

**HSCI GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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### **Important remarks**

Consolidated financial statements of HSCI Group as of and for the year ended December 31, 2008 in accordance with IFRS as well as Auditor's report were prepared in Russian. In the event of any inconsistency between the English and the Russian texts, the Russian text shall prevail.

**To the Shareholders of  
HSCI Companies Group**

**AUDITOR'S REPORT  
ON FINANCIAL STATEMENTS  
OF HSCI COMPANIES GROUP  
FOR 2008**

**THE AUDITOR**

Name: MauerGroup LLC, INN 7710389659

Location: Bld. 1, 4, 3<sup>d</sup> Silikatniy Proyezd, Moscow 123308, Russia

State Registration: Certificate of Record in the Unified State Register of Legal Entities No. 007027277, series 77 dated 23.08.2001, issued by the Inspectorate of the Ministry of Taxes and Levies of the Russian Federation No. 39 for Moscow

Is a member of: Moscow Audit Chamber SRO NCP

**THE AUDITEE**

Name: HSCI Companies Group

Location of the parent company OJSC Human Stem Cells Institute: 18/1 Olympiysky prospect, Moscow 129110, Russia.

State Registration: State Registration Certificate of Legal Entity, series 77 No. 007310997, issued by the Inspectorate of the Ministry of Taxes and Levies of Russia No. 46 for Moscow on 27.11.2003.

We have audited consolidated financial statements of the HSCI Group of companies (hereinafter referred to as "the Group") as of December 31, 2008 in accordance with International Financial Reporting Standards. The preparation of these consolidated financial statements is a part of the Group management's responsibility. Our responsibility was to express our opinion about the authenticity of these consolidated financial statements in all material respects, basing on the audit conducted by us.

We conducted our audit in accordance with International Standards of Auditing. Pursuant to these standards, an audit is planned and conducted to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements. An audit includes random inspection of numerical data and comments contained in the consolidated financial statements. In addition, an audit includes evaluating of applied accounting principles and material estimates adopted by the management, as well as assessment of overall financial statements presentation. We believe that the audit we have conducted gives us sufficient reasons for expressing our opinion on the authenticity of the financial statements.

### Scope Limitation

We could not monitor physical inventory of the Group's resources and property, plant and equipment, so we did not obtain sufficient reasonable assurance in respect of the existence of these assets as of December 31, 2008.

We did not obtain sufficient reasonable assurance in respect of the authenticity of the appraisal of fair value of property, plant and equipment of the Group as of December 31, 2008.

In our opinion, excluding corrections (if any) that may be necessary if we could audit the authenticity of the appraisal of the fair value and existence of property, plant and equipment and inventories, the consolidated financial statements presents fairly, in all material respects, the Group's financial position as of December 31, 2008, its financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards.

/s/

I.A. Arekhina

General Director of MauerGroup LLC

Moscow, Russian Federation

27.12.2010

**Statement of the Management’s Responsibility  
for Preparation and Approval of the Consolidated Financial Statements  
for the Year Ended December 31, 2008**

The following representation is drawn up in order to define the management’s responsibility for the consolidated financial statements of the HSCI Group of companies (hereinafter referred to as “the Group”).

The Group’s management shall be held liable for the preparation of the consolidated financial statements giving a true and fair view of the financial position of the Group as of December 31, 2008, results of its operations, cash flows and changes in equity for the year ended December 31, 2008, in accordance with International Financial Reporting Standards (IFRS).

When preparing the financial statements, the management shall be held liable for:

- selection of appropriate accounting principles and their consistent application;
- application of reasonable appraisals and calculations;
- compliance with IFRS requirements, or interpretation and explanation of all material digressions from IFRS in the financial statements;
- preparation of the consolidated financial statements making allowances that the Group shall continue its activities in the foreseeable future, save for the cases when this allowance is unlawful.

The management shall also be held liable for:

- development, implementation and maintenance of an effective and reliable internal control system within all companies of the Group;
- maintenance of respective records sufficiently and accurately revealing information about the Group’s financial position, and ensuring compliance of the Group’s consolidated financial statements with IFRS requirements;
- maintenance of the accounting’s compliance with laws and accounting standards of the Russian Federation;
- taking steps reasonably available for the Group to ensure preservation of the Group’s assets; and
- revelation and prevention of deceitful practices and other violations.

The consolidated financial statements for the year ended December 31, 2008 are authorized to be issued on December 24, 2010 and signed on behalf of the Group’s management:

\_\_\_\_\_/s/\_\_\_\_\_  
A.A.Isaev

General Director

December 24, 2010

\_\_\_\_\_/s/\_\_\_\_\_  
N.I.Alyutova

Chief Accountant

December 24, 2010

# HSCI GROUP

## CONSOLIDATED BALANCE SHEETS

In thousands of Russian Rubles

	Notes	December 31, 2008	December 31, 2007	January 1, 2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	4	26,189	10,459	3,742
Intangible assets	5	1,365	108	115
	6	11,872	1,069	1,069
Investments in associates and other companies				
Long-term loans granted	7	5,945	1,944	1,944
Deferred income tax assets	12	245	276	48
<b>Total non-current assets</b>		<b>45,616</b>	<b>13,856</b>	<b>6,918</b>
<b>Current assets</b>				
Inventories	8	2,867	2,146	1,150
Accounts receivable and prepayments	9	9,026	10,520	2,651
Short-term loans granted	7	3,466	5,117	7,386
Cash and cash equivalents	10	4,321	5,329	1,626
<b>Total current assets</b>		<b>19,680</b>	<b>23,112</b>	<b>12,813</b>
<b>Total assets</b>		<b>65,296</b>	<b>36,968</b>	<b>19,731</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	11	6,000	6,000	6,000
Retained earnings		9,796	6,415	259
<b>Total equity attributable to equity holders of the parent</b>		<b>15,796</b>	<b>12,415</b>	<b>6,259</b>
Non-controlling interest		1,440	1,533	-
<b>Total equity</b>		<b>17,236</b>	<b>13,948</b>	<b>6,259,764</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	12	-	1	2
<b>Total non-current liabilities</b>		<b>-</b>	<b>1</b>	<b>2</b>
<b>Current liabilities</b>				
Short-term borrowings	13	3,016	-	-
Accounts payable and accrued expenses	14	42,797	21,872	13,284
Income tax payable				
Other taxes payable	14	1,293	544	-
	15	954	603	186
<b>Total short-term liabilities</b>		<b>48,060</b>	<b>23,019</b>	<b>13,470</b>
<b>Total liabilities</b>		<b>48,060</b>	<b>23,020</b>	<b>13,472</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>65,296</b>	<b>36,968</b>	<b>19,731</b>

General Director /s/

A.A.Isaev

Chief Accountant /s/

N.I.Alyutova

The notes on pages 11 through 43 are an integral part of these consolidated financial statements

# HSCI GROUP

## CONSOLIDATED STATEMENTS OF INCOME

*In thousands of Russian Rubles*

	Notes	Year ended December 31, 2008	Year ended December 31, 2007
<b>Revenue</b>			
Revenue from cryopreservation and storage of human stem cells		95,746	64,548
Revenue from Gemabank trade mark		240	-
Other		802	920
<b>Total revenue</b>		<b>96,788</b>	<b>65,468</b>
<b>Operating expenses</b>	16	<b>(90,579)</b>	<b>(58,131)</b>
<b>Operating profit</b>		<b>6,209</b>	<b>7,337</b>
<b>Financial income / (expenses):</b>			
Foreign exchange loss, net		(99)	-
Interest income		1,210	742
Interest expenses		(215)	(40)
Gain on sale of investment		-	-
<b>Total financial income, net</b>	17	<b>896</b>	<b>702</b>
<b>Dividends received (Reproduction Center and SC Central Bank)</b>		<b>1,461</b>	<b>-</b>
<b>Profit before income tax</b>		<b>8,566</b>	<b>8,039</b>
<b>Income tax</b>			
Current tax charge		(1,897)	(2,278)
Deferred tax benefit / (expense)		(20)	228
<b>Income tax expense</b>		<b>(1,917)</b>	<b>(2,050)</b>
<b>Profit for the year</b>		<b>6,649</b>	<b>5,989</b>
Profit attributable to:			
Equity holders of the parent		6,742	6,156
Non-controlling interest		(93)	(167)
Earnings per share attributable to equity holders of the parent – basic and diluted (in Russian Rubles)		0,11	0,10

December 24, 2010

General Director /s/

A.A.Isaev

Chief Accountant /s/

N.I.Alyutova

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# HSCI GROUP

## CONSOLIDATED STATEMENTS OF CASH FLOW

In thousands of Russian Rubles

	Notes	December 31, 2008	December 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>			
<b>Profit before income tax</b>		<b>8,566</b>	<b>8,039</b>
<i>Adjustments to reconcile profit before tax to cash generated from operating activities</i>			
Depreciation	4	2,222	814
Bad debt expense			
	18	-	398
Net interest income	17	(995)	(702)
Foreign exchange loss, net	17	99	-
(Income) / Loss from other non-cash transactions		-	62
<b>Cash generated from operations before changes in working capital and profit tax paid</b>		<b>9,892</b>	<b>8,611</b>
<i>Changes in working capital:</i>			
(Increase) /decrease in accounts receivable and prepayments		1,364	(9,929)
Increase in inventories		(721)	(1,057)
Increase in payables and accruals		20,784	8,725
Increase in taxes payable, other than on income		357	406
Income tax paid		(1,139)	(1,723)
<b>Net cash provided by operating activities</b>		<b>30,537</b>	<b>5,034</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	4	(17,952)	(7,530)
Purchase of financial investments		(11,903)	(1,800)
Purchase of intangible assets		(1,134)	6
Changes in short-term investments		(2,350)	2,674
Interest received	17	1,209	742
Dividends received		1,461	-
<b>Net cash used in investing activities</b>		<b>(30,669)</b>	<b>(5,908)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Proceeds from short-term borrowings		5,175	374
Repayment of borrowings		(2,182)	(756)
Dividends paid		(3,354)	-
Interest paid	17	(215)	(40)
Repayment of stake in the share capital to shareholder		(300)	-
Proceed from shareholders to registered share capital		-	5,000
<b>Net cash (used in) / provided by financing activities</b>		<b>(876)</b>	<b>4,578</b>



# HSCI GROUP

## CONSOLIDATED STATEMENTS OF CASH FLOW

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*In thousands of Russian Rubles*

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<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,008)</b>	<b>3,703</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5,329</b>	<b>1,626</b>
<b>Cash and cash equivalents at the end of year</b>	<b>4,321</b>	<b>5,329</b>

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December 24, 2010

General Director	/s/	A.A.Isaev
Chief Accountant	/s/	N.I.Alyutova

The notes on pages 11 through 43 are an integral part of these consolidated financial statements

# HSCI GROUP

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*In thousands of Russian Rubles*

	Share capital	Unregistered share capital	Retained earnings	Non-controlling interest	Total equity
<b>Balances at January 1, 2007</b>	<b>6,000</b>	-	<b>259</b>	-	<b>6,259</b>
Profit / (Loss) for the year	-	-	6,156	(167)	5,989
Non-controlling interest	-	-	-	1,700	1,700
<b>Balances at December 31, 2007</b>	<b>6,000</b>	-	<b>6,415</b>	<b>1,533</b>	<b>13,948</b>
Profit for the year	-	-	6,742	(93)	6,649
Dividends	-	-	(3,361)	-	(3,361)
<b>Balances at December 31, 2008</b>	<b>6,000</b>	-	<b>9,796</b>	<b>1,440</b>	<b>17,236</b>

December 24, 2010

General Director /s/

A.A.Isaev

Chief Accountant /s/

N.I.Alyutova

The notes on pages 11 through 43 are an integral part of these consolidated financial statements

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

### **Note 1. Information about the Group and its Activities**

#### ***Organizational Structure and Activities.***

OJSC Human Stem Cells Institute (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group” or “the HSCI Group”) was founded in accordance with the laws of the Russian Federation. The Company is established in 2003 in order to advance projects in the field of cell technologies. The main activity of the Group is rendering of public health services, in particular, services of human stem cells storage and collection. The Group is also engaged in publishing activity: “Cellular Transplantology and Tissue Engineering” scientific & analytical journal, and in conducting scientific research, their patent protection and selling of licenses for protected scientific developments.

Apart from the research and commercial activities, the Group is also engaged in educational work for all levels of population, thus forming a market of advanced consumers of high-technology services in the field of medical biotechnologies.

At this moment, HSCI Group is an international biotechnological company with laboratories and offices in Moscow, Saint Petersburg, Ukraine and Germany.

OJSC Human Stem Cells Institute was established on November 27, 2003.

Location of the Company: 18/1 Olympiysky prospect, Moscow 129110, Russia

As of December 31, 2008, the owners of the Company are:

Isaev Artur Aleksandrovich with the share of 51.0 % in the Charter Capital.

Isaev Andrei Aleksandrovich with the share of 4.9 % in the Charter Capital;

First International Investment Group Ltd. with the share of 44.1 % in the Charter Capital.

Related parties of the Group within reporting periods were:

Isaev Artur Aleksandrovich;  
Isaev Andrei Aleksandrovich;  
Prikhodko Aleksander Viktorovich;  
Kiselyov Sergey Lvovich;  
Genkin Dmitry Dmitryevich;  
First International Investment Group Ltd. (BVI);  
Cell Technology Laboratory Limited Liability  
Company;  
Human Stem Cells Institute Publishing House Limited  
Liability Company;  
Human Stem Cells Institute Limited Liability  
Company in Kiev, Ukraine;  
LLC Reproductive and Genetics Center  
SC Central Bank LLC  
SymbioTec Gesellschaft zur Forschung und  
Entwicklund auf dem Gebiet der Biotechnologie mbH,  
Germany.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

### **Note 1. Information about the Group and its Activities (continued)**

#### ***Formation of the Group***

On October 26, 2005 HSCI established subsidiary Human Stem Cells Institute Publishing House LLC. The share of HSCI in Human Stem Cells Institute Publishing House LLC amounts to 100 %.

On July 17, 2006 HSCI established subsidiary Central Stem Cells Bank LLC. The share of HSCI in Central Stem Cells Bank LLC used to amount to 100 %. In September 2008 this subsidiary company was liquidated.

On April 3, 2007 HSCI established subsidiary Cell Technology Laboratory Limited Liability Company. The share of HSCI in Cell Technology Laboratory Limited Liability Company amounts to 66 %.

In August 2008 HSCI established subsidiary Human Stem Cells Institute, Limited Liability Company in Kiev (Ukraine). The share of HSCI in Human Stem Cells Institute, Limited Liability Company in Kiev (Ukraine) amounts to 51 %.

These consolidated financial statements of the Group does not include activity results of subsidiary HSCI LLC (Ukraine), as financial results of this subsidiary company are not material for consolidation purposes and amount to 0.2 % of the Group's asset value. The value of HSCI LLC (Ukraine) is stated in investments in associates and other companies at the acquisition value.

The companies constituting the Group do not have representative offices.

#### ***Conditions of Operations in the Russian Federation***

The economy of the Russian Federation has definite characteristic features peculiar for emerging markets with a rather high inflation. The economy of the Russian Federation was influenced by the global financial crisis, business recession, oil free market prices' fall and Ruble devaluation. The management cannot to the full extent foresee all tendencies that could influence development of the Russian economy and banking sector, and what influence (if any) they may have on the Group's financial position.

### **Note 2. Main Approaches to Preparation of the Financial Statements**

***The principle of compliance.*** These consolidated financial statements (hereinafter referred to as "the Financial Statements") were prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations approved by International Accounting Standards Committee and International Financial Reporting Interpretations Committee (hereinafter referred to as "IFRS").

#### ***(a) The basis of the preparation***

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) approved by International Accounting Standards Committee (IASC) and effective as of December 31, 2009, and in accordance with all Interpretations approved by International Financial Reporting Interpretations Committee (IFRIC) and effective as of December 31, 2009.

For the preparation of these consolidated financial statements the following new standards and interpretations became mandatory for application and were not approved last year.

IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Reclassification of Financial Assets" (revised in 2008).

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

(This amendment comes to effect as of July 1, 2008. It allows an organization in certain circumstances to reclassify non-derivative financial assets (different from those which were, on initial recognition, recognized by the organization as financial assets at fair value through profit or loss) of category “financial assets at fair value through profit or loss”. Moreover, this amendment also allows the organization to transfer a financial asset that would meet the definition of loans and receivables (and was not recognized as available for sale) from category “available for sale” to category “loans and receivables”, if the organization can and is willing to keep this asset in the foreseeable future. The organization is obliged to apply these amendments as of July 1, 2008).

IFRIC Interpretation 11 “IFRS 2 - Group and Treasury Share Transactions” (approved in 2006). This interpretation shall be applied to annual accounting periods starting on March 1, 2007, or later. The Group takes into consideration transactions based on equity instruments. The initial application of this amendment has not introduced significant changes to the procedure of transaction accounting based on equity instruments.

IFRIC Interpretation 12 “Service Concession Arrangements” (approved in 2006). This interpretation shall be applied to annual accounting periods starting on January 1, 2008, or later. Issues covered by this interpretation are not relevant for the preparation of the consolidated financial statements package under IFRS.

Interpretation 14 of IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (approved in 2007). This interpretation shall be applied to annual accounting periods starting on January 1, 2008, or later. The interpretation covers the following issues (a) when a return of funds from the plan, or reduction of future contributions to the plan shall be deemed available, (b) how a minimum funding requirement can influence the availability of future contributions reduction.

IFRS 8 “Operating Segments” (approved in 2007). This standard shall be applied to annual accounting periods starting on January 1, 2009, or later, and it supersedes IAS 14 “Segment Reporting”. It influences the presentation and disclosure method of segment information in annual and interim financial statements. Pursuant to IFRS 8, segment information presented in financial statements to be issued in 2009 shall be coordinated with the information provided and used by the management of the Group. It will not affect valuation characteristics of assets and liabilities.

IAS 1 “Presentation of Financial Statements” (revised in 2007). This standard shall be applied to annual accounting periods starting on January 1, 2009, or later. In fact, these amendments to IAS 1 introduce changes to the procedure of income and shareholders’ equity changes presentation. These amendments will not affect valuation characteristics of assets and liabilities.

IAS 23 “Borrowing Costs” (revised in 2007).

This standard shall be applied to annual accounting periods starting on January 1, 2009, or later. In fact, these amendments to IAS 23 consist in exclusion of an earlier allowable option of charging of borrowing costs directly related to acquisition, establishment, or production of a qualified asset to expenses.

The current revision of IAS allows writers of financial statements under IAS to charge such borrowing costs to expenses, or capitalize them. At this moment the accounting policy chosen by the Group prescribes capitalization of such borrowing costs. As a result, the Group does not suppose that

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

application of such amendments will significantly affect figures and disclosure of information in the reporting period of their approval.

IAS 27 “Consolidated and Separate Financial Statements” (revised in 2008). This amendment shall be applied to annual accounting periods starting on July 1, 2009, or later, and is an integral part of the so-called II stage of “Business Combinations”. Introduced modifications mainly refer to accounting for minority interest renamed into “non-controlling interests”.

IAS 32 “Financial Instruments Presentation” and IAS 1: “Presentation of Financial Statements” (revised in 2008). These amendments shall be applied to annual accounting periods starting on January 1, 2009, or later, and affect financial instruments offered in the market and liabilities arising upon liquidation. The amendment considers the classification of definite financial instruments offered in the market, other instruments, or instrument components imposing on an organization responsibility to only transfer to the other party its pro rata share in net assets of this organization upon its liquidation.

IAS 39 “Financial Instruments: Recognition and Measurement” (revised in 2008). This amendment shall be applied to annual accounting periods starting on July 1, 2009, or later. It refers to assets appropriate for hedging, and explains how should principles prescribing description of risk or cash flows’ part as hedging ones be applied in specific situations.

IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” (revised in 2008). This amendment shall be applied to annual accounting periods starting on January 1, 2009, or later. This amendment allows an organization adopted International Standards for the first time to manage certain practical difficulties upon transfer to IFRS, and refers to accounting of investments to subsidiary, jointly controlled and associated organizations in separate financial statements in accordance with IAS 39.

IFRS 2 “Share-based Payment” (revised in 2008). This standard shall be applied to annual accounting periods starting on January 1, 2009, or later, and gives certain explanations with regards to conditions of interest rights lodgement and termination.

IFRS 3 “Business Combinations” (revised in 2008). This amendment shall be applied to annual accounting periods starting on July 1, 2009, or later, and is a part of the so-called II stage of “Business Combinations”.

This project introduced significant changes to the procedure of business combinations accounting. A significant change, among others, refers to introduction of the full goodwill method allowing organizations to fully recognize the goodwill value, regardless of ownership percent.

The IFRIC project on annual improvement of International Financial Reporting Standards (revision of different standards approved in 2008). The effective date differs depending on amendment but anyway not earlier than January 1, 2009.

The annual improvement project provides a method of introduction of non-urgent but necessary amendments to IFRS and refers to very different IFRS. These amendments are divided into two macrocategories: 1) amendments resulting in changes in accounting for presentation, recognition and measurement purposes; 2) terminological and editorial amendments not affecting accounting at all or affecting it to a minimum extent.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

Standards included in category 1: IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 19 “Employee Benefits”, IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, IAS 23 “Borrowing Costs”, IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Financial Reporting of Interests in Joint Ventures”, IAS 29 “Financial Reporting in Hyperinflationary Economies”, IAS 36 “Impairment of Assets”, IAS 38 “Intangible Assets”, IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 40 “Investment Property”, IAS 41 “Agriculture”.

Standards included in category 2: IFRS 7 “Financial Instruments: Disclosures”, IAS 8 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”, IAS 10 “Events After the Reporting Period”, IAS 18 “Revenue”, IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, IAS 29 “Financial Reporting in Hyperinflationary Economies”, IAS 34 “Interim Financial Reporting”, IAS 40 “Investment Property”, IAS 41 “Agriculture”.

IFRIC Interpretation 13 “Customer Loyalty Programmes” (approved in 2007)

(This interpretation shall be applied to annual accounting periods starting on July 1, 2008, or later. Issues covered by this interpretation are not relevant for the preparation of these consolidated financial statements package under IFRS).

IFRIC Interpretation 15 “Agreements for the Construction of Real Estate” (approved in 2008). This interpretation shall be applied to annual accounting periods starting on January 1, 2009, or later. This interpretation shall be applied to accounting of revenue and related expenses of an organization performing construction of real estate using a contractor or subcontractor.

IFRIC Interpretation 16 “Hedges of a Net Investment in a Foreign Operation” (approved in 2008). This interpretation shall be applied to annual periods starting on October 1, 2008. It shall be applied to organizations hedging exchange risks arising from net investments in foreign operation and are willing to fall under hedge accounting principles in accordance with IAS 39. In particular, this interpretation refers to parent organizations and financial statements where net investments in foreign operation are included into consolidated statements).

The Group estimated possible influence of all new standards, amendments and interpretations that will be effective in the next reporting periods, and supposes that they will not affect operation much as of December 31, 2009.

The Group presents the profits and losses statement using functional classification of expenditure also known as the cost of sales approach. The Group supposes that this method provides financial statements’ users with more helpful information, as it reflects the operation control method from a commercial point of view better. The balance format is based on differentiation in accordance with the negotiability/non-negotiability principle.

The Group maintains individual accounting and prepares the financial statements in accordance with national accounting and statements standards. The enclosed financial statements are prepared basing on national accounting data, corrected and reclassified for purposes of authentic presentation subject to IFRS requirements.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

**Functional and Reporting Currency.** Items included into the financial statements of the Group are measured with the use of currency of initial economic environment where the Group is operating (“the functional currency”).

The functional currency is a national currency of the country where the Group is operating.

The national currency of the Russian Federation is the Russian Ruble that is the functional currency of the Group.

The reporting currency under IFRS is *the Russian Ruble*.

**Going Concern.** These financial statements are prepared on the assumption that the Group does not intend or need to liquidate, or terminate its operation.

**The First Application of IFRS.** These financial statements were prepared in accordance with requirements of IFRS 1 “First-time Adoption of International Financial Reporting Standards” in the framework of the Group’s preparation for transfer to IFRS. Upon preparation of the first full package of statements under IFRS for 2008 the Group was guided by Standards and Interpretations effective as of December 31, 2008, excluding the standards that are to be applied retrospectively.

And accordingly these financial statements under IFRS which data are expected to be included in the first full package of the Group statements as comparative figures, are prepared by the management on the basis of the management’s knowledge about Standards and Interpretations effective as of December 31, 2008, excluding the standards that are to be applied retrospectively, and on the basis of the accounting policy principles used in the first package of the financial statements of the Group under IFRS.

Any modifications of the said Standards, Interpretations and accounting policy principles may require corrections in these financial statements under IFRS before their data are used as comparative figures.

The verification of figures of the Accounting Balance as of 01.01.2007 and 31.12.2007 and figures of the Profit and Loss Statements for 2007 prepared in accordance with national standards and IFRS is shown below.



# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 2. Main Approaches to Preparation of the Financial Statements (continued)

#### Consolidated Balance Sheets as of January 1, 2007

	According to national standards	Difference	According to IFRS
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3,742	-	3,742
Intangible assets	73	42	115
Investments in associates and other companies	1,819	(750)	1,069
Other non-current assets	41	1,903	1,944
Deferred income tax assets	-	48	48
<b>Total non-current assets</b>	<b>5,675</b>	<b>1,243</b>	<b>6,918</b>
<b>Current assets</b>			
Inventories	1,172	(22)	1,150
Accounts receivable and prepayments	6,061	(3,410)	2,651
Short-term loans granted	6,639	747	7,386
Cash and cash equivalents	1,626	-	1,626
<b>Total current assets</b>	<b>15,498</b>	<b>(2,685)</b>	<b>12,813</b>
<b>TOTAL ASSETS</b>	<b>21,173</b>	<b>(1,442)</b>	<b>19,731</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	6,900	(900)	6,000
Retained earnings	415	(156)	259
<b>Total equity attributable to equity holders of the parent</b>	<b>7,315</b>	<b>(1,056)</b>	<b>6,259</b>
<b>Non-current liabilities</b>			
Deferred income tax liability	-	2	2
<b>Total non-current liabilities</b>	<b>-</b>	<b>2</b>	<b>2</b>
<b>Current liabilities</b>			
Short-term borrowings	405	(405)	-
Finance lease payable	-	-	-
Accounts payable and accrued expenses	13,270	14	13,284
Other taxes payable	183	3	186
<b>Total short-term liabilities</b>	<b>13,858</b>	<b>(388)</b>	<b>13,470</b>
<b>Total liabilities</b>	<b>13,858</b>	<b>(386)</b>	<b>13,472</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>21,173</b>	<b>(1,442)</b>	<b>19,731</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 2. Main Approaches to Preparation of the Financial Statements (continued)

#### Consolidated Balance Sheets as of December 31, 2007

	According to national standards	Difference	According to IFRS
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10,449	10	10,459
Intangible assets	67	41	108
Investments in associates and other companies	3,619	(2,550)	1,069
Other non-current assets	41	1,903	1,944
Deferred income tax assets	-	276	276
<b>Total non-current assets</b>	<b>14,176</b>	<b>(320)</b>	<b>13,856</b>
<b>Current assets</b>			
Inventories	2,832	(686)	2,146
Accounts receivable and prepayments	13,202	(2,682)	10,520
Short-term loans granted	8,144	(3,027)	5,117
Cash and cash equivalents	5,329	-	5,329
<b>Total current assets</b>	<b>29,507</b>	<b>(6,395)</b>	<b>23,112</b>
<b>TOTAL ASSETS</b>	<b>43,683</b>	<b>(6,715)</b>	<b>36,968</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	11,900	(5,900)	6,000
Retained earnings	7,228	(813)	6,415
<b>Total equity attributable to equity holder of the parent</b>	<b>19,128</b>	<b>(6,713)</b>	<b>12,415</b>
Non-controlling interest	-	1,533	1,533
<b>Total equity</b>	<b>19,128</b>	<b>(5,180)</b>	<b>13,948</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	-	1	1
<b>Total non-current liabilities</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Current liabilities</b>			
Short-term borrowings	1,376	(1,376)	0
Accounts payable and accrued expenses	22,033	(161)	21,872
Income tax payable	-	544	544
Other taxes payable	1,146	(543)	603
<b>Total short-term liabilities</b>	<b>24,555</b>	<b>(1,536)</b>	<b>23,019</b>
<b>Total liabilities</b>	<b>24,555</b>	<b>(1,535)</b>	<b>23,020</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>43,683</b>	<b>(6,715)</b>	<b>36,968</b>

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

#### Note 2. Main Approaches to Preparation of the Financial Statements (continued)

##### Consolidated Statements of Income for 2007

	According to national standards	Difference	According to IFRS
Revenue from cryoconservation and storage of human stem cells	64,548	-	64,548
Other	887	7	894
Income on sale on property, plant & equipment, construction in progress, equipment for installation	-	26	26
Interest income	723	(723)	-
Other income	20	(20)	-
<b>Total revenue and other income</b>	<b>66,178</b>	<b>(710)</b>	<b>65,468</b>
<b>Operating expenses</b>	<b>(57,087)</b>	<b>(1,044)</b>	<b>(58,131)</b>
<b>Operating profit</b>	<b>9,091</b>	<b>(1,753)</b>	<b>7,337</b>
Financial income / (expenses), net	-	702	702
<b>Profit before income tax</b>	<b>9,091</b>	<b>(1,051)</b>	<b>8,039</b>
Income tax expense	(2,278)	228	(2,050)
<b>Profit for the year</b>	<b>6,813</b>	<b>(823)</b>	<b>5,989</b>
<b>Profit attributable to shareholders of HSCI</b>	<b>6,813</b>	<b>(823)</b>	<b>5,989</b>

**Use of Estimates.** When preparing the Statements in accordance with IFRS, the management of the Group admitted a set of assumptions and estimates connected with presentation of assets and liabilities and disclosure of contingent assets and liabilities in the statements. Estimated values and value judgments are continually estimated and based on the management experience and a number of other factors, including expectations of future events considered acceptable in existing circumstances. Apart from judgments implying preparation of estimates, the management also prepares definite judgments in the process of accounting policy principles application. Judgments having the greatest influence on amounts recognized in financial statements, and estimated values that can be reasons for significant corrections of the book value of assets and liabilities in the next financial year include:

**Allowances for doubtful accounts receivable.** The allowances for accounts receivable impairment is established on the basis of the Group's estimation of financial solvency of specific customers. Should a decline in credit standing of any large customer or actual damages from failure to perform obligations by the Group's debtors exceed the Group's estimations, actual results can be different from the said estimations.

**Property, Plant and Equipment.** The fair value of property, plant and equipment and the residual maturity of the useful life were determined basing on the acquisition cost as of January 1, 2007. Items of property, plant and equipment are accounted for in accordance with their historical cost with the deduction of accumulated depreciation and impairment losses. The value of property, plant and equipment carried out in the framework of own-account construction includes direct material and labor expenses, and relevant incidental expenses. The value of property, plant and equipment as of the date of transfer to IFRS is determined on the basis of their expected fair value as of the said date ("the expected initial cost"), in accordance with accounting data under Russian standards.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

Should an item of property, plant and equipment consist of several components having different useful life, such components are to be accounted for as separate items of property, plant and equipment.

Expenses related to replacement of a component of property, plant and equipment accounted for separately is capitalized in the cost of the item of property, plant and equipment. Other subsequent expenses shall only be capitalized if they result in an increase of future economic benefit from the use of this item of property, plant and equipment. All other expenses including repair and maintenance costs are included into financial results of the period they are incurred.

Profits and losses arising as a result of retirement of property, plant and equipment are accounted for in the profits and losses statement.

The book value of property, plant and equipment is influenced by assumptions concerning the value of the replacement cost, degree of wear and tear and remaining useful lives. The actual result can differ from these estimates (see Note 4).

Depreciation is charged during expected useful life of separate items of property, plant and equipment using the straight-line method, and is included into financial results. The charge of depreciation starts from acquisition, and in respect of items of property, plant and equipment carried out in the framework of own-account construction – from the moment of completion of their construction and preparation for the further use. Land depreciation is not charged.

Useful lives (in years) by types of property, plant and equipment consist of:

<b>Asset type</b>	<b>Useful life (number of years)</b>
Buildings and site services	20-50
Machinery and equipment	5-7
Vehicles	7-12
Other	3

The management of the Group annually revises useful lives of property, plant and equipment. The management of the Group determines the existence of value reduction indications of property, plant and equipment as of every reporting date. If at least one such indication is revealed, the management of the Group estimates the recoverable amount determined as the greatest one of the two values: the net selling price of the asset and the cost of its use. The book value is reduced to the recoverable amount, and the economic aging loss is accounted for in the Profits and Losses Statement to the extent it exceeds the previous increase from the re-estimation of the same asset recognized as a part of the capital. The asset economic aging loss accounted for in previous reporting periods is reversed, if a change there occurred of estimations used for the determination of the cost of the asset use or its net selling price.

***Provisions for Impairment of Property, Plant and Equipment.*** The management of the Group determines the existence of value reduction indications of the Group's assets recoverable amount against their book value as of every reporting date. The recoverable amount of property, plant and equipment is

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

determined as the greatest one of the two values: the fair value of the asset with the deduction of selling expenses and use value. Should such a reduction be revealed, the book value of assets is reduced to the recoverable amount. If circumstances change, and the management of the Group comes to the conclusion that the asset value other than goodwill increased, the impairment reserve will be restored (reversed), in full or in part.

Actual results may be different from estimated values; moreover, these values may be both increased and reduced in future depending on results or expectations subject to factors accompanying each specific risk.

***Useful Lives of Property, Plant and Equipment.*** The estimation of useful lives of this or that item of property, plant and equipment is a subject matter of the Group management's judgment that is formed subject to the preparation experience of judgments about other analogous assets. When determining the useful life of this or that asset, the management considers an expected use, calculated technical depreciation, wear and tear, and actual conditions of the asset use. A change of any of the said conditions or estimations may result in correction of depreciation deductions rates in future periods.

The Group accounts for impairment or establishes the said reserves, if estimation results show a possibility of liability or impossibility of the asset recovery; the size of the reserve can be determined with sufficient authenticity.

Actual results may differ from expected ones, and estimations may both be increased and reduced by the Group in future periods depending on the resulting effect, or expectations subject to factors accompanying each specific risk.

***Operational Lease.*** If the Group is a lessee under a lease agreement not implying transfer of substantial risks and benefits arising from title from a lessor to the Group, the total amount of rent payments is accounted for in the profits and losses statement proportionally within the whole lease term.

Payments under operational lease agreements (with the deduction of bonuses provided by the lessor) are accounted for in the profits and losses statement proportionally within the lease term.

***Finance Lease.*** If the Group is a lessee under a lease agreement in accordance with which all substantial risks and benefits related to title transfer to it, assets rented are capitalized in property, plant and equipment as of the date of the lease' beginning at the lowest fair value of rented assets or current value of minimum rent payments. All rent payments are spread between mandatory and financial payments in order to ensure permanent correlation of the finance rent debt. Corresponding lease liabilities (with the deduction of financial payments of future periods) are included into the debt.

Interest payment expenses are accounted for in the profits and losses statement within the whole lease term in accordance with the effective interest rate method. Assets acquired under finance lease agreements are amortized within their useful life or a shorter lease term, if the Group is not reasonably assured that it will obtain title to this asset by the lease term termination.

***Pension Liabilities.*** Liabilities for payments of benefits after termination of labor activity are, as a rule, discharged by means of plans classified and accounted for as defined benefit plans. The current value of the defined benefit after termination of labor activity and the corresponding amount of current services are determined in accordance with actuarial valuations basing on demographic and financial assumptions, including the rate of mortality in the process and after termination of labor activity, labor

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 2. Main Approaches to Preparation of the Financial Statements (continued)**

turnover, discount rate, future salary and benefits rates, and, to a limited degree, return on assets of the plan. In case of further modifications of key assumptions, the amount of future expenses for pension benefits may be greatly affected. The Group does not have pension liabilities in these periods.

***Contingent Liabilities for Tax Payment.*** The Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications. For those cases when, in the Group's management opinion, a possibility of tax authorities being disagreed with its interpretation of applicable laws and the Group's viewpoint with regard to the correctness of tax assessment and payment is rather great, the relevant reserve is established in the financial statements under IFRS.

#### **Note 3. Summary of Principal Accounting Policies**

***Foreign Currency Transactions.*** Monetary assets and liabilities of the Group stated in foreign currency at the reporting date are calculated into Rubles at the rate as of this date. Foreign currency transactions are accounted for at the exchange rate as of the date of the transaction. Profits and losses arising as a result of these transactions' calculations and translation of monetary assets and liabilities stated in foreign currency are accounted for in the profits and losses statement.

***Dividends.*** Dividends are not recognized as liabilities and deducted from the capital value as of the reporting date, unless they were declared (approved by owners) before the reporting date (up to and inclusive). Information about dividends is disclosed in the statements, if they are declared after the reporting date but before the date of the statements' approval to be issued.

***Intangible Assets.*** All intangible assets of the Group have limited useful lives. Intangible assets of the Group include research and development available for use and capitalized computer programs and licenses.

A computer program and licenses are capitalized on the basis of expenses incurred to have them acquired and to start their exploitation. After their initial recognition intangible assets are accounted for at their initial cost with the deduction of accumulated amortization and accumulated impairment loss. The amortization of intangible assets is charged by means of the straight-line method within the useful life. When drawing up the cash flows statement and expense disclosure note of the Group, the amortization of intangible assets is not taken into consideration due to the inessentiality of the amount.

As of each date of the statements' drawing up the management of the Group estimates if there are indications of intangible assets impairment. If case of impairment, the book value of intangible assets is written off to the greatest one of the two values: use value and the asset fair price with the deduction of selling expenses.

The research expenses are recognized as expenses in accordance with their occurrence. Expenses on development projects are only recognized as intangible assets when the Group can demonstrate the following: technical feasibility of such intangible asset establishment that it is available for use or sale; its intention to establish the intangible asset, and use or sell it; the way the intangible asset will produce future economic benefits; availability of resources to complete, and ability to reliably estimate the expenses incurred in the process of its development. Other development expenses are recognized as

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 3. Summary of Principal Accounting Policies (continued)**

development expenses in accordance with their occurrence. Development expenses previously recognized as expenses are not recognized as being in the structure of the asset in the subsequent period. The accounting value of development expenses is subject to an annual revision with respect to impairment.

**Cash and Cash Equivalents.** Cash includes physical cash and demand deposits. Cash equivalent include short-term highly liquid financial investments that can be easily converted into cash, which repayment dates are not later than three months from their acquisition and value of which is subject to slight fluctuations.

**Inventory.** Inventory is accounted for by the least of the two values: the prime cost and possible net selling price. The possible net selling price is a calculated selling price in the process of ordinary course of business with the deduction of production completion and selling expenses.

The prime cost of inventory is determined by the weighted average cost method.

**The Value Added Tax on Purchase and Sale.** The value added tax arising upon sale of goods is due and payable to the state budget in accordance with the earliest one of the two dates (a) the date of a customer's payment of debts receivable, or (b) the date of the goods' or service delivery to the customer. The VAT paid to suppliers upon acquisition of goods, works, services (the input VAT), as a rule, subject to be refunded from the budget by means of set-off of the output VAT as soon as invoices from suppliers are received. The VAT related to purchase and sale transactions is disclosed separately as a negotiable asset and short-term liability. When establishing a reserve of debts receivable impairment, a total amount of a doubtful debt is reserved, including VAT. The corresponding deferred VAT obligation is reflected in the statements up to the debts receivable writing-off for taxation purposes.

**Accounts Receivable and Advances Made.** The debts receivable are accounted for inclusive of VAT. The debts receivable from settlements with buyers and customers are corrected subject to the reserve of debts receivable impairment. This doubtful debt reserve is established, if there is a reasonable acknowledgement of the Groups inability to collect all debts in accordance with initial conditions of its repayment. The size of the reserve is the difference between the book value and recoverable amount that is a current value of expected cash flows discounted subject to effective interest rate.

**Income Tax.** Expenses on income tax include current and deferred taxes. The current tax is an amount that is supposed to be paid with regard to taxable income for a period. The taxable income differs from net income reflected in the profits and losses statement, as it does not include profit or loss, and consequently subject to either taxation or deduction in other years, and items of profit or loss never taxable or deductible. Liabilities of the Group for the current income tax are calculated subject to rates of taxation effective at the reporting date.

**Deferred Income Tax.** The deferred income tax is reflected in accordance with the balance method of liabilities accounting and charged in respect of losses reducing taxable income of future periods, and temporary differences occurred between tax assessment of assets and liabilities and their book value. In accordance with the principle of non-recognition of deferred taxes upon initial reflection of transactions, deferred taxes are not recognized in respect of temporary differences arising upon initial reflection of an asset or liability for operations other than business combination operations, if the fact of the initial reflection of this operation affects neither accounting nor taxable income. Deferred income tax balances are calculated at tax rates adopted or effective at the reporting date, that, in accordance with expectations, will be applied in the renewal period of temporary differences or tax losses repayment. Assets and liabilities of the deferred income tax are only accounted for in the amount within the Group.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 3. Summary of Principal Accounting Policies (continued)**

The deferred income tax assets in respect of temporary differences and losses reducing taxable income of future periods are reflected to the extent that there is a possibility that a taxable income sufficient for their repayment will be received in future.

**Accounts Payable and Accruals.** Accounts payable is shown subject to the value added tax. Accounts payable to suppliers and contractors are accrued upon their performance of their contractual obligations and accounted for at the amortized cost with the use of the effective interest rate method.

**Credits and Loans.** Borrowed assets are initially recognized at the fair value. The fair value is determined subject to market interest rates of analogous instruments in case of their material difference from the received loan interest rates. In subsequent periods borrowed assets are accounted for at the amortized cost with the use of the effective interest rate method; the total difference between initial recognition amount and amount to be repaid is reflected in the profits and losses statements as interest repayment expenses during the whole period of the borrowed assets repayment obligations. All loan expenses, including loan expenses for property, plant and equipment construction are recognized as soon as they arise.

**Provisions.** Provisions are recognized in case if the Group has legal liabilities or liabilities from operation arisen as a result of preceding events, there is a possibility that repayment of this obligation will require retirement of the Group's resources, and a reliable estimation of the amount of the liability can be performed.

#### **Revenue Recognition.**

Revenue is reflected exclusive of VAT. Revenue is determined by the fair value of the fee received or to be received. If it is not possible to reliably estimate the fair value of a received fee, revenue is estimated by the fair value of sold goods or services.

*The revenue from goods sale* is recognized provided the following conditions are complied with:

- transfer of substantial risks and advantages of goods possession to the customer;
- the seller is not involved in goods management and does not control sold goods;
- the revenue amount can be reliably measured;
- there exists a possibility that economic benefits will be gained by the Group from the transaction;
- transaction expenses incurred and expected can be reliably measured.

The revenue from goods sale is recognized as of the sale date of the goods to the Group's customer.

*The revenue from service sale* is recognized in the reporting period when these services were rendered in accordance with completion of a definite transaction. The extent of completion is estimated on the basis of an actually rendered service as a share of the total amount of services to be rendered.

**Financial Surety.** Financial sureties are agreements under which the Group shall perform specified payments to compensate to the surety holder the loss incurred by it in connection with the borrower's failure to perform payment within the term specified in the debt financial instrument. Financial sureties are initially accounted for at the fair value. This amount is not amortized by means of straight-line method within the surety effective period. At each reporting date sureties are measured by the greatest of the following (i) an unamortized remaining amount of the fair value upon initial recognition and (ii) the most accurate measurement of expenses required for settlement of the liability at the reporting date.



# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

### **Note 3. Summary of Principal Accounting Policies (continued)**

***Investments in Associated Companies.*** Associated companies are companies that are greatly influenced by the Group and that are not subsidiary or jointly controlled companies. A great influence implies participation possibilities in decision-making of the financial or operational policy of the company but does not imply possibility to control or jointly control this policy. Associated companies are accounted for by means of the equity method. Investments in associated companies are accounted for by the prime cost of investments acquisition.

***Subsidiary Companies.*** Subsidiary companies are companies in which the Group owns, directly or indirectly, more than 50% of voting shares, or may otherwise control decisions made by the management of these companies. Statements of subsidiary companies are included into the consolidated financial statements starting with the transfer date of working control over the subsidiary to the Group and till the date of loss of this control. All intercompany operations (account balances, benefits from operations between the Group's companies) are completely excluded upon consolidation, as well as losses from operations between the Group's companies, save for cases when such losses indicate impairment of transferred assets.

***Financial Assets Available for Sale.*** Financial assets are classified as "available for sale" in case there is intent to own them during indefinite time. Such financial assets are accounted for as non-current assets. If the management of the Group intends to own financial assets within at least 12 months after the reporting date, or financial assets' repayment date is less than 12 months, or there arises a need to sell financial assets to increase current assets, such financial assets are accounted for as current assets. The management of the Group classifies financial assets as current or non-current ones as of their acquisition date, and revises their classification on the basis of repayment dates as of each reporting date.

Financial investments "available for sale", as a rule, include securities that are not traded or quoted on the Russian stock exchanges. The fair value of such financial investments is determined by various methods, including methods based on their profitability, and methods based on discounting of future expected cash flows. In order to determine the fair value, the management of the Group makes assumptions based on the condition of the market at every reporting date. Financial investments, if their market quotations are not available and their fair value cannot be determined reliably by other methods, are accounted for at their acquisition cost with the deduction of losses from their impairment.

Financial investments purchase and sale transactions are initially measured at the fair value and accounted for as of the date of payment, that is as of the date of the asset delivery to the customer. Acquisition expenses include operational costs. Financial investments "available for sale" are further accounted for at the fair value. Unrealized gains and losses arising as a result of a fair value change of such financial investments are accounted for in the fair value reserve reported about in stockholders' equity for the period they refer to. Profits and losses arisen upon sale of financial investments "available for sale" are charged to the financial result in the Profits and Losses Statement for the reporting period.

***Consolidation Principle.*** The consolidated financial statements of the Group include financial statements of the Group and its subsidiaries for the period from the date of the actual origin of control to the date of actual termination of control. An undertaking is deemed controlled by the Group if the management of the Company can determine financial and operational policy of the undertaking for reaching of its own profit from its operation.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

#### **Note 3. Summary of Principal Accounting Policies (continued)**

Minority shareholders' shares in net assets (excluding business reputation) of consolidated subsidiaries are accounted for separately from the Group's own equity capital. A share of minority shareholders includes this share as of the acquisition date and a share of minority shareholders in equity changes for periods after this date.

Losses related to the minority share and exceeding the minority share in the subsidiary equity capital, are divided into the Group's shares, save for the case when the minority is under an obligation and can invest additional resources to cover the losses. Operations and remaining amounts for settlements within the Group are fully eliminated upon consolidation.

***Accounting for Business Purchase from Third Parties.*** Upon the first acquisition of a share in a subsidiary company any purchase price excess over the fair value of acquired identifiable assets, liabilities and contingent liabilities as of the acquisition date is accounted for as business reputation.

Business reputation is inspected with respect to impairment at least once a year. In case of impairment, it is accounted for in the profits and losses statement for the period when corresponding circumstances were revealed, and is not recovered later. Upon retirement of a subsidiary or affiliate company, the value of business reputation related to it is accounted for upon determination of the retirement profit or loss.

When determining a share in a subsidiary company, any excess of the fair value of assets, liabilities and contingent liabilities acquired by the Group, as of the acquisition date, over the purchase price is immediately recognized in the consolidated profits and losses statement.

***Accounting for Acquisition of Additional Shares in Subsidiary Companies from Minority Shareholders.*** After gaining of control over a company, changes in ownership share do not affect the price of acquired assets, liabilities and contingent liabilities accepted as of the date of their initial acquisition. They increase the Group's ownership share in economic benefits generated by the asset. The difference between the fair value and value of the acquired minority shareholders' share and the purchase price is accounted for directly in the equity capital of the parent company's shareholders.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

#### Note 4. Property, Plant and Equipment

The Group owns cryostorages and other medical constructions and equipment, and cars and office appliances.

	<b>Buildings and site services</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<b>COST</b>						
Balances at January 1, 2007	385	1,415	-	814	1,129	<b>3,742</b>
Acquisitions	-	395	-	458	6,677	<b>7,531</b>
Disposals	-	-	-	-	-	-
Balances at December 31, 2007	385	1,810	-	1,272	7,806	<b>11,273</b>
Acquisitions	17,722	2,909	371	2,949	8,953	<b>32,905</b>
Disposals	-	-	-	-	(14,953)	<b>(14,953)</b>
Balances at December 31, 2008	18,107	4,718	371	4,221	1,807	<b>29,225</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balances at December 1, 2007	-	-	-	-	-	-
Depreciation for 2007	(19)	(328)	-	(467)	-	<b>(814)</b>
Depreciation from 2007 write-off	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balances at December 31, 2007	(19)	(328)	-	(467)	-	<b>(814)</b>
Depreciation for 2008	(583)	(582)	(31)	(1,027)	-	<b>(2,222)</b>
Depreciation from 2008 write-off	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balances at December 31, 2008	(602)	(910)	(31)	(1,494)	-	<b>(3,036)</b>
<b>NET BOOK VALUE</b>						
<b>At January 1, 2007</b>	385	1,415	-	814	1,129	<b>3,742</b>
<b>At December 31, 2007</b>	366	1,482	-	805	7,806	<b>10,459</b>
<b>At December 31, 2008</b>	17,506	3,808	340	2,728	1,807	<b>26,189</b>

Depreciation of the asset starts when it is available for use, that is, when location and condition of the asset ensure its use in accordance with intents of the Company's management.

Other property, plant and equipment include computer equipment, office furniture and other equipment. During the reporting period the Group took items of property, plant and equipment on lease (motor vehicles and non-residential premises). The value of leased real estate items as of December 31, 2008 amounted to 33,609 thousand Rubles (December 31, 2007: 12,392 thousand Rubles, January 1, 2007: 12,392 thousand Rubles), motor vehicles – 3,635 thousand Rubles (December 31, 2007: 464 thousand Rubles, January 1, 2007: 464 thousand Rubles). Information about lease expenses is in Note 16.

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

#### Note 5. Intangible Assets

	Net book value at December 31, 2008	Net book value at December 31, 2007	Net book value at January 1, 2007
Trademark "GEMABANK" (Combined)	44	22	23
Trademark "GEMABANK" (Ukraine)	34	19	19
Trademark "GEMABANK" (MBM), Inventory Art. № 001	18	21	24
Trademark "Mir Buduschei Mamy" (WORLD OF FUTURE MOM)	44	46	49
Licenses for main activity	41	-	-
Neovasculgen production R&D	942	-	-
QIAGEN Plazmid Maxi Prep Isolation Kit	9	-	-
QIAGEN – RNeasy Mini Kit	12	-	-
QIAshredder	4	-	-
R&D	215	-	-
Patent № 2297848 Gene engineering for VEGF	2	-	-
<b>Total intangible assets</b>	<b>1,365</b>	<b>108</b>	<b>115</b>

#### Note 6. Investments in Associates and Other Companies

	December 31, 2008	December 31, 2007	January 1, 2007
LLC Reproductive and Genetics Center	1,069	1,069	1,069
SymbioTec GmbH, Saarbrucken (Germany)	10,641	-	-
LLC Human Stem Cells Institute, Kiev	162	-	-
<b>Total investments in associates and other companies</b>	<b>11,872</b>	<b>1,069</b>	<b>1,069</b>

These consolidated financial statements of the Group do not include operational results of HSCI LLC (Ukraine), as financial results of this subsidiary company are not material for the purposes of consolidation and amount to 0.2 % of the Group assets' value. The value of HSCI LLC (Ukraine) is accounted for in the structure of investments in associates and other companies at the acquisition cost.

	Effective share of the Group as of December 31, 2008, %	Effective share of the Group as of December 31, 2008, %
LLC Reproductive and Genetics Center	25	25
SymbioTec GmbH, Saarbrucken (Germany)	-	-
LLC Human Stem Cells Institute, Kiev	51	-

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

#### Note 6. Investments in Associates and Other Companies (continued)

Investments in the amount of 762,000 euro were transferred to SymbioTec GmbH in accordance with the schedule during 2008 and 2009. On December 29, 2009, pursuant to laws of Germany, records were introduced into the trade register about the increase of the Charter Capital of SymbioTec GmbH in the amount of 55,200 euro and registration of HSCI OJSC with a share of 25% in SymbioTec.

#### Note 7. Loans Granted

<b>Long-term loans granted</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>January 1, 2007</b>
United TeleCom	1,944	1,944	1,944
EFR-TeleCom	4,001	-	-
<b>Total long-term loans granted</b>	<b>5,945</b>	<b>1,944</b>	<b>1,944</b>

<b>Short-term loans granted</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>January 1, 2007</b>
United TeleCom	384	60	3,800
LLC Human Stem Cells Publishing House	-	21	-
CRYONIX	-	-	421
Reproductive and Genetics Center Isaev Artur Aleksandrovich	- 2,973	- 5,036	300 2,865
EFR-TeleCom	109	-	-
<b>Total short-term loans granted</b>	<b>3,466</b>	<b>5,117</b>	<b>7,386</b>

#### Note 8. Inventories

	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>January 1, 2007</b>
Fuel	370	-	-
Work (materials) in progress	210	238	-
Other inventory	576	231	-
Finished goods	1,086	700	687
Goods for resale	76	37	88
Construction in progress	-	248	-
Other inventories	549	692	375
<b>Inventories</b>	<b>2,867</b>	<b>2,146</b>	<b>1,150</b>

## HSCI GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

#### Note 9. Accounts Receivable and Advances Made

	December 31, 2008	December 31, 2007	January 1, 2007
Trade accounts receivable (Less: allowance for doubtful trade accounts receivable of 544 thousand Rubles as of December 31, 2008, 2007 and 116 thousand Rubles as of January 1, 2007)	5,543	2,320	1,080
VAT for refund	135	1,981	191
VAT receivables	111	-	-
Income tax receivables	-	-	10
Prepayments and advances to suppliers (Less: allowance for doubtful other accounts receivable of 22 thousand Rubles as of January 1, 2007)	549	4,395	266
VAT from advances received	2,526	1,636	714
Other accounts receivable (Less: allowance for doubtful other accounts receivable of 2008, 2007 and 43 thousand Rubles as of January 1, 2007)	162	188	390
<b>Total</b>	<b>9,026</b>	<b>10,520</b>	<b>2,651</b>

The amount of allowance for doubtful accounts receivable is specified by the management of the Group on the basis of solvency determination of certain customers, client's traditional methods of payment, subsequent receipts and settlements and analysis of expected cash flows. The management of the Group supposes that the Group companies can receive the net value of accounts receivable sale by means of direct receipt of cash and non-monetary calculations; hence the said amount approximately reflects their fair value.

#### Note 10. Cash and Cash Equivalents

	December 31, 2008	December 31, 2007	January 1, 2007
Cash on hand and at bank account	4,321	5,329	1,626
<b>Total cash and cash equivalents</b>	<b>4,321</b>	<b>5,329</b>	<b>1,626</b>

#### Note 11. Equity

##### *The Share Capital*

The Share Capital of the Parent Company consists of 60,000,000 ordinary shares in non-documentary form, with nominal value of 0.10 Rubles. The Share Capital is paid in full.

The number of shares and the amount of the Share Capital of the Parent Company have not changed in the reporting period but there were performed operations concerning share sale and purchase and a change of shareholders.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 11. Equity (continued)

The structure and flow of the Share Capital as of 31.12.2007 and 31.12.2008 were as follows :

	<i>January 1, 2007</i>				<i>December 31, 2007</i>				<i>December 31, 2008</i>			
	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share,%	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share,%	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share,%
Акционеры												
Isaev Artur Aleksandrovich	30,600,000	0,1	3,060	51.0	30,600,000	0,1	3,060	51.0	30,600,000	0,1	3,060	51.0
Isaev Andrey Aleksandrovich	2,940,000	0,1	294	4.9	2,940,000	0,1	294	4.9	2,940,000	0,1	294	4.9
First International Investment Group Ltd. (BVI)	26,460,000	0,1	2,646	44.1	26,460,000	0,1	2,646	44.1	26,460,000	0,1	2,646	44.1
<b>Total registered share capital</b>	<b>60,000,000</b>		<b>6,000</b>	<b>100</b>	<b>60,000,000</b>		<b>6,000</b>	<b>100</b>	<b>60,000,000</b>		<b>6,000</b>	<b>100</b>

*Dividends.* Allocation and other disposition of profits are performed on the basis of accounting data of the Group drawn up in accordance with Russian accounting standards. In accordance with Russian laws net profit is subject to allocation. In 2008, the Group declared and paid dividends in the amount of 3,361 thousand Rubles.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 12. Income Tax

#### *Income Tax Expenses*

In the period between 2007 and 2008 operations performed by the Group were assessed income tax at the rate of 24%.

	Year ended December 31, 2008	Year ended December 31, 2007
Current income tax expense	(1,887)	(2,278)
Deferred income tax (expense) / benefit	(30)	228
<b>Total income tax expense</b>	<b>(1,917)</b>	<b>(2,050)</b>

	Year ended December 31, 2008	Year ended December 31, 2008
Profit before income tax, incl.	8,566	8,039
Theoretical income tax expense at statutory rate of 24%	(2,056)	(1,929)
Theoretical income tax expense at statutory rate of 20%		
Profit before income tax – other activities	-	-
Effect of tax rate change	(10)	
Permanent differences:		
- other	149	(121)
<b>Total income tax expense</b>	<b>(1,917)</b>	<b>(2,050)</b>

#### *Deferred Income Tax Assets and Liabilities*

Difference in approaches to tax regulation from points of view of IFRS and Russian tax laws result in occurrence of temporary differences between accounting value of certain assets and liabilities for the financial statements purposes, on the one hand, and, on the other hand, for the purposes of income tax taxation.

On November 26, 2008 a law change in accordance with which income tax rate was reduced from 24% to 20% came into force. The change comes into force on January 1, 2009. So, amounts of deferred tax assets and liabilities were re-calculated at the income tax rate of 20%. Re-calculation results were recognized in income, excluding amounts related to items previously accounted for in the structure of the capital.



# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 12. Income Tax (continued)

#### *Deferred income tax liabilities*

	December 31, 2008	Movement during the period, recognized in Consolidated statements of Income	December 31, 2007	Movement during the period, recognized in Consolidated statements of Income	January 1, 2007
Property, plant and equipment	-	1	1	1	2
<b>Total</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>

#### *Deferred income tax assets*

	December 31, 2008	Movement during the period, recognized in Consolidated statements of Income	December 31, 2007	Movement during the period, recognized in Consolidated statements of Income	January 1, 2007
Property, plant and equipment	(138)	135	(3)	3	-
Accounts receivable and prepayments	116	23	139	(96)	43
Inventories	182	(42)	140	(135)	5
Other current assets	85	(85)	-	-	-
<b>Total</b>	<b>245</b>	<b>31</b>	<b>276</b>	<b>(227)</b>	<b>48</b>

### Note 13. Borrowings

#### *Short-Term Borrowings*

Creditor	Currency	Effective rate, %	December 31, 2008	December 31, 2007	January 1, 2007
CRYONIX	Rubles	10.5	2,856	-	-
Isaev Artur Aleksandrovich	Rubles	10.0	160	-	-
<b>Total short-term borrowings</b>			<b>3,016</b>	<b>-</b>	<b>-</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 14. Accounts Payable and Accrued Liabilities

	Currency	December 31, 2008	December 31, 2007	January 1, 2007
Accounts payable due to suppliers and contractors	Rubles	4,683	2,781	2,020
Payroll obligations	Rubles	26	23	-
Advances received	Rubles	36,877	18,404	11,177
Deferred income	Rubles	26	48	-
Other payables	Rubles	1,185	616	87
<b>Total accounts payable and accrued expenses</b>		<b>42,797</b>	<b>21,872</b>	<b>13,284</b>
Income tax payable	Pyб.	1,293	544	-
<b>Total</b>		<b>44,090</b>	<b>22,416</b>	<b>13,284</b>

### Note 15. Other taxes payable

	December 31, 2008	December, 31, 2007	January 1, 2007
Individual income tax withheld	251	93	-
Property tax	165	-	39
UST	239	78	37
VAT	296	432	110
Other taxes	3	-	-
<b>Total</b>	<b>954</b>	<b>603</b>	<b>186</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 16. Operating Expenses

	Year ended December 31, 2008	Year ended December 31, 2007
Wages, salaries, other benefits and payroll taxes	24,691	9,763
Umbilical cord blood collection kit	2,791	2,935
Testing of Umbilical cord blood	10,503	6,977
Consulting (information) costs	8,372	8,045
Advertising costs	7,662	3,478
Rental fee	5,523	2,088
Taxes other than on income	5,715	1,840
Collection of biomaterial in maternity hospital	2,625	1,556
Depreciation	2,222	814
R&D costs	207	433
Materials	1,947	415
Communications services	1,011	588
Travelling expenses	1,209	-
Postal services	570	-
Storage bags for deep freezing	7,722	2,626
Report and maintenance costs обслуживание	4,185	4,882
Bank charges	502	-
Liquid nitrogen filling of cryostorage tanks	431	301
Stationery	1,057	253
Agent commission	-	7,806
Other expenses	1,634	2,891
<b>Total operating expenses</b>	<b>90,579</b>	<b>58,131</b>

### Note 17. Financial Income and Expenses

#### *Financial Income*

	Year ended December 31, 2008	Year ended December 31, 2007
Interest income	1,210	742
<b>Total financial income</b>	<b>1,210</b>	<b>742</b>

#### *Financial expenses*

	Year ended December 31, 2008	Year ended December 31, 2007
Interest expense	(215)	(40)
Foreign exchange loss	(99)	-
<b>Total financial expenses</b>	<b>(314)</b>	<b>(40)</b>
	<b>896</b>	<b>702</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 18. Contingent and Contractual Liabilities and Operational Risks

**Political Situation.** Operational activity and profit gained by the Group companies are, to different extents, influenced by political, legislative, financial and administrative changes taking place in the Russian Federation.

**Insurance.** The Group has restricted insurance policies with regard to assets, operations, civil responsibility and other insured risks. So, the Group may be exposed to risks that are not insured.

**Legal Proceedings.** The Group is not involved in legal proceedings. The management of the Group supposes that there are no such claims or lawsuits that could exert a significant negative influence on financial condition of the Group among claims or lawsuits existing at present time and judgments delivered in respect of them.

**Allowance for decrease in value of accounts receivable.** The table below shows a change in the allowances for decrease in value of accounts:

<i>Allowance for decrease in value of accounts receivable</i>	
<b>Balance at January 1, 2007</b>	<b>181</b>
Decrease in value of accounts receivable	398
<b>Balance at December 31, 2007</b>	<b>579</b>
Decrease in value of accounts receivable	-
<b>Balance at December 31, 2008</b>	<b>579</b>
Decrease in value of accounts receivable	5

**Taxation.** The Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications. The Group interpretation of these laws when used in respect of operation and activities of the Group may be objected by relevant regional or federal authorities. Recent events that took place in the Russian Federation show that tax authorities can adopt a more severe attitude regarding interpretation of laws and inspection of tax calculations.

As a result, considerable additional taxes, penalties and fines may be charged. Tax inspections can concern three calendar years of operation directly preceding the year of the inspection. Under certain conditions earlier periods can also be inspected.

The management supposes that relevant provisions of laws were interpreted by them correctly as of December 31, 2008, and the condition of the Group regarding tax, currency and customs laws will be stable. For those cases when, in the Group's management opinion, a significant doubt in maintenance of the Group's condition exists, proper liabilities are recognized in the financial statements.

**Natural Environment.** Laws concerning protection of the environment are in the process of development in the Russian Federation, and corresponding measures of government authorities are being constantly revised. The Group regularly estimates its environment protection liabilities. Possible liabilities may arise as a result of changes in requirements of the existing laws and civil disputes regulation. Influence of these possible changes cannot be estimated but they can be material.

Considering the existing situation in respect of compliance with effective regulations, the management of the Group supposes that there is no material liabilities related to environment protection.

*In thousands of Russian Rubles unless otherwise stated*

**Note 18. Contingent and Contractual Liabilities and Operational Risks (continued)**

**Conditions of the Group's Operation.** Despite improvement of the economic situation in the Russian Federation, it still has some characteristic features of an emerging market. These characteristic features include, without limitation, inconvertibility of the Russian Ruble in most countries and a rather high inflation. Moreover, existing Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications.

Economic prospect for the Russian Federation depends to a large extent on efficiency of economic measures, financial mechanisms and monetary policy adopted by the Government of the Russian Federation, and development of fiscal, legal and political systems.

**Note 19. Factors of Financial Risks**

While performing production, investment and financial activities the Group is exposed to the following financial risks: credit risk, liquidity risk, market risk, and it determined these risks as follows:

- Credit risk: the probability of the situation when a debtor does not make repayments for financial assets, in full or in part, or does not repay them in time thus inflicting damage to the Group.
- Liquidity risk: the Group determines this risk as risk related to its failure to dispose cash, or to raise investment, if necessary, and will meet difficulties in performing its obligations related to financial liabilities.
- Market risk: the risk of fluctuations of financial instruments' value, on the basis of the fair value or future cash flows change as a result of fluctuations of market prices for company goods and raw materials.

To effectively manage these risks the Group implements some strategies for financial risks management complying with objectives of the Group. These principles specify short-term and long-term objectives, and actions taken for managing financial risks met by the Group.

Basic recommendations of these policies are as follows:

- to minimize risk of a change in interest rate, and foreign exchange and market risks regarding all kinds of operations;
- all risk management activities shall be performed and constantly controlled;
- all risk management activities shall be performed reasonably and consistently, and in accordance with the best market practices;
- the Group may invest in shares or analogous instruments only in case of temporary excess liquidity, and such operations are subject to be approved by the Board of Directors. Audit is performed in order to ensure practical observation of policies and procedures of the Group.

Internal audit is performed in order to ensure practical observation of policies and procedures of the Group.

The Group observes the following policies of risk management, in particular, in respect of derivative instruments:

- the Group thoroughly documents all derivative instruments including interactions between them;
- the Group only operates with quality financial institutions as partners of derivative instrument transactions.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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### Note 19. Factors of Financial Risks (continued)

Information about the book value of financial assets and liabilities as of December 31, 2007 and 2008 is shown in the table below (in accordance with IAS 39):

	December 31, 2008	December 31, 2007	January 1, 2007
<b>Financial assets</b>			
Cash and cash equivalents	4,321	5,329	1,626
Trade and other accounts receivable:			
	9,026	10,520	2,651
<i>Ref: allowance for doubtful accounts receivable</i>	(566)	(566)	(168)
Short-term loans provided for organizations	3,466	5,117	2,692
<b>Total less allowance(for the end of the period)</b>	<b>16,813</b>	<b>20,966</b>	<b>11,663</b>

	December 31, 2008	December 31, 2007	January 1, 2007
<b>Financial liabilities</b>			
Classified as amortized cost:			
Borrowings	3,016	-	-
Trade and other accounts payable (except for payroll liabilities and provisions for unused holidays)	45,019	22,996	13,470
<b>Total (for the end of the period)</b>	<b>48,035</b>	<b>22,996</b>	<b>13,470</b>

Financial income and expenses of the Group are detailed in Note 17.

### ***Credit Risk***

The Group controls its exposure to credit risk setting limits of exposure by definite clients. This information is disclosed to companies, and monitoring of compliance is performed by the Group financial department. Credit limits are set for clients in order to control credit risk. There is no significant credit risk concentration.

During reporting periods the Group did not receive financial or non-financial assets by means of lien or another loan collateral.

All financial assets of the Group are planned to be repaid. Moreover, the allowance for doubtful receivables was established in the amount of 579,000 Rubles as of December 31, 2008. The Group does not have impaired financial assets.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 19. Factors of Financial Risks (continued)

The Group's maximum exposure to credit risk is summarized in the table below:

	December 31, 2008	December 31, 2007	January 1, 2007
<b>Financial assets</b>			
Loans and accounts receivable:			
Trade and other accounts receivable (including allowance for doubtful accounts receivable)	9,026	10,520	2,650
Short-term investments (debt securities)	-	-	4,695
Short-term loans provided for organizations (including allowance for doubtful accounts receivable)	3,466	5,117	2,692
<b>Total (for the end of period)</b>	<b>12,492</b>	<b>15,637</b>	<b>10,037</b>

Remaining cash and cash equivalents maximally exposed to credit risk are short-term deposits with repayment period of less than 30 days. The Group does not have such assets. The amount of cash and cash equivalents owned by the Group, as of the beginning and the end of the reporting period consists of cash on commercial bank accounts.

Analysis of financial assets' aging is illustrated by the following table:

	December 31, 2008	Including past- due liabilities	December 31, 2007	Including past- due liabilities	January 1, 2007	Including past- due liabilities
<b>Financial assets</b>						
Less than 1 month	4,991	-	6,249	-	4,002	-
1 to 3 months	3,799	-	4,899	-	3,344	-
3 to 6 months	1,874	-	2,346	-	1,506	-
6 to 12 months	1,249	-	1,564	-	1,004	-
Over 12 months	579	579	579	579	181	181
<b>Total (for the end of the period)</b>	<b>12,492</b>	<b>579</b>	<b>15,637</b>	<b>579</b>	<b>10,037</b>	<b>181</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 19. Factors of Financial Risks (continued)

#### *Liquidity Risk*

#### *Analysis of Financial Liabilities' Due Dates*

The Group manages liquidity risk on the basis of expected maturity dates.

The following table presents financial liabilities by their reminding maturity dates specified by contracts (contractual and not discounted cash flows):

	<b>Borrowings</b>	<b>Trade and other accounts payable</b>	<b>Total</b>
<b>Financial liabilities</b>			
Less than 1 year	3,016	45,019	48,035
1 to 3 years	-	-	-
<b>Total December 31, 2008</b>	<b>3,016</b>	<b>45,019</b>	<b>48,035</b>
<b>Financial liabilities</b>			
Less than 1 year	-	22,996	22,996
1 to 3 years	-	-	-
<b>Total at December 31, 2007</b>	<b>-</b>	<b>22,996</b>	<b>22,996</b>
<b>Financial liabilities</b>			
Less than 1	-	13,470	13,470
1 to 3 years	-	-	-
<b>Total at January 1, 2007</b>	<b>-</b>	<b>13,470</b>	<b>13,470</b>

At the present time the Group does not intend to repay all liabilities within contractual due dates. In order to comply with these liabilities, the Group relies on sufficient cash inflows provided by operational activity. Except that, the Group owns financial assets with a liquid market that can be easily converted into cash to satisfy liquidity requirements.

#### *Interest Rate Risk*

The Group is not exposed to risk of interest rate change, as there are only obligations with a fixed interest rate.

At the present time the Group does not have long-term receivables.

The table below shows the analysis of a breakdown of financial liabilities by kinds of interest rates:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>January 1, 2007</b>
<b>Financial liabilities</b>			
With a fixed rate	3,016	-	-
Interest-free	45,019	22,996	13,470
<b>Total for the end of the period</b>	<b>48,035</b>	<b>22,996</b>	<b>13,470</b>

A sensitivity analysis is not required in this case.



# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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*In thousands of Russian Rubles unless otherwise stated*

### **Note 19. Factors of Financial Risks (continued)**

#### ***Foreign Exchange Risk***

As the Group is only operating in the Russian market and most of its purchases are stated in Rubles, the Group is not exposed to foreign exchange risk in its normal course of business.

#### ***The Fair Value***

The management of the Group supposes that the fair value of financial assets and financial liabilities slightly differs from their current value.

#### ***Industry Risks***

The industry of the Group's operational activities is scientific development. The industry risks are:

- unforeseen changes in market demand for scientific development-related products;
- aftereffects of a negative scientific result;
- negative economic performance;
- unforeseen changes in governmental regulations of commercial activities (taxes, depreciation);
- decrease in population, and subsequent decrease in the amount of customers;
- salary reductions leading to a decrease in purchasing capacity.

Except that, the Group is exposed to financial risks related to climate changes, diseases and other natural risks, such as fires, floods and storms, and losses caused by human activities, for instance, strikes, disorders and deliberate infliction of damage. These risks are covered by relevant insurance in accordance with resolutions of the management.

In addition, managements of the Group Companies pay proper attention to methods of effective business and fire prevention measures.

The probability of risks is low.

### **Note 20. Related Parties**

Parties shall be deemed related if one of them can control or greatly influence operational and financial decisions of the other party, or in case of a joint control over them, or it is over a joint control with the other party. While considering each possible case of existence of relationship between such parties, the main attention shall be paid to the essence of the relationship but not to their legal nature.

The nature of relationship with the related parties with which the Group performed material operations in 2007 and 2008, or has material account balances as of December 31, 2007 and 2008 is described in details further.

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 20. Related Parties (continued)

Operations with associated parties include:

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
<b>Revenue</b>	<b>24</b>	<b>14</b>	<b>-</b>
LLC Cell Technology Laboratory	12	3	
LLC Human Stem Cells Institute Publishing House	12	11	
<b>Expenses</b>	<b>432</b>	<b>562</b>	<b>-</b>
LLC Cell Technology Laboratory			
LLC Human Stem Cells Institute Publishing House	432	562	

Account balances with regard to related parties of the Group as of the beginning and end of the period are shown below:

	December 31, 2008	December 31, 2007	December 31, 2006
<b>Accounts receivable</b>	<b>329</b>	<b>179</b>	<b>5</b>
LLC Cell Technology Laboratory	329	1	-
LLC Human Stem Cells Institute Publishing House	-	178	5
<b>Accounts payable</b>	<b>20</b>	<b>6</b>	<b>-</b>
LLC Cell Technology Laboratory	20	4	-
LLC Human Stem Cells Institute Publishing House	-	2	-
<b>Short-term loans and credits granted</b>	<b>3,450</b>	<b>5,400</b>	<b>400</b>
Isaev Artur Aleksandrovich	2,900	4,850	-
LLC Human Stem Cells Institute Publishing House	550	550	400
<b>Short-term loans received</b>	<b>-</b>	<b>-</b>	<b>-</b>
LLC Cell Technology Laboratory	1,932	805	-

### *Operations with the management representatives and their family members*

Remuneration paid to the management of the Group for performance of their duties in accordance with their positions is formed by salaries specified by contracts, and bonuses.

The remuneration amounted to:

	For 2008	For 2007
Remuneration		
Wages and other types of short-term employee benefits	10,545	5,291
Benefits upon termination		
Share based payments	3,354	-
<b>Total at December 31</b>	<b>13,899</b>	<b>5,291</b>

# HSCI GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

*In thousands of Russian Rubles unless otherwise stated*

### Note 21. The Structure of the Group

These consolidated financial statements include assets, liabilities and operational results of HSCI and its subsidiary and associated companies as follows:

	Main activity	Effective share of the Group, %	
		As of December 31, 2008	2007
<b>Subsidiaries</b>			
LLC Human Stem Cells Institute Publishing House	Publishing : Cellular Transplantology and Tissue Engineering scientific and analytical journal	100	100
LLC Cell Technology Laboratory	Research & Development in the field of cell-based technologies, novel therapeutics development and their introduction into clinical practice.	66	66
SC Central Bank	Stem Cells banking	-	100
HSCI, Ukraine	Cord Blood exfusion, cryopreservation, transportation and banking	51	-
<b>Associates</b>			
LLC Reproductive and Genetics Center	Medical institution	25	25
SymbioTec GmbH, Saarbrucken (Germany)	R&D, manufacturing and introduction of biotech innovative products (medications)	-	-

### Note 22. Subsequent events

#### ***Reproductive and Genetics Center LLC:***

During 2007 and 2008 Reproductive and Genetics Center LLC was an associated company of HSCI OJSC, Moscow, with HSCI's share in the charter capital of this LLC of 25%. In February 2009 financial investments in the charter capital of Reproductive and Genetics Center LLC were sold. The financial investments in the amount of 1,069 thousand Rubles are accounted for in the consolidated financial statements for 2007 and 2008 at the acquisition cost.

#### ***SymbioTec GmbH:***

On October 2, 2008 HSCI Open Joint Stock Company entered into Agreement No. 1332 in Saarbrucken on the acquisition of a share of SymbioTec GmbH in the amount of 55,200 euro, that is, 25% in the Charter Capital. The actual value of the said share amounted to 762,000 euro.

Investments in the amount of 762,000 euro were transferred to SymbioTec GmbH in accordance with the schedule within 2008 and 2009. On December 29, 2009, pursuant to laws of Germany, records were introduced into the trade register about the increase of the Charter Capital of SymbioTec GmbH in the amount of 55,200 euro and registration of HSCI OJSC with a share of 25% in SymbioTec.

These investments are reported for in the consolidated financial statements for 2008 and 2009 at the acquisition cost.