- non-controlling interests		9,513	10,201
Total comprehensive income for the year attributable to:			
- shareholders of the Company		15,569	18,189
- non-controlling interests		9,513	10,201
Earnings per share:			
- basic earnings per share	17	0.12	0.14
- diluted earnings per share	17	0.12	0.14

The accompanying notes on pages 39 to 63 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2019 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

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

	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 2018	**4,784**	**(134)**	**4,788**	**(33,335)**	**532,091**	**508,194**	**66,837**	**575,031**
Profit for the period	–	–	–	–	15,609	15,609	9,513	25,122
Other comprehensive income	–	–	–	(40)	–	(40)	–	(40)
Total comprehensive income	**–**	**–**	**–**	**(40)**	**15,609**	**15,569**	**9,513**	**25,082**
Acquisition of additional interest in existing subsidiaries	–	–	–	(492)	–	(492)	(3,121)	(3,613)
Acquisition of additional interest in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	171	171
Dilution of interests in subsidiaries	–	–	–	–	–	–	1,035	1,035
Dividends declared to sharehoders of the Company	–	–	–	–	(6,858)	(6,858)	–	(6,858)
Dividends declared to non-controlling shareholders by subsidiary	–	–	–	–	–	–	(4,620)	(4,620)
Purchase of treasury shares	–	–	(1,582)	–	–	(1,582)	–	(1,582)
Share-based compensation	–	–	3,455	–	–	3,455	–	3,455
30 June 2019 (unaudited)	**4,784**	**(134)**	**6,661**	**(33,867)**	**540,842**	**518,286**	**69,815**	**588,101**

The accompanying notes on pages 39 to 63 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED)

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*Unaudited Period ended 30 June 2019*	*Unaudited Period ended 30 June 2018*
Cash flows from / (used in) operating activities			
Revenue from healthcare services and medical trials received		141,719	128,263
Cost of healthcare services and medical trials paid		(96,879)	(83,335)
Revenue from pharmacy and distribution received		276,269	248,248
Cost of sales of pharmaceuticals paid		(196,227)	(190,682)
Net insurance premiums received		33,841	29,355
Cost of insurance services paid		(23,964)	(17,947)
Salaries and other employee benefits paid		(47,439)	(39,259)
General and administrative expenses paid		(20,432)	(29,555)
Acquisition costs paid		(1,342)	(1,007)
Other operating income received		3,731	2,632
Other operating expenses paid		(3,361)	(2,238)
Net cash flows from operating activities before income tax		**65,916**	**44,475**
Income tax paid		(194)	(233)
Net cash flows from operating activities		**65,722**	**44,242**
Cash flows from /(used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(5,224)	(14,565)
Acquisition of additional interest in existing subsidiaries		(877)	–
Purchase of property and equipment		(16,004)	(38,319)
Purchase of intangible assets		(4,661)	(5,537)
Interest income received		689	592
Invesment in derivative financial instruments		(152)	–
Loans acquired		(1,308)	–
Withdrawals of amounts due from credit institutions		3,476	2,612
Placements of amounts due from credit institutions		(2,981)	(228)
Proceeds from sale of property and equipment		3,837	45
Net cash flow used in investing activities		**(23,205)**	**(55,400)**
Cash flows from / (used in) financing activities			
Dividends paid to minority shareholders		(4,950)	(6,270)
Proceeds from borrowings		31,496	39,014
Repayment of borrowings		(59,282)	(31,763)
Purchase of treasury shares		(1,582)	(1,751)
Lease liabilities paid, principal		(7,949)	–
Lease liabilities paid, interest		(2,603)	–
Interest expense paid		(18,297)	(19,608)
Net cash flows (used in)/from financing activities		**(63,167)**	**(20,378)**
Effect of exchange rates changes on cash and cash equivalents		6	(776)
Net decrease in cash and cash equivalents		**(20,644)**	**(32,312)**
Cash and cash equivalents, beginning	5	**36,154**	**48,840**
Cash and cash equivalents, end	5	**15,510**	**16,528**

The accompanying notes on pages 39 to 63 form an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

As at 30 June 2019 and 31 December 2018 the ultimate parent of Georgia Healthcare Group PLC ("the Company") and its subsidiaries (together referred to as "GHG" or "the Group") was Georgia Capital PLC ("GCAP"), incorporated in London, England. GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England. GCAP registration number is 10852406. The remaining 43% is owned by public shareholders. GHG's results are consolidated as part of GCAP's financial statements.

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

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

As at 30 June 2019 and 31 December 2018 the following shareholders owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	***Unaudited 30 June 2019***	***31 December 2018***
Georgia Capital PLC	57%	57%
Wellington Management Company	7%	7%
T Rowe LTD	7%	6%
Others	29%	30%
Total	**100%**	**100%**

(Thousands of Georgian Lari unless otherwise stated)

1. Background (continued)

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

Subsidiary	Ownership/Voting 30-Jun-2019	Ownership/Voting 31-Dec-2018	Industry	Date of incorporation	Date of acquisition	Legal address
JSC Georgia Healthcare Group	100%	100%	Healthcare	29-Apr-15	Not Applicable	#142, A. Beliashvili str, Tbilisi
JSC GEPHA	67%	67%	Pharmacy and Distribution	19-Oct-95	4-May-16	#142, A. Beliashvili str, Tbilisi
LLC ABC Pharmalogistics	67%	67%	Pharmacy and Distribution	24-Feb-04	6-Jan-17	Peikrebi str. 14a, Tbilisi, Georgia
LLC ABC Pharmacia (Armenia)	67%	67%	Pharmacy and Distribution	28-Dec-13	6-Jan-17	Kievyan Str. 2/8, Erevan, Armenia
JSC Insurance Company Imedi L	100%	100%	Insurance	1-Aug-14	31-Jul-14	Anna Politkovskaia str. 9, Tbilisi, Georgia
JSC Evex Hospitals*	100%	100%	Healthcare	1-Aug-14	1-Aug-14	#142, A. Beliashvili str, Tbilisi
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 Regional Hospital	99.8%	99.8%	Healthcare	12-Jan-12	30-Jun-15	Kavtaradze str. 23, Tbilisi, Georgia
LLC Evex-Logistics	100%	100%	Healthcare	13-Feb-15	Not Applicable	#142, A. Beliashvili str, Tbilisi
LLC Referral Centre of Pathology**	–	100%	Healthcare	29-Dec-14	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	67%	67%	Healthcare	5-May-03	29-Nov-11	Djavakhishvili str. 85, Kutaisi, Georgia
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	67%	67%	Healthcare	15-Oct-04	29-Nov-11	A Djavakhishvili str. 83A, Kutaisi, Georgia
NCLE Evex Learning Centre	100%	100%	Other	20-Dec-13	20-Dec-13	Javakhishvili str. 83a, Tbilisi, Georgia
LLC Catastrophe Medicine Paediatric Centre	85%	100%	Healthcare	18-Jun-13	1-Mar-15	U. Chkeidze str. 10, Tbilisi, Georgia
LLC Emergency Service	100%	–	Healthcare	28-Jul-09	20-May-16	D. Uznadze str. 2, Tbilisi, 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
LLC Evex-Collection**	–	100%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC New Clinic	100%	100%	Healthcare	3-Jan-17	20-Jul-17	#142, A. Beliashvili str, Tbilisi
JSC Evex Clinics*	100%	–	Healthcare	1-Apr-19	Not Applicable	#142, A. Beliashvili str, Tbilisi
LLC Aliance Med	100%	100%	Healthcare	7-Jul-15	20-Jul-17	#142, A. Beliashvili str, Tbilisi
JSC Polyclinic Vere	97.8%	97.8%	Healthcare	22-Nov-13	25-Dec-17	Kiacheli str. 18-20, Tbilisis Georgia
LLC New Dent****	75%	N/A	Healthcare	24-Dec-18	Not Applicable	Vazha-Pshavela Ave. 40, Tbilisi, Georgia
LLC Tskaltubo Regional Hospital	67%	67%	Healthcare	29-Sep-99	29-Nov-11	Eristavi str. 16, Tskhaltubo, Georgia
JSC Mega-Lab***	92%	100%	Healthcare	6-Jun-17	Not Applicable	Petre Kavtaradze str. 23, Tbilisi Georgia
JSC Vabaco	67%	67%	Software Development	9-Sep-13	28-Sep-18	Bochorishvili str. 37, Tbilisi, Georgia

Associate	Ownership/Voting 30-Jun-2019	Ownership/Voting 31-Dec-2018	Industry	Date of incorporation	Date of acquisition	Legal address
LLC 5th Clinical Hospital	35%	35%	Healthcare	16-Sep-99	4-May-16	Temka, XI mcr. Block 1, N 1/47, Tbilisi, Georgia
NPO Healthcare Association	25%	33%	Healthcare	25-Mar-16	Not Applicable	Vazha-Pshavela Ave. 27b, Tbilisi, Georgia
NPO Georgian Medical Tourism Council****	14.3%	-	Healthcare	16-May-19	Not Applicable	I-II floor, house N10, N 13, b. N1 almond Gardens Street, tskneti, Vake district, Tbilisi

* Starting from 2019 the Group has updated its business structure. The healthcare services business was divided into two segments: clinics, which include polyclinics and community clinics, and hospitals which include referral hospitals. As a result of this demerger, JSC Evex Medical Corporation was renamed to JSC Evex Hospitals. New legal entity, JSC Evex Clinics was formed and it operates as separate business line.

** Subsidiaries were merged with JSC Medical Corporation EVEX in 2018 (the group purchased non-controlling interest in JSC St. Nicholas Surgery Clinic and it became 100% shareholder of the entity before the merger)

*** In 2019, 8.025% shareholdeing interest with book value of GEL 1,035 was transferred to minority shareholder in exchange for acquisition of laboratory information management system ("LIMS") together with supporting technology and applicable licenses.

**** The entities were established in 2019 year. Establishment of New Dent resulted in injection of GEL 159 equity by non-controlling interest shareholder.

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 2018 under IFRS, as adopted by the European Union and have been reported on by GHG's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The interim condensed consolidated financial statements for the six months period ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority. The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation (continued)

Basis of preparation (continued)

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2018, signed and authorised for release on 2 April 2019.

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

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

3. Summary of Significant Accounting Policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires either retrospective approach, which implies restating comparatives as if IFRS 16 was always applied or modified retrospective approach, which implies leaving comparatives as previously reported and recognizing any difference between asset and liability in opening retained earnings as at 1 January 2019. The Group chose to apply modified retrospective approach. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('shortterm leases') for emergency cars only, all of which are leased for exactly 12 months period. The Group also elected to use exemption for lease contracts for which the underlying asset is of low value ('low-value assets'). Besides, the Group decided to apply the practical expedient and exclude initial direct costs upon initial application of IFRS 16.

The effect of adoption IFRS 16 is as follows:

(Thousands of Georgian Lari unless otherwise stated)

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

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

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	Amount, GEL
Assets	
Propery and Equipment	76,172
Total assets	**76,172**
Liabilities	
Lease liabilities	76,172
Total liabilities	**76,172**

Impact on the statement of profit or loss (increase/(decrease)) for the six months ended 30 June 2019:

	Amount, GEL
Ocupancy and rent (Included in general and administrative expenses)	10,171
Other operating income	260
Other operating expense	(44)
EBITDA	**10,387**
Depreciations and amortisation	(9,155)
Interest expense	(2,651)
Net gains (losses) from foreign currencies	(4,751)
Profit for the period	**(6,170)**
Attributable to:	
- shareholders of the Company	(4,707)
- non-controlling interests	(1,463)

Impact on the statement of cash flows (increase/(decrease)) for the six months ended 30 June 2019:

	Amount, GEL
Net cash flows from operating activities	10,552
Net cash flows from financing activities	(10,552)

There is no material impact on other comprehensive income. The basic and diluted EPS would were decreased by GEL 0.03 each for the period ended 30 June 2019.

The difference of GEL 4,586 between operating lease commitments as of 31 December 2018 and IFRS 16 adoption impact results from short-term and low-value leases on which the Group has applied exemptions detailed above.

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases of emergency cars and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group did not restate comparative information upon adoption. Additionally, there were no differences between assets and liabilities to be recognised in opening retained earnings as at the adoption date. As at 1 January 2019:

- Property and equipment of GEL 76,172 were recognised and presented separately in the statement of financial position. Lease assets recognised previously under finance leases of GEL 8,761 and included under Property, plant and equipment were derecognised.
- Finance lease liabilities of GEL 76,172 were recognised.

(Thousands of Georgian Lari unless otherwise stated)

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

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

a) Nature of the effect of adoption of IFRS 16 (continued)

For the six months ended 30 June 2019:

- Depreciation expense increased by GEL 9,155 relating to the depreciation of additional assets recognised.
- General and administrative expenses decreased by GEL 10,171 relating to previous operating leases.
- Interest expense increased by GEL 2,651 relating to the interest expense on additional lease liabilities recognised.
- The Group recognised net loss from foreign currencies of GEL 4,751 relating to revaluation of finance lease liabilities denominated in foreign currencies.
- Cash outflows from operating activities decreased by GEL 10,552 and cash outflows from financing activities increased by the same amount, representing the payments for the principal and interest portion of recognised lease liabilities.

b) Summary of new accounting policies Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially recognised at cost and are subsequently measured at fair value, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Finance Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of emergency cars (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Thousands of Georgian Lari unless otherwise stated)

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

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

b) Summary of new accounting policies Set out below are the new accounting policies of the Group upon adoption of IFRS 16: (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group analyzed its lease contracts and established the following: all contracts, including contracts to lease drug-stores, polyclinics and office spaces, contain either monetary or economic penalties over the entire contract term. In most of the cases, in case of cancellation by the lessor there is a monetary penalty requiring it to repay the lessee all amounts initially spent on leasehold improvements. In virtually all cases, there is an economic penalty for both parties upon cancellation of a lease contract. For the lessee of a drug-store or policlinic, the economic penalty is the significant time and effort involved in finding a new location and making leasehold improvements to fit the new location to the specific needs of the drug-store or policlinic. In case of office space, the economic penalty to the lessee is the significant time, effort and cost related to relocation of an office and its infrastructure. For the lessor, the economic penalty is forgoing a stable relationship with creditworthy lessee and potentially lost income during a vacancy period in which a new tenant is sought. In practical terms, based on the Group's historical statistical information, the abovementioned monetary and economic penalties translate into stable relationships and lease contracts that are prematurely cancelled in only under 1% of cases. Based on the above consideration, the Group concluded that it is appropriate to define the lease term as the period of the entire contract term, since even if monetary penalties are prescribed only on a portion of lease term, economic penalties apply to the entire contract period.

In case there is an option to extend the lease term and the lessee is reasonably certain to exercise the option, the Group also takes the extension into account while defining the lease term. The Group analyzed its contracts and in a number of cases, there was an automatic prolongation of contract in case the contract expired and neither party expressed willingness to cancel. In such cases contracts prescribed the exact term by which the contract should be extended. The terms by which specific contracts are automatically extended are based on the Group's operation department's judgment of how much more time they are planning to lease property in case the lease term is automatically extended. Therefore, the Group concluded that it is appropriate to define the lease term in this case to include the period over which the contract was automatically extended as this represents the operation department's best estimate of expected use of the leased asset.

Non-refundable taxes related to lease contracts

The Group also considered its approach to value added tax ("VAT") related to lease payments. Since a significant portion of the healthcare business is non subject to VAT, the Group does not a get refund from the state for the VAT paid on lease payments. Therefore, the Group considered whether the non-refundable VAT should be added to monthly lease payments and discounted together with the base amount to form the part of the right of use asset, however after analyzing the IFRS literature the Group concluded that it is appropriate to exclude the VAT and account for separately as an expense even though it is non-refundable.

Lease payments

There are some cases when, apart from the contractual fixed payments, there are contractual variable payments as well. In accordance with IFRS 16, lease payments should not include any variable payments that do not depend on either index or rate. For example, if variable rent depends on performance, it should be excluded from lease payments. After analyzing its contracts, the Group identified a number of agreements that included payments that related to utilities, marketing and that depended on revenues. Since those payments are variable, and they do not depend on any index or rate, the Group concluded that it is appropriate to exclude them from lease payments.

(Thousands of Georgian Lari unless otherwise stated)

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

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

c) Amounts recognised in the statement of financial position and profit or loss IFRS 16.53

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	Lease liabilities
1 January 2019	**76,172**	**76,172**
Net additions	12,891	12,891
Depreciation expense	(9,155)	-
Interest expense	-	2,651
Net losses from foreign currencies	-	4,751
Payments	-	(10,552)
Other	-	31
As at 30 June 2019	**79,908**	**85,944**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty - that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

(Thousands of Georgian Lari unless otherwise stated)

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the consolidated financial statements as the Group does not have longterm interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

(Thousands of Georgian Lari unless otherwise stated)

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

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

IAS 12 Income Taxes (continued)

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

4. Segment Information

During 2019 year, the Group broke down the Healthcare Services segment in three sub-segments: Referral Hospitals, Clinics and Diagnostics business. The change was implemented in line with the Group's updated business model. Comparative segment information has been restated accordingly. For management purposes, the Group is now organised into five operating segments based on the products, services and target market segment – Referral Hospitals, Clinics, Diagnostics, Pharmacy and Distribution and Medical insurance. All revenues of the Group result from Georgia, except from an immaterial amount of pharmacy sales in Armenia.

Referral hospitals represent large hospitals providing inpatient and outpatient medical services and are owned by the Group throughout the whole Georgian territory.

Clinics represent smaller hospitals providing mainly outpatient medical services and are owned by the Group throughout the whole Georgian territory.

Diagnostics represent various lab services rendered by high-technology business equipped with modern machinery.

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

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

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

More than 20% of the Group's revenue is derived from the State. However, management believes that the government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in the period ended 30 June 2019 or 30 June 2018.

Selected items from the statement of financial position as at 30 June 2019 and 31 December 2018 by segments are presented below:

	30 June 2019 Unaudited						
	Referral Hospitals	***Clinics***	***Pharmacy and Distribution***	***Medical Insurance***	***Diagonstics***	***Intersegment transactions and consolidation***	***Total***
Assets:							
Property and equipment	525,783	113,333	99,506	15,939	14,531	-	769,092
Inventory	16,113	1,106	138,813	-	1,100	-	157,132
Liabilities:							
Accounts payable	30,436	5,637	100,349	-	1,014	(17,652)	119,784
Lease liabilities	1,984	9,045	74,066	847	-	-	85,942

(Thousands of Georgian Lari unless otherwise stated)

4. Segment Information *(continued)*

	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagonstics	Intersegment transactions and consolidation	Total
	31 December 2018						
Assets:							
Property and equipment	535,520	102,116	31,292	15,214	13,895	-	698,037
Inventory	16,978	829	127,924	-	433	-	146,164
Liabilities:							
Accounts payable	34,651	1,986	79,772	-	1,222	(12,539)	105,092
Lease liabilities	-	8,676	-	-	-	-	8,676

Statement of comprehensive income as at 30 June 2019 by segments are presented below:

	Referral Hospitals	Clinics	Pharmacy and Distribution	Medical Insurance	Diagonstics	Intersegment transactions and consolidation	Total
	Period ended 30 June 2019 Unaudited						
Healthcare services revenue	147,998	21,814	–	–	2,285	(11,251)	160,846
Revenue from pharma	–	–	295,193	–	–	(20,418)	274,775
Net insurance premiums earned	–	–	–	36,366	–	(279)	36,087
Revenue	**147,998**	**21,814**	**295,193**	**36,366**	**2,285**	**(31,948)**	**471,708**
Cost of healthcare services	(85,661)	(12,467)	–	–	(1,605)	9,074	(90,659)
Cost of sales of pharmaceuticals	–	–	(220,944)	–	–	14,798	(206,146)
Cost of insurance services and agents' commissions	–	–	–	(31,916)	–	7,061	(24,855)
Costs of services	**(85,661)**	**(12,467)**	**(220,944)**	**(31,916)**	**(1,605)**	**30,933**	**(321,660)**
Gross profit	**62,337**	**9,347**	**74,249**	**4,450**	**680**	**(1,015)**	**150,048**
Other operating income	8,135	602	3,414	660	118	(3,797)	9,132
Salaries and other employee benefits	(16,109)	(3,539)	(25,244)	(2,106)	(515)	196	(47,317)
General and administrative expenses	(7,206)	(1,419)	(10,653)	(728)	(149)	228	(19,927)
Impairment of healthcare services, insurance premiums and other receivables	(2,265)	(90)	(179)	(217)	(4)	443	(2,312)
Other operating expenses	(6,591)	(163)	(1,538)	(93)	(22)	3,946	(4,461)
	(32,171)	**(5,211)**	**(37,614)**	**(3,144)**	**(690)**	**4,813**	**(74,017)**
EBITDA	**38,301**	**4,738**	**40,049**	**1,966**	**108**	**1**	**85,163**
Depreciation and amortisation	(13,599)	(3,290)	(9,240)	(548)	(132)	–	(26,809)
Interest income	62	28	13	558	-	-	661
Interest expense	(11,714)	(2,240)	(8,206)	(272)	(1)	-	(22,433)
Net (losses)/gains from foreign currencies and currency derivatives	(3,133)	(895)	(6,546)	18	(20)	–	(10,576)
Net non-recurring expense	(392)	(67)	(62)	-	(5)	(1)	(527)
Profit before income tax expense	**9,525**	**(1,726)**	**16,008**	**1,722**	**(50)**	**-**	**25,479**
Income tax expense	-	-	(69)	(288)	-	-	(357)
Profit for the period	**9,525**	**(1,726)**	**15,939**	**1,434**	**(50)**	**-**	**25,122**

(Thousands of Georgian Lari unless otherwise stated)

4. Segment Information (continued)

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

	Period ended 30 June 2018 Unaudited						
	Referral Hospitals	*Clinics*	*Pharmacy and Distribution*	*Medical Insurance*	*Diagonstics*	*Intersegment transactions and consolidation*	*Total*
Healthcare services revenue	130,618	19,079	–	–	1,378	(7,485)	143,590
Revenue from pharma	–	–	254,191	–	–	(6,496)	247,695
Net insurance premiums earned	–	–	–	27,005	–	(590)	26,415
Revenue	**130,618**	**19,079**	**254,191**	**27,005**	**1,378**	**(14,571)**	**417,700**
Cost of healthcare services	(75,358)	(10,944)	–	–	(1,077)	8,889	(78,490)
Cost of sales of pharmaceuticals	–	–	(191,412)	–	–	-	(191,412)
Cost of insurance services and agents' commissions	–	–	–	(23,792)	–	4,847	(18,945)
Costs of services	**(75,358)**	**(10,944)**	**(191,412)**	**(23,792)**	**(1,077)**	**13,736**	**(288,847)**
Gross profit	**55,260**	**8,135**	**62,779**	**3,213**	**301**	**(835)**	**128,853**
Other operating income	7,788	422	1,274	323	-	(2,861)	6,946
Salaries and other employee benefits	(14,065)	(3,290)	(22,493)	(1,846)	(90)	552	(41,232)
General and administrative expenses	(7,086)	(1,957)	(16,723)	(682)	(132)	378	(26,202)
Impairment of healthcare services, insurance premiums and other receivables	(2,457)	(44)	(25)	(159)	-	284	(2,401)
Other operating expenses	(4,910)	(515)	(251)	(133)	(4)	2,480	(3,333)
	(28,518)	**(5,806)**	**(39,492)**	**(2,820)**	**(226)**	**3,694**	**(73,168)**
EBITDA	**34,530**	**2,751**	**24,561**	**716**	**75**	**(2)**	**62,631**
Depreciation and amortisation	(12,342)	(2,614)	(1,124)	(391)	(91)	-	(16,562)
Interest income	2,136	638	19	627	-	(2,828)	592
Interest expense	(12,562)	(2,592)	(5,534)	(752)	-	2,828	(18,612)
Net (losses)/gains from foreign currencies and currency derivatives	(91)	(7)	2,129	88	1	-	2,120
Net non-recurring expense	(1,126)	276	(785)	-	(27)	-	(1,662)
Profit before income tax expense	**10,545**	**(1,548)**	**19,266**	**288**	**(42)**	**(2)**	**28,507**
Income tax expense	(74)	-	-	(43)	-	-	(117)
Profit for the period	**10,471**	**(1,548)**	**19,266**	**245**	**(42)**	**(2)**	**28,390**

5. Cash and Cash Equivalents

	Unaudited 30 June 2019	*31 December 2018*
Current and on-demand accounts with banks	12,786	33,823
Cash on hand	2,724	2,331
Total cash and cash equivalents	**15,510**	**36,154**

Cash and cash equivalents of Imedi L on a stand-alone basis are GEL 2,531 (2018: GEL 1,625). 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 983 (2018: GEL 750). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

(Thousands of Georgian Lari unless otherwise stated)

6. Amounts Due from Credit Institutions

	Unaudited 30 June 2019	*31 December 2018*
Time deposits with banks, local currency	6,569	7,061
Time deposits with banks, foreign currency	5,128	4,746
Total amounts due from credit institutions	**11,697**	**11,807**

As at 30 June 2019, 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 4.5% to 12.25% (2018: 0% to 12.75%).

7. Insurance Premiums Receivables

	Unaudited 30 June 2019	*31 December 2018*
Insurance premiums receivable from policyholders	47,387	26,034
Less – Allowance for impairment	(2,650)	(2,391)
Total insurance premiums receivables, net	**44,737**	**23,643**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2019 and 31 December 2018.

8. Receivables from Healthcare Services

	Unaudited 30 June 2019	*31 December 2018*
Receivables from State	115,571	97,666
Receivables from individuals and other	26,205	22,023
Receivables from insurance companies	3,369	6,341
	145,145	**126,030**
Less – Allowance for impairment	(21,095)	(19,189)
Total receivables from healthcare services, net	**124,050**	**106,841**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2019 and 31 December 2018.

9. Property and Equipment

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the land and office buildings and hospitals and clinics pledged as at 30 June 2019 was GEL 441,672 (2018: GEL 405,710). The Group engaged an independent appraiser to determine the fair value of its land and office buildings and hospitals and clinics on 1 October 2017, which is the latest revaluation date. If the land and office buildings and hospitals and clinics were measured using the cost model, the carrying amounts of the buildings as at 30 June 2019 and 31 December 2018 would be as follows:

	Unaudited 30 June 2019	*31 December 2018*
Cost	467,572	465,355
Accumulated depreciation and impairment	(19,281)	(17,110)
Net carrying amount	**448,291**	**448,245**

The Group's gross balance of property and equipment as at 30 June 2019 comprised GEL 861,222 (2018: GEL 766,620) and accumulated depreciation as at 30 June 2019 comprised GEL 92,130 (2018: GEL 68,583). During the six months period ended 30 June 2019, the Group added GEL 16 million worth of property and equipment, of which GEL 10 million resulted from the Group's referral hospitals and clinics businesses that invested in development of new services, including dental services, across existing healthcare facilities as well as development of outpatient services in policlincs whith are currently in their ramp-up phase; GEL 3 million resulted from the Group's pharmacy and distribution business due to openings of 9 new pharmacies across Georgia; and GEL 2 million resulted from the Group's diagnostics business, which started its operations in early 2019 and currently is in early roll-out stage. Besides, in 2019, the Group adopted IFRS 16 which resulted in increase of property and equipment balance by GEL 80 million (Note 3).

(Thousands of Georgian Lari unless otherwise stated)

10. Goodwill and Other Intangible Assets

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

	Effective annual growth rate in three-year financial budgets	*Pre-tax WACC applied for impairment**	*Unaudited 30 June 2019*	*31 December 2018*
Pharmacy and Distribution Goodwill	5%	14.4%	77,755	77,755
Referral Hospitals Goodwill	5%	12.7%	27,857	27,857
Clinics Goodwill	5%	12.7%	5,710	5,710
Medical Insurance Goodwill	5%	14.3%	3,462	3,462
Total Goodwill			**114,784**	**114,784**
Other Intangible assets**			41,258	37,514
Total Goodwill and Other Intangible Assets			**156,042**	**152,298**

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

** Net of accumulated amortisation

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

- WACC was used as a discount rate for the forecasted cash flows. WACC was estimated using capital assets pricing model based on the group's shares market beta.
- 2019, 2020 and 2021 years' cash flow projections were modelled applying 4% - 27% growth.

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

For the Referral Hospitals and Clinics Goodwill cash generating units, the following additional assumptions were made over the first three-year period of the business plan:

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

Goodwill is tested at the lowest level monitored by management, which is at the operating segment level. The Group performs goodwill impairment testing annually. The latest impairment test performed by the Group was as at 31 December 2018. The Group did not identify any impairment of goodwill as at 31 December 2018. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. The Group did not identify any indicators of impairment at at 30 June 2019.

In 2019, 8,025% shareholding interest in fully owned subsidiary, JSC Mega-Lab, with book value of GEL 1,035, was transferred to minority shareholder in exchange for acquisition of laboratory information management system together with supporting technology and applicable licenses. The amount was debited to other intangible assets.

11. Inventory

	Unaudited 30 June 2019	*31 December 2018*
Inventory held by pharmacy and distribution business (FIFO)	138,813	127,924
Inventory held by healthcare business (weighted average cost)	18,319	18,240
Total	**157,132**	**146,164**

12. Insurance Contract Liabilities

	Unaudited 30 June 2019	*31 December 2018*
- Unearned premiums reserve ("UPR")	38,603	19,291
- Reserves for claims incurred but not reported ("IBNR")	1,460	1,964
- Reserves for claims reported but not settled ("RBNS")	3,097	1,289
Total insurance contracts liabilities	**43,160**	**22,544**

(Thousands of Georgian Lari unless otherwise stated)

13. Borrowings

	Unaudited 30 June 2019	*31 December 2018*
Borrowings from local financial institutions	118,098	156,449
Borrowings from foreign financial institutions	151,380	134,337
Borrowings from non-controlling interest shareholder of subsidiary	6,577	6,031
Total borrowings	**276,055**	**296,817**

In the period ended 30 June 2019 borrowings from local financial institutions had an average interest rate of 10.08% per annum (2018: 10.74%), maturing on average in 875 days (2018: 782 days). Borrowings from international financial institutions had an average interest rate of 9.14% (2018: 9.52%), maturing in 1,759 days (2018: 1,918 days). Borrowings from non-controlling interest shareholder of subsidiary had an average interest rate of 12.27% (2018: 12.32%), maturing in 351 days (2018: 74 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. As at 30 June 2019 and 31 December 2018, the Group complied with all these lender covenants.

14. Debt securities issued

In July 2017 JSC Evex Hospitals issued five-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 10.75% representing a 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate. The proceeds were used to refinance borrowings from local commercial banks, which are a relatively more expensive source of funding, and also to fund planned on-going capital expenditures. Outstanding balance as at 30 June 2019 equalled GEL 92,840 (2018: GEL 93,573).

15. Payables for Share Acquisitions

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

	Unaudited 30 June 2019	*31 December 2018*
Holdback for the acquisition of ABC	89,180	88,536
LLC Emergency Service	389	2,591
JSC Pediatry	347	347
Total Payables for Share Acquisitions	**89,916**	**91,474**

As at 30 June 2019, GEL 75,440 (2018: GEL 71,668) from JSC ABC holdback amount of GEL 89,180 (2018: 88,536) represents redemption liability arising from put option held by minority shareholders of JSC GEPHA which can be exercised in 2022 in case of which the Group will have to acquire from non-controlling interests the remaining 33% share based on pre-determined EBITDA multiple (4.5 times EBITDA). The redemption liability is the present value of the expected settlement amount at each reporting period end.

In 2019 the Group acquired 85% shareholding interest in LLC Emergency Service, a subsidiary which was previously de-facto controlled by the Group. In exchange for the 85% interest in LLC Emergency Service, the Group paid cash amount of GEL 877, gave up a right to collect an asset in the form of prepayment of GEL 500 and gave up 15% minority shareholding interest in existing subsidiary, LLC Catastrophe Medicine Paediatric Centre, with book value of GEL 171 thereby reducing the shareholding interest in the entity from 100% to 85%. The transaction resulted in decrease of LLC Emergency Service payable for share acquisition from GEL 2,591 as of 31 December 2018 to GEL 389 as of 30 June 2019 and resulted in gain from remeasurement of contingent consideration payable of GEL 654. The remaining payable of GEL 389 represents payable for acquisition of the remaining 15%, which expected to be settled in the coming years.

(Thousands of Georgian Lari unless otherwise stated)

16. Commitments and Contingencies

Legal

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

As at 30 June 2019, the Group had litigation with the Social Service Agency ("SSA") in relation to an aggregate amount of GEL 7,868 (2018: GEL 7,233). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Financial commitments and contingencies

	Unaudited 30 June 2019	*31 December 2018*
Capital commitments	397	1,099
Operating lease commitments		
- Leases due not later than 1 year	952	20,252
- Leases due later than 1 year but not later than 5 years	3,932	65,388
Total minimum operating lease commitments	**4,884**	**85,640**
Total financial commitments	**5,281**	**86,739**

As at 30 June 2019, capital commitments mainly comprised contracts related to the development of dental service. The Group did not have contingent rents or sublease payments. Rent expense recognised during the six month period equalled GEL 1,843 (30 June 2018: GEL 9,477).

17. Equity

Share Capital

Share capital of Georgia Healthcare Group PLC is denominated in GBP and shareholders are entitled to dividends in GBP. Management and board of Georgia Healthcare Group PLC announced a dividend of GEL 0.053 per share, to be paid in respect of 2018 financial year. This represents a payout of 20% of 2018 earnings. No dividends were announced or distributed in the period ended 30 June 2019. Dividend payable amount, included in other liabilities, comprised 6,805 GEL. The amount was paid on 12 July 2019.

As at 30 June 2019 and 31 December 2018, number of ordinary shares comprised 131,681,820 totaling GEL 4,784.

Treasury Shares

The number of treasury shares held by the Company as at 30 June 2019 was 2,452,449 (2018: 2,763,916). The treasury shares are kept by the Company for the purposes of its future employee share-based compensation. During the six months period ended 30 June 2019 the Group purchased treasury shares of GEL 1,582 (2018: GEL 1,751).

Additional-paid in Capital

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

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of office buildings and hospitals and clinics and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity. As at 30 June 2019 the revaluation reserve for property and equipment equalled GEL 15,646 (2018: 15,646).

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

In 2017, as part of the ABC acquisition contract, the selling shareholders have a put option to sell their remaining 33% stake in the combined pharmacy and distribution business to GHG during the period from 1 January 2023 to 31 December 2023. At initial recognition, in accordance with IFRS requirements, the Group recognised GEL 55 million (present value) liability to purchase the remaining 33% shares - included in the payable for share acquisitions caption. The non-controlling interest arising from the consolidated pharmacy and distribution business, GEL 24 million, was fully de-recognised in accordance with IFRS requirements. The difference between the redemption liability of GEL 55 million and the non-controlling interest of

(Thousands of Georgian Lari unless otherwise stated)

17. Equity (continued)

Nature and purpose of other reserves (continued)

GEL 24 million was debited to equity, resulting in a reduction of equity through other reserves by GEL 31 million. The redemption liability is carried at fair value and interest is unwound on each reporting date. The Group has not changed any of its input estimates as presented in Note 27 (EBITDA or discount rate). The redemption liability increased by GEL 3,772 (Note 27) in the six months period ended 30 June 2019 solely due to the unwinding of discount discussed above. The difference between the unwound interest and the share of profit attributable to the non-controlling interest is debited or credited to other reserves to "Acquisition of additional interest in existing subsidiaries" line. Current year change in the balance is partially attributable to the above contract. All the difference between subsequent changes to the redemption liability and the non-controlling interest is recognized in equity in the line "Acquisition of additional interest in existing subsidiaries" – the amount debited to other reserves equalled GEL 1,623 in 6 months period ended 30 June 2019 and the amount debited to non-controlling interest equalled GEL 2,149. The aggregate of the two amounts (GEL 1,623 and GEL 2,149) equaled GEL 3,772 and was credited to put option redemption liability (Note 27). The remaining credit to other reserves comprised GEL 1,131, which represents 85% shareholding interest acquisition in LLC Emergency Service, a subsidiary which was previously de-facto controlled by the Group. In exchange for the 85% interest in LLC Emergency Service, the Group paid cash amount of GEL 877, gave up a right to collect an asset in the form of prepayment of GEL 500 and gave up 15% minority shareholding interest in existing subsidiary, LLC Catastrophe Medicine Paediatric Centre, with book value of GEL 171 thereby reducing the shareholding interest in the entity from 100% to 85%. The value of 15% given up was debited to equity in the line "Acquisition of additional interest in existing subsidiaries by non-controlling shareholders".

As a result of the above discussed transactions, aggregate amount of GEL 492 was debited to the other reserves in the line of "Acquisition of additional interest in existing subsidiaries " (debit of GEL 1,623 due to put option and credit of GEL 1,131 due to LLC Emergency Service transaction). Besides, as a result of mainly the same transactions, GEL 3,121 was debited to non-controlling interest (debit of GEL 2,149 due to put option, debit of GEL 1,131 due to LLC Emergency Service transaction and credit of GEL 159 due to establishment of LLC New Dent as presented in Note 1 above).

As at 30 June 2019, losses from sale/acquisition of shares in existing subsidiaries equalled GEL 49,470 (2018: GEL 48,982).

Regulatory Capital Requirements

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

Earnings per Share

For the purpose of calculating basic earnings per share the Group used profit for the six month period attributable to shareholders of the Company of GEL 15,609 (2018: GEL 18,189) as a numerator and the weighted average number of shares outstanding during the period ended 30 June 2019 of 128,959,331 (2018: 128,752,840) 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 2019 of 131,681,820 (2018: 131,681,820) as a denominator.

Non-controlling interest

In 2019, 67% owned subsidiary of the Group, JSC GEPHA, declared dividend of GEL 14.0 million, of which GEL 9,380 is attributable to JSC Georgia Healthcare Group and GEL 4,620 to non-controlling interest shareholders.

18. Healthcare Service and Pharmacy and Distribution Revenue

	Unaudited Period ended 30 June 2019	***Unaudited Period ended 30 June 2018***
Healthcare services revenue from State (UHC)	115,794	100,744
Healthcare services revenue from out-of-pocket and other	41,308	38,634
Healthcare services revenue from insurance companies	4,909	5,992
Less: Corrections & rebates	(1,165)	(1,780)
Total healthcare services revenue	**160,846**	**143,590**
Retail	206,019	185,733
Wholesale	68,756	61,962
Total revenue from pharmacy and distribution	**274,775**	**247,695**

(Thousands of Georgian Lari unless otherwise stated)

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

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

	Unaudited 30 June 2019	*31 December 2018*
Deferred revenues	5,106	4,867
Receivables from healthcare services	124,050	106,841
Receivables from sale of pharmaceuticals	18,808	20,440

Receivables from healthcare services are recognized when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract. The Group recognised GEL 239 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in deferred revenues.

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

In period ended 30 June 2019, the Group has recognised the following amounts relating to revenue from contracts with customers in the income statement: Healthcare services revenue of GEL 160,846; revenue from pharmacy and distribution of GEL 274,775; revenue from sale of medicine of GEL 704. The Group applies practical expedient mentioned in IFRS 15.121 and does not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, the original expected duration of the underlying contracts is less than one year.

19. Net Insurance Premiums Earned

	Unaudited Period ended 30 June 2019	*Unaudited Period ended 30 June 2018*
Gross premiums written	54,856	33,494
Change in unearned premiums reserve	(18,769)	(7,079)
Total net insurance premiums earned	**36,087**	**26,415**

20. Cost of Healthcare Services and Pharmaceuticals

	Unaudited Period ended 30 June 2019	*Unaudited Period ended 30 June 2018*
Cost of salaries and other employee benefits	(56,533)	(51,544)
Cost materials and supplies	(24,477)	(18,823)
Cost of utilities and other	(7,780)	(6,640)
Cost of providers	(1,869)	(1,483)
Total cost of healthcare services	**(90,659)**	**(78,490)**
Retail	(149,730)	(138,109)
Wholesale	(56,416)	(53,303)
Total cost of sales of pharmaceuticals	**(206,146)**	**(191,412)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment. Indirect salaries that were not included in the cost of healthcare services in the period ended 30 June 2019 amounted to GEL 47,317 (30 June 2018: GEL 41,232) 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 2019 amounted to GEL 103,850 (30 June 2018: GEL 92,776).

21. Cost of insurance services and agents' commissions

	Unaudited Period ended 30 June 2019	*Unaudited Period ended 30 June 2018*
Insurance claims paid	(21,379)	(13,322)
Change in insurance contract liabilities	(2,061)	(4,343)
Net insurance claims incurred	**(23,440)**	**(17,665)**
Agents, brokers and employee commissions	(1,415)	(1,280)
Cost of insurance services and agents' commissions	**(24,855)**	**(18,945)**

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22. Net Non-Recurring Expense

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

Net non-recurring expense for the six month period ended 30 June 2019 comprises:

- GEL 322 loss from employee dismissal compensation;
- GEL 94 expenses for transportation of patients injured during demonstrations in Tbilisi;
- GEL 111 loss from other individually insignificant transactions;

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

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

23. Share-based Compensation

In February 2019 the Board of Directors of GHG resolved to award 111,301 ordinary shares of GHG to the CEO of the Group. In February 2019 the Board of Directors of GHG resolved to award 173,121 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 8 February 2019 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 8.02 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2019 no shares have been vested.

In December 2017 the Board of Directors of GHG resolved to award 122,900 ordinary shares of GHG to the CEO of the Group. In December 2017 the Board of Directors of GHG resolved to award 107,200 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 10 December 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 12.54 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2019, one third of the discretionary shares have been vested.

In February 2017 the Board of Directors of GHG resolved to award 141,981 ordinary shares of GHG to the CEO of the Group. In February 2017 the Board of Directors of GHG resolved to award 128,070 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 11.68 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2019, two thirds of the discretionary shares have been vested.

In February 2016, the Board of Directors of GHG resolved to award 237,500 ordinary shares of GHG to the CEO of the Group. In February 2016, the Board of Directors of GHG resolved to award 281,000 ordinary shares of GHG to 3 executives. The shares were awarded with a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2016 as the grant date for the awards to the CEO and other executives. The Group estimates that the fair value of the shares awarded was GEL 6.28 per share as at grant date. The fair values were identified based on market prices on grant date. As at 30 June 2019, the discretionary shares have been fully vested.

In January 2015, the CEO of the Group and the deputies signed five-year fixed contingent share-based compensation agreements for the total of 1,670,000 ordinary shares of GHG. The total amount of shares allocated to each executive will be awarded in five equal installments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period with 20% of shares vesting during the first three years and 40% of shares vesting during the fourth year. The Group considers 1 January 2015 and 29 April 2015 as the grant dates for the awards to the CEO and deputies respectively. The Group estimates that the fair value of the shares awarded was GEL 2.18 per share as at the respective grant dates. The respective fair values were estimated using appropriate valuation techniques based on market and income approaches. As at 30 June 2019, 24% of the shares have been vested.

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24. Capital Management

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

The capital management objectives are as follows:

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

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

During the six month period ended 30 June 2019 and year ended 31 December 2018 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".

Changes in liabilities arising from financing activities:

	Borrowings	Debt securities issued	Total
1 January 2018	**267,010**	**93,493**	**360,503**
Proceeds from borrowings	83,241	-	83,241
Repayment of borrowings	(61,818)	-	(61,818)
Interest accrual/(payment)	6,205	80	6,285
Foreign exchange (gain)/loss	2,179	-	2,179
31 December 2018	**296,817**	**93,573**	**390,390**

	Borrowings	Debt securities issued	Total
31 December 2018	**296,817**	**93,573**	**390,390**
Proceeds from borrowings	31,496	-	31,496
Repayment of borrowings	(59,282)	-	(59,282)
Interest accrual/(payment)	2,218	(733)	1,485
Foreign exchange (gain)/loss	4,806	-	4,806
30 June 2019	**276,055**	**92,840**	**368,895**

(Thousands of Georgian Lari unless otherwise stated)

25. 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 2019	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	15,510	–	15,510
Amounts due from credit institutions	11,697	–	11,697
Insurance premiums receivables	44,737	–	44,737
Receivables from healthcare services	108,368	15,682	124,050
Receivables from sales of pharmaceuticals	18,808	–	18,808
Inventory	157,132	–	157,132
Prepayments	11,500	2,656	14,156
Current income tax assets	85	–	85
Investment in associate	–	3,441	3,441
Property and equipment	–	769,092	769,092
Goodwill and other intangible assets	–	156,042	156,042
Other assets	16,121	14,939	31,060
Total assets	**383,958**	**961,852**	**1,345,810**
Liabilities			
Accruals for employee compensation	26,951	–	26,951
Insurance contract liabilities	43,160	–	43,160
Accounts payable	119,784	–	119,784
Current income tax liabilities	290	–	290
Lease liabilities	85,942	–	85,942
Payables for share acquisitions	5,566	84,350	89,916
Borrowings	101,306	174,749	276,055
Debt securities issued	2,840	90,000	92,840
Other liabilities	22,771	–	22,771
Total liabilities	**408,610**	**349,099**	**757,709**
Net position	**(24,652)**	**612,753**	**588,101**
Accumulated gap	**(24,652)**	**588,101**	

(Thousands of Georgian Lari unless otherwise stated)

25. Maturity analysis (continued)

31 December 2018	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	36,154	-	36,154
Amounts due from credit institutions	11,807	-	11,807
Insurance premiums receivables	23,643	-	23,643
Receivables from healthcare services	90,006	16,835	106,841
Receivables from sales of pharmaceuticals	20,440	-	20,440
Inventory	146,164	-	146,164
Prepayments	10,255	2,809	13,064
Current income tax assets	1,007	-	1,007
Investment in associate	-	3,124	3,124
Property and equipment	-	698,037	698,037
Goodwill and other intangible assets	-	152,298	152,298
Other assets	9,109	18,818	27,927
Total assets	**348,585**	**891,921**	**1,240,506**
Liabilities			
Accruals for employee compensation	26,615	-	26,615
Insurance contract liabilities	22,544	-	22,544
Accounts payable	97,921	7,171	105,092
Current income tax liabilities	41	-	41
Lease liabilities	8,676	-	8,676
Payable for share acquisitions	8,285	83,189	91,474
Borrowings	106,102	190,715	296,817
Debt securities issued	4,648	88,925	93,573
Other liabilities	17,680	2,963	20,643
Total liabilities	**292,512**	**372,963**	**665,475**
Net position	**56,073**	**518,958**	**575,031**
Accumulated gap	**56,073**	**575,031**	

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

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

26. 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.

(Thousands of Georgian Lari unless otherwise stated)

26. Related Party Transactions (continued)

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

	Unaudited 30 June 2019		31 December 2018	
	Entities under common control*	Other **	Entities under common control*	Other **
Assets				
Insurance premiums receivable	1,260	–	621	–
Other assets: Investment securities: available-for-sale	738	–	684	–
Other assets: Derivative financial assets	–	–	–	–
Prepayments and other assets	165	–	60	–
	2,163	–	**1,365**	–
Liabilities				
Accounts payable	488	–	311	–
Borrowings	–	6,577	–	6,031
Insurance contract liabilities	296	–	–	–
Other liabilities: derivative financial liability	–	–	–	–
Other liabilities: other	–	–	–	–
	784	**6,577**	**311**	**6,031**

	Unaudited Period ended 30 June 2019	Unaudited Period ended 30 June 2018
	Entities under common control*	Entities under common control*
Income and expenses		
Net insurance premiums earned	466	2,228
General and administrative expenses	(471)	(839)
Salaries and other employee benefits	-	(168)
Interest income	26	244
Interest expense	-	(2,926)
Net gains from foreign currencies	(51)	(1,066)
Other operating expenses	-	-
Other operating income***	2,923	133
Cost of healthcare services and medical trials	(819)	(749)
Non-recurring expense	-	(61)
	2,074	**(3,204)**

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

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

****The amount comprises gain from sale of land and office building by the Group's subsidiary, JSC Gepha, to sister company, JSC m2. The property sold represented an unused asset of the Group, which emerged as a result of relocation of JSC Gepha's head office from the property to new leased location.*

Compensation of key management personnel comprised the following:

	Unaudited Period ended 30 June 2019	Unaudited Period ended 30 June 2018
Salaries and cash bonuses	4,193	3,856
Share-based compensation	2,156	1,886
Total key management compensation	**6,349**	**5,742**

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27. Fair Value Measurements

Fair value hierarchy

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

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

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

(Unaudited)	*Level 1*	*Level 2*	*Level 3*	*Total fair value 30-Jun-2019*	*Carrying value 30-Jun-2019*	*Unrecognised gain (loss) 30-Jun-2019*
Assets measured at fair value						
Property and equipment	–	–	769,092	**769,092**	769,092	–
Other assets: call option	–	–	18,470	**18,470**	18,470	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	15,510	-	**15,510**	15,510	–
Amounts due from credit institutions	–	–	11,697	**11,697**	11,697	–
Receivables from healthcare services	–	–	124,050	**124,050**	124,050	–
Receivables from sales of pharmaceuticals	–	–	18,808	**18,808**	18,808	–
Insurance premiums receivable	–	–	44,737	**44,737**	44,737	–
Other assets: loans issued and lease deposit	–	–	4,484	**4,484**	4,484	–
Liabilities measured at fair value						
Payable for share acquisitions	–	–	89,916	**89,916**	89,916	–
Liabilities for which fair values are disclosed						
Lease liability	–	–	86,528	**86,528**	85,942	(586)
Borrowings	–	–	278,650	**278,650**	276,055	(2,595)
Debt securities issued	–	–	93,073	**93,073**	92,840	(233)

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

Property and equipment

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

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs comprise forward foreign exchange contracts. The applied valuation technique employs a discounted forward pricing model. The model incorporates various inputs including the foreign exchange spot and forward rates. Call option represents option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC GEPHA. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of parent company's market capitalisation from 1 July 2016 till 30 June 2019 period, which equalled 40.8%. If the volatility was 10% higher, fair value of call option would increase by GEL 2,774 (2018: GEL 2,012) if volatility was 10% lower call option value would decrease by GEL 2,692 (2018: GEL 2,035). The Group recognised GEL 1,501 (2018: GEL 1,212) unrealised gain on the call option during the 6 months period ended 30 June 2019.

(Thousands of Georgian Lari unless otherwise stated)

27. Fair Value Measurements (continued)

Put option represents option owned by non-controlling shareholders on sale of remaining 33% equity interest in JSC GEPHA to the Group in 2022 based on pre-determined EBITDA multiple (4.5 times EBITDA) of JSC GEPHA. The Group has estimated put option value based on number of unobservable inputs. Major unobservable input for put option valuation represents estimated EBITDA of JSC GEPHA as well as discount rate used to value the option. The Group has applied 11% discount rate to value the option. If the discount rate was 1% higher, fair value of put option redemption liability would decrease by GEL 2,336 (2018: GEL 2,528) if discount rate was 1% lower put option redemption liability value would increase by GEL 2,433 (2018: GEL 2,644).

Fair value hierarchy (continued)

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	1 January 2018	***Remeasurement in equity***	***Payment***	***Remeasurement in income statement***	***Business combinations***	***At 31 December 2018***
Level 3 financial assets						
Call option	10,106	-	-	6,863	-	16,969
Level 3 financial liabilities						
Payables for share acquisitions: put option	61,512	10,156	-	-	-	71,668
Payables for share acquisitions: holdback for business acquisitions	36,746	-	(16,626)	(1,340)	1,026	19,806
Total financial liabilities (*Note 15*)	**98,258**	**10,156**	**(16,626)**	**(1,340)**	**1,026**	**91,474**

	1 January 2019	***Remeasurement in equity***	***Payment***	***Remeasurement in income statement***	***Business combinations***	***At 30 June 2019***
Level 3 financial assets						
Call option	16,969	-	-	1,501	-	18,470
Level 3 financial liabilities						
Payables for share acquisitions: put option	71,668	3,772	-	-	-	75,440
Payables for share acquisitions: holdback for business acquisitions	19,806	-	(6,101)	771	-	14,476
Total financial liabilities (*Note 15*)	**91,474**	**3,772**	**(6,101)**	**771**	**-**	**89,916**

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

Level 3 property at fair value

Property and equipment	**30 June 2019 Unaudited**	***Valuation technique***	***Significant unobservable inputs***	***Range***	***Other key information***	***Range***	***Sensitivity of the input to fair value***
Land and office buildings	**22,329**	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	**441,672**	Market and DRC approaches	Price per square meter, land, building	3-1,106	Square meters, building	151-30,700	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value

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

(Thousands of Georgian Lari unless otherwise stated)

27. Fair Value Measurements (continued)

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.

28. Events After Reporting Period

Subsequent to 30 June 2019, the SSA completed its scheduled inspection of the Group's several major hospitals and clinics. As a result of the procedures, SSA provided preliminary acts of inspection and proposed penalties due to some procedural violations, similar to the ones disclosed in Note 16. The management conducted preliminary assessment of the inspection acts and concluded that around GEL 3 million penalty was possible (but not probable) to be incurred with regard to the above inspection. The Group continues to assess the identified cases in details and will come up with the updated assessment in the 2019 year-end financial statements.

ANNEX

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

COMPANY INFORMATION

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