Open Joint Stock Company
Human Stem Cells Institute
and its subsidiaries

Consolidated financial statements

as of 31 December 2013 and
for the year then ended

HSCI OJSC

Consolidated financial statements

For the year ended 31 December 2013

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Independent auditor's report

To the shareholders of Human Stem Cells Institute
Open Joint Stock Company

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Human Stem Cells Institute and its subsidiaries (hereinafter, "Human Stem Cells Institute OJSC" or "HSCI"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

We were appointed as auditors of the company on 20 June 2013 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 2012. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the consolidated statement of comprehensive income and the net cash flows from operating activities reported in the consolidated cash flow statement.

We were unable to obtain sufficient appropriate audit evidence about the carrying value of Human Stem Cells Institute OJSC investment in SynBio LLC, an associate, stated at RUB 318,112, RUB 306,588 and RUB 381,558 thousand as of 31 December 2013, 2012 and 2011, respectively. Also, we were unable to obtain sufficient appropriate audit evidence about the share of profit and loss of this associate attributable to Human Stem Cells Institute OJSC of RUB 14,187 and RUB 69,675 thousand, respectively, included in profit (loss) of Human Stem Cells Institute OJSC for the years ended 31 December 2013 and 2012, respectively. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified opinion

In our opinion, except for the possible effects on the consolidated financial statements of the matters described in the Basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Human Stem Cells Institute OJSC and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements of Human Stem Cells Institute OJSC for the years ended 31 December 2012 and 2011 were audited by other auditors which issued audit reports with unqualified audit opinions dated 29 April 2013 and 26 July 2012 and included an "Emphasis of matter" paragraphs drawing attention to the followings facts:

- In the 2012 financial statements: treasury shares were contributed to the charter capital of NextGen LLC; the transaction to increase the charter capital of IceGen LLC was not completed as of 25 April 2013.
- In the 2011 financial statements: equity included a provision (in the amount of RUB 635,133 thousand) for profit from revaluation of intangible assets and financial investments, contributed to the charter capital of SynBio LLC. HSCI increased its stake in IceGen LLC through a contribution of HSCI's stake in the charter capital of SynBio LLC; these changes had not been registered with state authorities as of the date of audit opinion in relation to 2011 financial statements.

Ernst & Young LLC

29 April 2014

HSCI OJSC

Consolidated statement of financial position

As of 31 December 2013

(thousands of Russian rubles, unless otherwise indicated)

		31 December	31 December	1 January
	Notes	2013	2012	2012
			Restated*	Restated*
Assets				
Non-current assets				
Property, plant and equipment	18	117,454	73,579	37,874
Intangible assets	19	36,855	26,599	24,401
Investments in associates	11	348,984	359,417	436,324
Non-current financial assets	20	7,146	9,702	16,841
Deferred tax assets	16	2,329	6,149	7,860
Total non-current assets		512,768	475,446	523,300
Current assets				
Inventories	21	15,123	11,543	12,625
Trade receivables	20	55,745	28,376	37,381
Other receivables	20	34,914	73,953	20,202
Other current financial assets	20	92,355	66,614	14,042
Cash and cash equivalents	22	18,120	26,671	17,363
Total current assets		216,257	207,157	101,613
Total assets		729,025	682,603	624,913
Equity and liabilities				
Equity				
Share capital	23	7,500	7,500	7,500
Share premium	23	139,702	139,702	141,000
Treasury shares		(43,179)	(43,179)	(50,267)
Retained earnings		247,846	233,124	342,427
Other components of equity	23	(101)	(265)	(289)
Equity attributable to equity holders of the parent		351,768	336,882	440,371
Non-controlling interests	10	10,554	8,986	7,797
Total equity		362,322	345,868	448,168
Non-current liabilities				
Interest-bearing loans and borrowings	20	36,742	61,789	739
Finance lease liabilities	20	329	1,289	–
Deferred tax liabilities	16	3,177	–	1,730
Total non-current liabilities		40,248	63,078	2,469
Current liabilities				
Interest-bearing loans and borrowings	20	90,598	87,467	9,714
Advances received		211,431	166,356	132,542
Trade and other payables	20	16,199	14,991	27,215
Finance lease liabilities	20	1,254	1,404	–
Taxes payable		6,973	3,439	4,805
Total current liabilities		326,455	273,657	174,276
Total liabilities		366,703	336,735	176,745
Total equity and liabilities		729,025	682,603	624,913

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 4.5.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

(thousands of Russian rubles, unless otherwise indicated)

	Notes	2013	2012 Restated*
Sale of goods and services	12.1	419,770	299,664
Total revenue		419,770	299,664
Operating expenses, including:	12.2	(377,107)	(332,304)
Depreciation and amortization	12.2	(22,502)	(10,118)
Operating profit		42,663	(32,640)
Interest expense	15	(18,503)	(5,433)
Interest income		2,890	2,327
Share of loss of associates	11	(7,836)	(71,612)
Net other non-operating income (expenses)	13	6,973	(5,692)
Net foreign exchange gain (loss)	14	1,201	(284)
Profit (loss) before tax		27,388	(113,334)
Income tax	16	(10,718)	5,220
Profit (loss) for the year		16,670	(108,114)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		64	–
Income tax effect		–	–
Other comprehensive income for the year, net of tax		64	–
Total comprehensive income (loss) for the year, net of tax		16,734	(108,114)
Profit (loss) for the year		16,670	(108,114)
Attributable to:			
Equity holders of the parent		14,722	(109,303)
Non-controlling interests	10	1,948	1,189
Total comprehensive income (loss) for the year, net of tax		16,734	(108,114)
Attributable to:			
Equity holders of the parent		14,786	(109,303)
Non-controlling interests	10	1,948	1,189
Basic and diluted earnings (loss) per share for profit (loss) for the year attributable to equity holders of the parent	17	0.22	(1.44)

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 4.5.

HSCI OJSC

Consolidated statement of cash flows

For the year ended 31 December 2013

(thousands of Russian rubles, unless otherwise indicated)

	Notes	2013	2012 Restated*
Operating activities			
Profit (loss) for the year		16,670	(108,113)
Income tax expense	16	10,718	(5,221)
Profit (loss) before tax		27,388	(113,334)
Adjustment for non-cash items to reconcile profit before tax to net cash flows			
Depreciation and amortization	12.2	22,502	10,118
Interest expense	15	18,503	5,433
Interest income	15	(2,890)	(2,327)
Share of loss of associates	11	7,836	71,612
Net foreign exchange (gain)/loss	14	(1,201)	284
Other non-operating (income)/expenses		2,239	8,179
Provision for loans issued	20, 13	6,395	–
Net gains from revaluation of financial instruments held for trading	20, 13	(13,127)	(3,624)
Operating income (loss) before changes in working capital, interest and income taxes paid		67,645	(23,659)
Working capital adjustments			
Decrease/(increase) in trade and other receivables and prepayments		9,653	(47,444)
Decrease/(increase) in inventories		(3,580)	1,082
Increase in trade and other payables		16,580	21,069
Income tax paid		(7,789)	(6,504)
Net cash flows from (used in) operating activities		82,508	(55,457)
Investing activities			
Purchase of property, plant and equipment and intangible assets		(34,504)	(32,148)
Loans issued		(13,572)	–
Repayment of loans issued		5,963	7,139
Proceeds from sale of financial assets held for trading		12,568	–
Purchase of financial assets for trading		(22,000)	(56,012)
Interest received		2,017	2,698
Net cash flows used in investing activities		(49,529)	(78,323)
Financing activities			
Proceeds from loans and borrowings net of fees paid		33,458	143,592
Repayment of loans and borrowings		(56,080)	–
Interest paid		(17,935)	(5,716)
Payment of finance lease liabilities		(973)	(579)
Sale of treasury shares		–	5,790
Net cash flows from / (used in) financing activities		(41,530)	143,087
Net increase/(decrease) in cash and cash equivalents		(8,551)	9,308
Cash and cash equivalents at the beginning of the period		26,671	17,363
Cash and cash equivalents at the end of the period		18,120	26,671

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 4.5.

The accompanying notes are an integral part of these consolidated financial statements.

HSCI OJSC

Consolidated statement of changes in equity

For the year ended 31 December 2013

(thousands of Russian rubles, unless otherwise indicated)

	Attributable to equity holders of the parent									
	Share capital (in millions of shares)	Share capital (Note 23)	Treasury shares	Share premium (Note 23)	Foreign currency translation reserve	Other reserves (Note 23)	Retained earnings	Total	Non-controlling interests (Note 10)	Total equity
As at 1 January 2013	75	7,500	(43,179)	139,702	(650)	385	233,124	336,882	8,986	345,868
Profit for the year	–	–	–	–	–	–	14,722	14,722	1,948	16,670
Other comprehensive income	–	–	–	–	64	–	–	64	–	64
Total comprehensive income	–	–	–	–	64	–	14,722	14,786	1,948	16,734
Acquisition of an interest in subsidiary (Notes 4.3, 9)	–	–	–	–	–	100	–	100	(380)	(280)
As at 31 December 2013	75	7,500	(43,179)	139,702	(586)	485	247,846	351,768	10,554	362,322
As at 1 January 2012	75	7,500	(50,267)	141,000	–	–	709,488	807,721	9,683	817,404
Changes in accounting policies (Notes 4.4 and 4.5)	–	–	–	–	–	–	(342,041)	(342,041)	–	(342,041)
Adjustments to correct errors identified (Note 4.5)	–	–	–	–	(650)	361	(25,020)	(25,309)	(1,886)	(27,195)
As at 1 January 2012 (restated*)	75	7,500	(50,267)	141,000	(650)	361	342,427	440,371	7,797	448,168
Profit for the year	–	–	–	–	–	–	(109,303)	(109,303)	1,189	(108,114)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	(109,303)	(109,303)	1,189	(108,114)
Treasury shares	–	–	7,088	(1,298)	–	–	–	5,790	–	5,790
Acquisition of an interest in subsidiary	–	–	–	–	–	–	–	–	–	–
Reserve capital change	–	–	–	–	–	24	–	24	–	24
As at 31 December 2012 (restated*)	75	7,500	(43,179)	139,702	(650)	385	233,124	336,882	8,986	345,868

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 4.5.

1. Corporate information

The consolidated financial statements of Open Joint Stock Company Human Stem Cells Institute and its subsidiaries for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the general director on 29 April 2014. Open Joint Stock Company Human Stem Cells Institute (hereinafter, the "Company", "HSCI OJSC" or "HSCI") is the first Russian public biotech company founded on 27 November 2003 under the laws of the Russian Federation. The Group of HSCI companies (hereinafter, the "Group" of "HSCI Group") comprises the Company and its subsidiaries and associates both in Russia and abroad.

In December 2009, the Company held an IPO on the MICEX, becoming the first Russian biotech company to go public (ticker: ISKJ). HSCI's IPO opened trading on the IIM MICEX (Innovation & Investment Market) − a new exchange sector created as a platform for innovative and growing companies. Today the MICEX is part of the Moscow Exchange (the ME MICEX-RTS).

The Company's key shareholders as of the end of 2013 were:

- Artur Isaev; 16.80% interest; 12,600,000 shares;
- First International Investment Group Ltd. (90 Main Street, P.O. Box 3099, Road Town, Tortola, BVI); 34.48% interest; 25,860,000 shares;
- Dynamic Solutions Ltd. (103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles); 24.00% interest; 18,000,000 shares.

As of 31 December 2013, the Company was under control of the above shareholders (75.28% of the share capital of the Company) with First International Investment Group Ltd. and Dynamic Solutions Ltd. being under indirect control of Mr. Artur Isaev, general director of the Company.

2. Group information

Information about subsidiaries

The subsidiaries consolidated in the Group's consolidated financial statements are disclosed below:

			% equity interest	
Name	Business activity	Country of incorporation	31 December 2013	31 December 2012
NextGen LLC	R&D for gene and cell therapy, development of techniques for treating inherited diseases using modern assisted reproductive technologies and the development of arrays for DNA diagnostics of inherited diseases and predisposition to them.	Russia	100.00	100.00
Cell Technology Laboratory LLC	R&D for cell- and gene-based technologies.	Russia	75.00	75.00
Vitacel LLC	Aesthetic medicine developer, developer of SPRS-therapy – a set of procedures for individual skin regeneration based on the use of autologous dermal fibroblasts to repair skin damage due to aging or other structural changes.	Russia	60.00	60.00
Cryonix CJSC	Development and commercialization of innovative drugs and provision of high-tech medical services.	Russia	58.98	55.98
RGMC (Regenerative and Genetic Medical Center) HSCI LLC	Provision of medical services (genetic diagnostics and consulting services with the aim of early identification, prediction and prophylactic treatment of genetic disorders; services of the reproductive cell and tissue bank / personal storage / donor bank).	Russia	100.00	100.00
IceGen LLC	IceGen LLC was created for the consolidation of the shares of participants of SynBio LLC (except RUSNANO OJSC) as an asset holding company. As of 31 December 2013, the shares of participants of SynBio LLC remained unconsolidated.	Russia	53.38*	53.11*

* *effective ownership interest taking into account the indirect interest owned by Cryonix CJSC.*

HSCI OJSC is registered at: 18/1 Olimpiysky prospect, Moscow 129110, Russia.

In October 2005, the Company founded a 100% owned subsidiary, Human Stem Cells Institute Publishing House LLC.

On 1 November 2011, Human Stem Cells Institute Publishing House LLC was renamed as NextGen LLC. NextGen LLC is engaged in R&D for gene and cell therapy, development of techniques for treating inherited diseases using modern assisted reproductive technologies and the development of arrays for DNA diagnostics of inherited diseases and predisposition to them. HSCI OJSC assumed publishing responsibility for the CTTE (Cell Transplantology & Tissue Engineering) journal.

2. Group information (continued)

Information about subsidiaries (continued)

In April 2007, HSCI founded a 75% owned subsidiary, Cell Technology Laboratory LLC.

In April 2010, under an equity interest sale and purchase agreement, the Company purchased a 60% interest in Vitacel LLC.

In February 2011, under an equity interest sale and purchase agreement, the Company purchased a 50% interest in Cryonix CJSC. In April 2011, the Company purchased an additional interest of 5.98%. As a result of related transactions, in 2011 the Company acquired control over Cryonix CJSC. The acquisition of Cryonix CJSC was a common control transaction, thus, in accordance with accounting policies of the Group, it was recognized as acquisition of business under common control (also refer to Notes 4.2, 4.3 and 4.5).

In 2013, after the failure to comply with a loan agreement secured by a pledge of 903 ordinary registered non-documentary shares in Cryonix CJSC, the shares were transferred to the Company thus increasing its share in Cryonix CJSC by 3%. Thus, as of 31 December 2013, the total Company’s share in Cryonix CJSC was 58.98%. In accordance with accounting policies of the Group, the transaction was accounted for as an equity transaction (refer to Note 4.3).

Cryonix CJSC operates in the biotech, pharmacological and medical sectors. The company’s key R&D projects include the development of cell-based medications as well as introduction of novel therapeutics based on Histone H1 – for treatment of oncohematological diseases. Cryonix CJSC is a long-standing partner of HSCI; it has represented Gemabank’s services in Saint Petersburg and the region. HSCI plans to maximize integration between the two companies in the development and commercialization of innovative drugs and provision of high-tech medical services, including the strengthening of HSCI’s position on the market for isolation and storage of cord blood stem cells in northwest Russia.

On 9 August 2011, by decision of the founders, IceGen LLC was founded with the shares held by HSCI and Cryonix CJSC amounting to 48.07% and 9%, respectively.

In October 2012, by decision of the founders, RGMC HSCI LLC was founded with the share held by HSCI amounting to 100%. The principal activities of RGMC HSCI LLC include the provision of DNA diagnostics services and consultation with a personal doctor specializing in genetics, including medical genetics consultations for children and adults based on the results of genetic screening using HSCI’s DNA array Ethnogene. At the new laboratory and production complex of RGMC HSCI, the Company opened a specialized PGD-laboratory to provide pre-implantation genetic diagnosis, and Reprobank (high-tech reproductive tissue bank) that includes a modern laboratory, sperm donor bank and personal storage bank.

The companies within the Group have no representative offices.

Associates

In March 2010, the HSCI’s Board of Directors made a decision to acquire a 50% stake in Hemafund Medical Center LLC (Kiev, Ukraine). The transaction was performed on 20 April 2010.

In August 2008, HSCI established a subsidiary, Human Stem Cells Institute LLC (Kiev, Ukraine). As of 31 December 2010, the share of HSCI in Human Stem Cells Institute LLC (Kiev, Ukraine) amounted to 51%. In February 2011, the company changed its name to Hemafund Medical Biotech Company LLC, with the HSCI’s share dropping to 50% after a charter capital increase by the second participant. From that point on the Group has recognized its investments in this company using the equity method.

2. Group information (continued)

Associates (continued)

In 2011, HSCI and Cryonix CJSC acquired stakes in SynBio LLC. SynBio LLC is a company established to carry out an international project involving multiple parties, including RUSNANO, to develop first-in-class innovative medicines as well as products known as BioBetters for commercialization on the Russian and global markets.

According to the conditions of the investment agreement between the participants of the SynBio project, HSCI acquired a stake in the project company SynBio LLC with a nominal value of 613,078. Cryonix CJSC, a subsidiary, acquired a stake in SynBio LLC through the contribution of sublicensing rights arising from a License on the Transfer of Exclusive Rights and License for Development, Research, Production, Usage, Sale, Lease, Rent, Release and Marketing of all Products with the Use of Licensed Patents and Know-How. The nominal value of the stake in SynBio LLC acquired by Cryonix CJSC was 118,799. At the end of 2013, the stake in SynBio LLC held by HSCI was 28.18%. At the end of 2013, the stake in SynBio LLC held by Cryonix CJSC, a subsidiary, was 5.46%. For additional information about this investment and restatement of the 2011 and 2012 financial statements due to the application, since 1 January 2013, of revised IAS 28 refer to Notes 4.3, 4.4 and 4.5.

3. Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects in a manner not currently determinable. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

4.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available for sale that have been measured at fair value.

4.1. Basis of preparation (continued)

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of accounting policies, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2012 is presented in these consolidated financial statements due to retrospective application of accounting policies, retrospective restatement or reclassification of items in financial statements due to correction of significant prior-period errors (refer to Notes 4.4 and 4.5).

The Russian ruble is the functional currency of the Company and its subsidiaries, since this is the currency of the prime economic environment in which all operations of the companies are conducted. These consolidated financial statements are presented in Russian rubles unless otherwise indicated.

The Company and its subsidiaries maintain their accounting records and prepare their statutory financial statements in Russian rubles in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These consolidated financial statements are based on statutory books and records of the Company and its subsidiaries, as adjusted and reclassified in order to comply with IFRS. The principal adjustments relate to: recognition of income, valuation of PPE, finance leases and financial instruments, provisions, deferred income tax and investments in subsidiaries and associates as well as compliance with IFRS requirements for preparing consolidated financial statements.

4.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

4.2. Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

In 2013, following the failure to comply with a loan agreement secured by a pledge of ordinary registered non-documentary shares in Cryonix CJSC, the share in Cryonix CJSC held by the Group increased by 3%. The Group accounted for this transaction as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

As of 1 January 2013, the Group adopted IFRS 10 *Consolidated Financial Statements*. According to the Group, the adoption of this standard did not have any effect on its consolidated financial statements.

4.3. Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

4.3. Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

As of 31 December 2013, the Group had no goodwill.

Common-control transactions

For business combinations exercised under common control, the Group measures the net assets of the transaction at the carrying amounts in the accounts of the transferor. The amount of the transaction is agreed by the parties. The difference between the net assets received and the amount of the transaction is recognized as other components of equity.

In these consolidated financial statements, the Group retrospectively adjusted the accounting treatment of the acquisition of Cryonix CJSC that took place in 2011. As the transaction was between entities under common control, in accordance with accounting policies, the Group made respective adjustments as explained in Note 4.6.

4.3. Summary of significant accounting policies (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group does not have an interest in joint operations.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of comprehensive income.

4.3. Summary of significant accounting policies (continued)

Investments in associates and joint ventures (continued)

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Starting 1 January 2013, the Group applied the revised IAS 28 changing, among other things, the accounting treatment of transactions between the investor and investee. For instance, paras 28-31 of the revised IAS 28 have changed the accounting treatment of the acquisition of an equity interest in an associate in cases when the investor contributes a non-monetary asset to an associate in exchange for an equity interest. According to the new requirements, the investor’s share in the associate’s gains or losses resulting from these transactions is eliminated in the investor’s consolidated financial statements. Gains and losses resulting from such transactions are recognized only when the contribution of a non-monetary asset in exchange for an equity interest in the associate has commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment* (except when in addition to receiving an equity interest in an associate, an entity receives monetary or non-monetary assets).

In 2011, at the time of acquisition by the Group, the equity interest in SynBio LLC (received in exchange for non-monetary assets) amounted to 698,877, which was equivalent to the fair value of the non-monetary assets contributed by HSCI and Cryonix CJSC to SynBio LLC at the time of acquisition of the equity interest in SynBio LLC. At the time of contribution, the carrying amount of the contributed assets was 45,353. At the date of the transaction, the Group’s share in the financial result from this transaction based on the effective interest was 342,041.

According to the Group, the contribution of non-monetary assets to SynBio LLC made in 2011 in exchange for an equity interest in this associate has commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*. Thus, the financial result of such transaction should have been recognized in profit or loss in the 2011 consolidated financial statements to the extent not pertaining to the Group’s equity interest in SynBio LLC (i.e. profit of 311,483). However, the transaction was initially recognized in the 2011 consolidated financial statements in full (taking into account the difference between the amount of the investment (as stated above) and the carrying value of contributed non-monetary assets, which resulted in the increase in the balance of the investment and respective changes directly in equity.

The correction of the error and retrospective application of IAS 28 with regard to the accounting treatment of the investment in SynBio LLC are disclosed in Note 4.5.

As of 1 January 2013, the Group adopted IFRS 10 *Consolidated Financial Statements*.
The analysis of the application of this standard has shown that the Group has significant influence, but not control, over these investments in associates (SynBio LLC, Hemafund Medical Center LLC, Hemafund Medical Biotech Company LLC). Thus, in preparing these consolidated financial statements the Group continued applying the equity method to these investments.

4.3. Summary of significant accounting policies (continued)

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The consolidated financial statements of the Group are presented in Russian rubles, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Group management has determined that the functional currency of all the Group's subsidiaries is the Russian ruble, the currency of the economic environment in which subsidiaries operate.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. At the end of the period, monetary assets and liabilities are retranslated at the functional currency rate of exchange ruling at the reporting date with all resulting differences taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the functional currency exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value are translated using the functional currency exchange rates at the date when the fair value is determined.

4.3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

On consolidation the assets and liabilities of foreign operations are translated into Russian rubles at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rate for the period provided that the weighted average rate approximates the exchange rate at the date of the underlying transactions. Otherwise, the latter rate is used. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of or loss of control over a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

Advances from customers are not recognized as current year revenue but are rather included in liabilities.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from the sale of Neovasculgen® is recognized when ownership (possession, utilization and disposal) rights to the products have passed from the Group to the purchaser provided that other recognition criteria are met. Sale and purchase agreements provide that purchasers may return a contractual amount of the drug to the Company and receive a new one in exchange provided certain criteria (related to the remaining shelf life of the drug) are met. At each reporting date, the Group estimates the need to create a provision for such potential returns.

Rendering of services

Revenue from rendering cord blood stem cell isolation and cryopreservation services is recognized at the time of cryopreservation, which is supported by a certificate of isolation and cryopreservation of cord blood hematopoietic stem cells. Revenue from storing cord blood stem cells in cryogenic storage tanks is recognized on a straight-line basis over the storage period subject to the terms of the agreements with customers.

4.3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

The Company may provide the whole set of cord blood stem cell isolation, cryopreservation and storage services (under one agreement) or just some of them. In case one contract for cord blood stem cell isolation, cryopreservation and storage services is signed, revenue from each of the component is recognized based on the above criteria. Before the service is provided (revenue is recognized), the fees for the cord blood stem cell isolation, cryopreservation and storage services are recognized as advances from customers in accounts payable (less applicable VAT).

For the purposes of the cord blood stem cell isolation and cryopreservation services, the Company engages third-party medical institutions ("contractors") to provide a part of services (mainly blood sampling). As the Company acts as the primary obligor in the arrangement, revenue from such services is recorded at the full contractual amount payable by customers. Fees for the services provided by "contractors" to customers of the Company are recognized as operating expenses.

Revenue from the provision of SPRS-therapy comprehensive set of services is recognized as the service is provided on the basis of acknowledgments ("acceptance protocols") presented. The service is deemed provided when the cells bank for transplantation is transferred to the client, at which moment an acknowledgment of services rendered is executed and signed.

Revenue from the service of storing autologous dermal fibroblasts (SPRS-bank) is recognized on a monthly basis in the amount indicated in the price list for the current period in equal amounts.

Other sales revenue

Other revenues from the sale of goods and services are recognized in accounting when the following conditions are met:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company also provides R&D services to third-party organizations and related parties. Revenue from such services is recognized upon completion of work stages and the approval of deliverables with the counterparty (upon signing of acceptance acts).

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

4.3. Summary of significant accounting policies (continued)

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. Russian companies of the Group calculate income tax in accordance with the regulations of the Russian Federation. The current income tax rate in Russia is 20%.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

4.3. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Value added tax

Value added tax ("VAT") on sales is payable to the tax authorities on an accrual basis based upon invoices issued to customers. VAT on purchases is recoverable against VAT from sales, provided certain conditions are met. VAT on purchases and recoverable from the tax authorities in subsequent reporting periods is recognized in financial statements as VAT recoverable.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held-for-sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

4.3. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation over their useful lives determined by the Group for the purposes of IFRS and any impairment losses.

Cost includes major expenditures for improvements and replacements which extend useful lives of the assets or increase their revenue generating capacity and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Type of property, plant and equipment	Useful lives (years)
Buildings and structures	10-25
Machinery and equipment	3-25
Other	2-5

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognized. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Research costs are expensed as incurred.

4.3. Summary of significant accounting policies (continued)

Intangible assets (continued)

Development expenditures on an internal project are recognized as an intangible asset when the Group can demonstrate:

(a) The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.

(b) Its intention to complete and its ability to use or sell the asset.

(c) The ability to use or sell the intangible asset generated.

(d) How the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales.

During the period of development, the asset is tested for impairment annually.

Intangible assets of the Group include R&D deliverables available for use, rights of use and patents, software and licenses.

The useful lives of all intangible assets are assessed to finite.

Intangible assets amortization is calculated on a straight-line basis over the useful lives of the assets.

The estimated useful lives for the current and comparative periods are as follows:

- Rights of use and patents – 5-19 years;
- Software and licenses – 3 years;
- Trademarks – 4-16 years;
- R&D – 5-10 years.

The amortization expense on intangible assets with finite lives is recognized as operating expenses in the respective reporting period.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

4.3. Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Leases of property and equipment under which the lessee assumes the risks and rewards of ownership are classified as finance leases. An operating lease is a lease other than a finance lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form or a lease, all aspects and implications of an arrangement are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for the major part of the useful life of the asset even if ownership is not transferred, or if at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise. Assets received under finance leases are depreciated over their useful lives. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

4.3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial investments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

As of 31 December 2013, 2012 and 2011, the Group holds investments in shares of other companies acquired for the purpose of selling in the near term.

The Group has not designated any financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other non-operating income (expenses) in the statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

4.3. Summary of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortization is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in other non-operating expenses for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables, loans to third parties and related parties. For more information on receivables, refer to Note 20.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortization is included as interest income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income as other non-operating expenses.

Available-for-sale (AFS) financial investments

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

4.3. Summary of significant accounting policies (continued)

Financial assets (continued)

During the reporting periods ended 31 December 2013 and 2012, the Group had no AFS financial investments.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

4.3. Summary of significant accounting policies (continued)

Financial assets (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of comprehensive income. Interest income (recorded as interest income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Available-for-sale (AFS) financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

When there is evidence of impairment, the cumulative loss − measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income − is removed from OCI and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income in the statement of comprehensive income.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

4.3. Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

During the reporting periods ended 31 December 2013 and 2012, the Group had no derivatives designated as hedging instruments. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied.

During the reporting periods ended 31 December 2013 and 2012, the Group did not designate any financial liability as at fair value through profit or loss.

Loans and borrowings

This category, as well as trade and other payables, is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the statement of comprehensive income. This category generally applies to interest-bearing loans and borrowings. For more information refer to Note 20.

4.3. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. The recoverable amount of an asset or cash generating unit (CGU) is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

4.3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Trade receivables are reduced through the use of an allowance account. The allowance is created when there is objective evidence that amounts receivable will not be collected in accordance with the original repayment terms.

Warranty (quality assurance) provisions

Provisions for warranty-related costs are recognized when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

4.3. Summary of significant accounting policies (continued)

Advertising expenses

Advertising expenses are expensed when incurred and included in operating expenses in the consolidated statement of comprehensive income. Advertising expenses include, among other things, expenses for advertising materials and brochures distributed among the clients.

4.4. Changes in accounting policies and disclosures

Application of IAS 28 Investments in Associates and Joint Ventures

Starting 1 January 2013, the Group applied the revised IAS 28 changing, among other things, the accounting treatment of transactions between the investor and investee. For instance, paras 28-31 of the revised IAS 28 have changed the accounting treatment of the acquisition of an equity interest in an associate in cases when the investor contributes a non-monetary asset to an associate in exchange for an equity interest. For more information about the effect of application of this standard and corresponding adjustments see Note 4.3 ("Associates") and Note 4.5, respectively.

Reclassifications

To ensure fairer presentation and disclosure of information, the Group changed the names and classification of certain items of these consolidated financial statements as compared to the prior period. The effect of this change is disclosed in Note 4.5.

New and amended standards and interpretations

The nature and the impact of each new standards and amendments on accounting policies, disclosures, financial position and performance of the Group are described below:

IAS 1 Presentation of Items of Other Comprehensive Income − Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified (‘recycled’) to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group’s financial position or performance.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee;

(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and

(c) the investor has the ability to use its power over the investee to affect the amount of the investor’s returns.

IFRS 10 had no impact on the consolidation of investments held by Group.

4.4. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. Adoption of the standard required new disclosures to be made in these consolidated financial statements (refer to Note 10).

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

4.5. Restatement of prior year consolidated financial statements

Due to the correction of material errors in financial statements, certain adjustments were posted in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

As detailed in Note 4.3 Summary of significant accounting policies, starting 1 January 2013, the Group applied the revised IAS 28 *Investments in Associates and Joint Ventures* and retrospectively adjusted the necessary adjustments in these financial statements.

Disclosed below are adjustments posted by the Group in consolidated financial statements as of 31 December 2012 and for the year then ended and in the statement of financial position as at 1 January 2012 presented in these consolidated financial statements after restatement.

4.5. Restatement of prior year consolidated financial statements (continued)

Adjustments posted to the statement of financial position as at 31 December 2012:

	31 December 2012 (as previously reported)	1.	2.	3.	4.	5.	6.	7.	Reclassifi-cations	Other	Total adjustments	31 December 2012 (as restated)
Asset												
Non-current assets												
Property, plant and equipment	66,163	–	–	–	–	–	–	–	–	7,416	7,416	73,579
Intangible assets	48,497	–	–	–	–	(21,898)	–	–	–	–	(21,898)	26,599
Investments in associates	652,427	(342,041)	–	–	–	–	–	49,031	–	–	(293,010)	359,417
Non-current financial assets*	56,889	–	(42,982)	(4,205)	–	–	–	–	–	–	(47,187)	9,702
Non-current loans issued	10,531	–	(10,531)	–	–	–	–	–	–	–	(10,531)	–
Goodwill	1,014	–	–	–	(1,014)	–	–	–	–	–	(1,014)	–
Deferred tax assets*	1,598	–	–	–	–	–	–	–	–	4,551	4,551	6,149
Total non-current assets	837,119	(342,041)	(53,513)	(4,205)	(1,014)	(21,898)	–	49,031	–	11,967	(361,673)	475,446
Current assets												
Inventories*	16,882	–	–	–	–	–	–	–	–	(5,339)	(5,339)	11,543
Trade receivables*	109,406	–	–	–	–	–	–	–	(73,953)	(7,077)	(81,030)	28,376
Other receivables	–	–	–	–	–	–	–	–	73,953	–	73,953	73,953
Other current financial assets*	13,101	–	53,513	–	–	–	–	–	–	–	53,513	66,614
Cash and cash equivalents	26,671	–	–	–	–	–	–	–	–	–	–	26,671
Total current assets	166,060	–	53,513	–	–	–	–	–	–	(12,416)	41,097	207,157
Total assets	1,003,179	(342,041)	–	(4,205)	(1,014)	(21,898)	–	49,031	–	(449)	(320,576)	682,603

4.5. Restatement of prior year consolidated financial statements (continued)

	31 December 2012 (as previously reported)	1.	2.	3.	4.	5.	6.	7.	Reclassifi-cations	Other	Total adjustments	31 December 2012 (as restated)
Equity and liabilities												
Equity												
Share capital*	7,500	–	–	–	–	–	–	–	–	–	–	7,500
Treasury shares*	(40,866)	–	–	–	–	–	–	–	–	(2,313)	(2,313)	(43,179)
Share premium	141,000	–	–	–	–	–	–	–	–	(1,298)	(1,298)	139,702
Revaluation reserve*	–	–	–	–	–	–	–	–	–	–	–	–
Retained earnings	550,097	(342,041)	–	(4,205)	873	(21,898)	–	49,031	–	1,267	(316,973)	233,124
Other components of equity	–	–	–	–	–	–	–	–	–	(265)	(265)	(265)
Equity attributable to equity holders of the parent*	657,731	(342,041)	–	(4,205)	873	(21,898)	–	49,031	–	(2,609)	(320,849)	336,882
Non-controlling interests*	12,927	–	–	–	(1,887)	–	–	–	–	(2,054)	(3,941)	8,986
Total equity*		(342,041)	–	(4,205)	(1,014)	(21,898)	–	49,031	–	(4,663)	(324,790)	345,868
Non-current liabilities												
Interest-bearing loans and borrowings*	61,789	–	–	–	–	–	–	–	–	–	–	61,789
Accounts payable and accrued expenses	63,655	–	–	–	–	–	(62,366)	–	–	(1,289)	(63,655)	–
Finance lease liabilities*	–	–	–	–	–	–	–	–	–	1,289	1,289	1,289
Deferred tax liabilities*	3,898	–	–	–	–	–	–	–	–	(3,898)	(3,898)	–
Total non-current liabilities	129,342	–	–	–	–	–	(62,366)	–	–	(3,898)	(66,264)	63,078
Current liabilities												
Interest-bearing loans and borrowings*	87,217	–	–	–	–	–	–	–	–	250	250	87,467
Advances received	–	–	–	–	–	–	166,356	–	–	–	166,356	166,356
Trade and other payables*	112,531	–	–	–	–	–	(103,990)	–	–	6,450	(97,540)	14,991
Income tax payable	119	–	–	–	–	–	–	–	–	(119)	(119)	–
Finance lease liabilities	–	–	–	–	–	–	–	–	–	1,404	1,404	1,404
Taxes payable*	3,312	–	–	–	–	–	–	–	–	127	127	3,439
Total current liabilities	203,179	–	–	–	–	–	62,366	–	–	8,112	70,478	273,657
Total liabilities	332,521	–	–	–	–	–	–	–	–	4,214	4,214	336,735
Total equity and liabilities	1,003,179	(342,041)	–	(4,205)	(1,014)	(21,898)	–	49,031	–	(449)	(320,576)	682,603

* *To ensure fairer presentation and disclosure of information, the Group changed the names of items of these consolidated financial statements as compared to the prior period.*

4.5. Restatement of prior year consolidated financial statements (continued)

Adjustments posted to the statement of comprehensive income for the year ended 31 December 2012:

	For the year ended 31 December 2012 (as previously reported)	5.	7.	Reclassifications	Other	Total adjustments	For the year ended 31 December 2012 (as restated)
Sale of goods and services*	275,376	–	–	–	24,288	24,288	299,664
Other revenue	41,125	–	–	–	(41,125)	(41,125)	–
Total revenue*	316,501	–	–	–	(16,837)	(16,837)	299,664
Operating expenses	(328,302)	18,413	–	–	(22,415)	(4,002)	(332,304)
Operating loss	(11,801)	18,413	–	–	(39,252)	(20,839)	(32,640)
Interest expense*	(5,450)	–	–	–	17	17	(5,433)
Interest income*	2,698	–	–	–	(371)	(371)	2,327
Loss from associates*	(126,882)	–	49,031	–	6,239	55,270	(71,612)
Other non-operating income (expenses)*	–	–	–	(1,544)	(4,148)	(5,692)	(5,692)
Net foreign exchange gain (loss)*	(252)	–	–	–	(32)	(32)	(284)
Gain (loss) from discounting of long-term accounts payable	1,062	–	–	–	(1,062)	(1,062)	–
Gain (loss) on sale of financial investments	(1,544)	–	–	1,544	–	1,544	–
Profit (loss) before tax	(142,169)	18,413	49,031	–	(38,609)	28,835	(113,334)
Income tax	(7,671)	–	–	–	12,891	12,891	5,220
Profit (loss) for the year	(149,840)	18,413	49,031	–	(25,718)	41,726	(108,114)
Other comprehensive income							
Exchange differences on translation of foreign operations*	(8,161)	–	–	–	8,161	8,161	–
Revaluation of financial assets	1,726	–	–	–	(1,726)	(1,726)	–
Other comprehensive loss for the year, net of tax*	(6,435)	–	–	–	6,435	6,435	–
Total comprehensive loss for the year, net of taxes*	(156,275)	18,413	49,031	–	(19,283)	48,161	(108,114)
Profit (loss) for the year attributable to:							
Equity holders of the parent*	(152,956)	–	–	–	43,653	43,653	(109,303)
Non-controlling interests*	3,116	–	–	–	(1,927)	(1,927)	1,189
Total comprehensive income (loss) for the year, net of tax							
Equity holders of the parent*	(159,391)	–	–	–	50,088	50,088	(109,303)
Non-controlling interests*	3,116	–	–	–	(1,927)	(1,927)	1,189
Basic and diluted earnings per share for profit for the year attributable to equity holders of the parent (RUB per share)	(21)						(1.44)

* *To ensure fairer presentation and disclosure of information, the Group changed the names of items of these consolidated financial statements as compared to the prior period.*

4.5. Restatement of prior year consolidated financial statements (continued)

The adjustments are described below:

1. A retrospective restatement of investments in SynBio LLC, an associate, due to the application, starting 1 January 2013, of revised IAS 28 *Investments in Associates and Joint Ventures* and correction of errors due to incorrect application of IAS 28 with regard to using the equity accounting method (also refer to Note 4.4).
2. Correction of an error due to incorrect classification of current and non-current financial assets.
3. Provisioning for financial investments.
4. Correction of accounting treatment of the acquisition of control over Cryonix CJSC resulting from a common-control transaction in line with accounting policies of the Group (also refer to Notes 2 and 4.3).
5. Write-off of incorrectly capitalized R&D costs.
6. Reclassification of advances from customers to current liabilities and correction of other accountings errors in advances received.
7. Correction of the accounting treatment of investments in associates.
8. Reclassification of items of the statement of financial position and statement of comprehensive income.
9. Other adjustments include adjustments for PPE depreciation, provisions for obsolete inventories, allowance for doubtful receivables, treasury shares, non-controlling interests, other consolidation adjustments.

4.5. Restatement of prior year consolidated financial statements (continued)

Adjustments posted to the statement of financial position as at 31 December 2011:

	For the year ended 31 December 2011 (as previously reported)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	Total adjustments	As at 1 January 2012 (as restated)
Asset															
Non-current assets															
Property, plant and equipment	37,009	–	–	865	–	–	–	–	–	–	–	–	–	865	37,874
Intangible assets	27,886	–	–	–	(3,485)	–	–	–	–	–	–	–	–	(3,485)	24,401
Investments in associates	787,614	(342,041)	(9,249)	–	–	–	–	–	–	–	–	–	–	(351,290)	436,324
Non-current financial assets	16,841	–	–	–	–	–	–	–	–	–	–	–	–	–	16,841
Goodwill	1,014	–	–	–	–	–	(1,014)	–	–	–	–	–	–	(1,014)	–
Deferred income tax assets	6,518	–	–	–	697	–	–	–	216	429	–	–	–	1,342	7,860
Total non-current assets	876,882	(342,041)	(9,249)	865	(2,788)	–	(1,014)	–	216	429	–	–	–	(353,582)	523,300
Current assets															
Inventories	14,778	–	–	–	–	(2,153)	–	–	–	–	–	–	–	(2,153)	12,625
Trade receivables	57,583	–	–	–	–	–	–	–	–	–	–	–	(20,202)	(20,202)	37,381
Other receivables	–	–	–	–	–	–	–	–	–	–	–	–	20,202	20,202	20,202
Other current financial assets	14,042	–	–	–	–	–	–	–	–	–	–	–	–	–	14,042
Cash and cash equivalents	17,363	–	–	–	–	–	–	–	–	–	–	–	–	–	17,363
Total current assets	103,766	–	–	–	–	(2,153)	–	–	–	–	–	–	–	(2,153)	101,613
Total assets	980,648	(342,041)	(9,249)	865	(2,788)	(2,153)	(1,014)	–	216	429	–	–	–	(355,735)	624,913

4.5. Restatement of prior year consolidated financial statements (continued)

	For the year ended 31 December 2011 (as previously reported)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	Total adjustments	As at 1 January 2012 (as restated)
Equity and liabilities															
Equity															
Share capital	(7,500)	–	–	–	–	–	–	–	–	–	–	–	–	–	(7,500)
Treasury shares	50,267	–	–	–	–	–	–	–	–	–	–	–	–	–	50,267
Share premium	(141,000)	–	–	–	–	–	–	–	–	–	–	–	–	–	(141,000)
Revaluation reserve	(635,133)	635,133	–	–	–	–	–	–	–	–	–	–	–	635,133	–
Retained earnings	(74,355)	(293,092)	8,599	(865)	2,788	2,153	(872)	361	863	1,716	9,957	320	–	(268,072)	(342,427)
Other components of equity	–	–	650	–	–	–	–	(361)	–	–	–	–	–	289	289
Equity attributable to equity holders of the parent	(807,721)	342,041	9,249	(865)	2,788	2,153	(872)	–	863	1,716	9,957	320	–	367,350	(440,371)
Non-controlling interests	(9,683)	–	–	–	–	–	1,886	–	–	–	–	–	–	1,886	(7,797)
Total equity	(817,404)	342,041	9,249	(865)	2,788	2,153	1,014	–	863	1,716	9,957	320	–	369,236	(448,168)
Non-current liabilities															
Deferred income tax liabilities	(1,730)	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,730)
Accounts payable and accrued expenses	(59,141)	–	–	–	–	–	–	–	–	–	59,141	–	–	59,141	–
Interest-bearing loans and borrowings	(739)	–	–	–	–	–	–	–	–	–	–	–	–	–	(739)
Total non-current liabilities	(61,610)	–	–	–	–	–	–	–	–	–	59,141	–	–	59,141	(2,469)
Current liabilities															
Interest-bearing loans and borrowings	(9,714)	–	–	–	–	–	–	–	–	–	–	–	–	–	(9,714)
Trade and other payables	(87,115)	–	–	–	–	–	–	–	(1,079)	(2,145)	–	(320)	63,444	59,900	(27,215)
Advances received		–	–	–	–	–	–	–	–	–	(69,098)	–	(63,444)	(132,542)	(132,542)
Taxes payable	(4,805)	–	–	–	–	–	–	–	–	–	–	–	–	–	(4,805)
Total current liabilities	(101,634)	–	–	–	–	–	–	–	(1,079)	(2,145)	(69,098)	(320)	–	(72,642)	(174,276)
Total liabilities	(163,244)	–	–	–	–	–	–	–	(1,079)	(2,145)	(9,957)	(320)	–	(13,501)	(176,745)
Total equity and liabilities	(980,648)	342,041	9,249	(865)	2,788	2,153	1,014	–	(216)	(429)	–	–	–	355,735	(624,913)

4.5. Restatement of prior year consolidated financial statements (continued)

The adjustments are described below:

1. A retrospective restatement of investments in SynBio LLC, an associate, due to the application, starting 1 January 2013, of revised IAS 28 *Investments in Associates and Joint Ventures* and correction of errors due to incorrect application of IAS 28 with regard to using the equity accounting method (also refer to Note 4.4).
2. Correction of an accounting error due to incorrect application of IAS 28 as related to the investment in Hemafund Medical Center LLC, associate.
3. Adjustment related to PPE amortization.
4. Write-off of incorrectly capitalized R&D costs.
5. Provisioning for obsolete inventories.
6. Correction of accounting treatment of the acquisition of control over Cryonix CJSC resulting from a common-control transaction in line with accounting policies of the Group (also refer to Notes 2 and 4.3).
7. Recognition of statutory reserve capital as other components of equity.
8. Cut-off adjustment of R&D costs.
9. Cut-off adjustment of other operating expenses.
10. Reclassification of advances from customers to current liabilities and correction of other accountings errors in advances received.
11. Cut-off adjustment of other operating expenses.
12. Reclassification of other receivables.

The information disclosed in notes to the consolidated financial statements was adjusted as related to 2012 comparative data subject to the above adjustments.

Due to the correction of significant errors which occurred in preparing financial statements, the basic loss per share amounted to RUB 1.44 in 2012 (rather than RUB 21 per share).

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

5. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Finance lease − Group as lessor

Leases of property and equipment under which the lessee assumes the risks and rewards of ownership are classified as finance leases. An operating lease is a lease other than a finance lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of arrangements that take the legal form of a lease, management takes into account all aspects and implications of the existing contracts in order to identify the underlying substance of the arrangements. Special attention is paid to those provisions of the arrangements that have an economic effect. If the lease term is for the major part of the useful life of the asset even if ownership is not transferred, or if at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

Assets received under finance leases are depreciated over their useful lives. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to determining useful lives of PPE, impairment of financial and non-financial assets, fair value of financial instruments, provision for litigations and claims, deferred income tax and R&D costs. Actual results could differ from those estimates.

Useful lives of property, plant and equipment

The Group assesses the useful life of property, plant and equipment at least once a year at the end of the fiscal year. If expectations differ from the previous estimates, the changes are recognized as those in accounting estimates according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in the statement of comprehensive income.

5. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment of assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Loss from impairment of non-financial assets is recognized in the statement of comprehensive income as operating expenses

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax legislation is subject to varying interpretations and changes occurring frequently. The interpretation of tax legislation by tax authorities as applied to transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency positions will be sustained. More details are provided in Note 16.

5. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Deferred tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. More details are provided in Note 16.

Research and development (R&D) costs

Initial capitalization of R&D costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

Allowance for doubtful receivables

The allowance for doubtful receivables is based of the Group's estimation of financial solvency of specific customers. The allowance is made if there are doubts that the Group will be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial recognition, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

6. Segment information

According to IFRS 8 *Operating Segments*, operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the management.

6. Segment information (continued)

For management purposes, the Group operates a single business segment as defined in IFRS 8. The segment operates in the state-of-the-art biomedical technology sector by developing competitive and innovative products (high-tech medical services and drugs) and introducing them into medical practice. HSCI aims to developing new opportunities and bringing to life the latest scientific achievements in cell-based, gene and post-genomic technologies. Management of the Group and the board of directors consider certain projects and prepare their business plans. However, such projects do not represent operating segments, and management does not analyze financial results of such projects by product and/or service. Management and decision makers analyze products as regards their share in total revenue and respective development trends. More details about revenues from the sale of goods and services are provided in Note 12.1.

The Company provides services and sells products primarily in the Russian Federation, except for a portion of drugs that are sold in the Ukraine (2013: 8,910, 2012: nil). Management and decision makers do not perform geographic analysis of financial results.

Assets of all subsidiaries of the Group are located in the Russian Federation. The Group has investments in associates in the Ukraine (also refer to Note 27 "Subsequent events").

7. Going concern assumption

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future.

As shown in the 2013 consolidated financial statements, the net profit of the Company was 16,670 (2012: loss of 108,114) and its current liabilities exceeded its current assets by 110,198 as of 31 December 2013. As of 31 December 2013, current liabilities of the Company amounted to 326,455, including advances from customers of 211,431.

Due to the nature of activities of the Group, a significant portion of its current liabilities is represented by advances from customers for storage of cord blood stem cells. The Group has contractual obligations to provide storage services in 2014 and further. However, based on historical statistics, management believes that only an insignificant portion of advances will have to be returned in cash.

As of 31 December 2013, current loans and borrowings of the Company amounted to 90,598, including loans from SynBio LLC, an associate, of 50,559 with contractual maturity dates on 1 April 2014. As of the date of issuance of these consolidated financial statements, loans from SynBio LLC were still outstanding.

Management of the Group believes that it will be able to extend loan agreements with SynBio LLC so that the Group will not be obliged to pay 50,559 in 2014. Also, management believes that the failure to comply with loan agreements will not result in any fines against the Group or other additional liabilities. As of the date of these consolidated financial statements, the Group received a letter signed by the general director of SynBio LLC confirming their intent to propose the extension of the loan agreement with the Company for the agenda of the SynBio’s BoD.

7. Going concern assumption (continued)

The rest of current banking loans will be repaid by the Group in 2014 in line with contractual terms.

We expect that the Company's net cash flows from operating activities in 2014 will be sufficient to cover our liabilities payable in 2014, as described above. In 2013, the Company significantly increased sales of Neovasculgen® and has entered into contract with Sotex Pharm Firm LLC for the sale of the drug in 2014. Management of the Company believes that cash flows from operating activities will be sufficient to cover its current liabilities (excluding loans payable to SynBio LLC). However, if necessary, management will be able to sell assets held by the Company as of 31 December 2013 (financial investments in the shares in VITA 34 listed on Frankfurt stock exchange) and to obtain external financing through bank loans.

Management of the Group believes that the going concern basis applied in preparing the consolidated financial statements is adequate. To comply with contractual terms and conditions, the Group continuously analyzes the situation with liquidity and controls its current liabilities. Measures to improve the short-term liquidity include the usage of factoring arrangements.
In 2014, the Group plans to finance only those projects that are vital to the Group's development aspirations, including R&D projects.

Management of the Group believes that the measures and initiatives described above will ensure enough resources to cover current liabilities of the Group and support its operating activities for more than 12 months after the reporting date.

8. Capital management

Equity includes ordinary and preferred shares, share premium and all other equity reserves attributable to equity holders of the parent. The primary objective of the Group's capital management is to maximize shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

8. Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	31 December 2013	31 December 2012
Interest-bearing loans and borrowings (Note 20)	127,340	149,256
Trade and other payables (Note 20)	23,172	18,430
Finance lease liabilities	1,583	2,693
Less: cash and cash equivalents (Note 22)	(18,120)	(26,671)
Net debt	133,975	143,708
Equity	362,322	345,868
Capital and net debt	496,297	489,576
Gearing ratio	27%	29%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

9. Business combinations and acquisition of non-controlling interests

Acquisition of an additional interest in Cryonix CJSC

In May 2013, after the failure to comply with a loan agreement secured by a pledge of 903 ordinary registered non-documentary shares in Cryonix CJSC, the shares were transferred to the Group thus increasing its share in Cryonix CJSC by 3% to 58.98%. The sum of the loan principal and interest accrued thereon amounted to 280. The Group recognized this transaction as an equity transaction (also refer to Note 4.3).

10. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operation	2013	2012
Cryonix CJSC	Russia	41.02%	44.02%
Vitacel LLC	Russia	40.00%	40.00%

Accumulated balances of material non-controlling interest:

	2013	2012
Cryonix CJSC	1,206	5,575
Vitacel LLC	8,694	2,954

10. Material partly-owned subsidiaries (continued)

Disposal of non-controlling interest

	2013	2012
Cryonix CJSC	(380)	–
Vitacel LLC	–	–

Profit/(loss) allocated to material non-controlling interest:

	2013	2012
Cryonix CJSC	(3,989)	(1,311)
Vitacel LLC	5,740	3,510

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of profit or loss for 2013

	Cryonix CJSC	Vitacel LLC
Sale of goods and services	20,623	18,000
Operating expenses	(31,354)	(3,651)
Interest income	620	–
Other income (expenses)	(763)	–
Profit (loss) before tax	(10,874)	14,349
Income tax	1,149	–
Profit (loss) for the year	(9,725)	14,349
Total comprehensive income	(9,725)	14,349
Attributable to non-controlling interests	(3,989)	5,740
Dividends paid to non-controlling interests	–	–

Summarized statement of profit or loss for 2012

	Cryonix CJSC	Vitacel LLC
Sale of goods and services	26,158	11,411
Operating expenses	(31,695)	(2,353)
Interest income	620	–
Other income (expenses)	1,885	(284)
Profit (loss) before tax	(3,032)	8,774
Income tax	53	–
Profit (loss) for the year	(2,979)	8,774
Total comprehensive income	(2,979)	8,774
Attributable to non-controlling interests	(1,311)	3,510
Dividends paid to non-controlling interests	–	–

10. Material partly-owned subsidiaries (continued)

Summarized statement of financial position as at 31 December 2013

	Cryonix CJSC	Vitacel LLC
Total current assets	15,305	11,964
Total non-current assets	8,782	16,112
Total current liabilities	(20,409)	(6,342)
Total non-current liabilities	(739)	–
Total equity	2,939	21,734
Attributable to:		
Equity holders of parent	1,733	13,040
Non-controlling interest	1,206	8,694

Summarized statement of financial position as at 31 December 2012

	Cryonix CJSC	Vitacel LLC
Total current assets	19,336	3,528
Total non-current assets	14,720	8,497
Total current liabilities	(20,653)	(4,640)
Total non-current liabilities	(739)	–
Total equity	12,664	7,385
Attributable to:		
Equity holders of parent	7,089	4,431
Non-controlling interest	5,575	2,954

11. Investments in associates

Share of profit (loss) of associates

	2013	2012
Share of losses in the financial results of associated company Hemafund Medical Center LLC	(22,022)	(1,937)
Share of profits (losses) in the financial results of associated company Hemafund MBC LLC	(2)	–
Share of profits (losses) in the financial results of associated company SynBio LLC	14,187	(69,675)
Total share of losses of associates	(7,837)	(71,612)

The Group holds a 50% stake in Hemafund Medical Center LLC, a family cord blood bank, Ukraine's market leader. Hemafund Medical Center LLC renders services for cord blood hematopoietic stem cell isolation and long-term storage. More than 7,000 personal cord blood samples have been accepted for storage starting 2005. Starting 2012, it also renders placenta extract cryopreservation services and starting 2013 – umbilical cord storage services (later umbilical cord-derived mesenchymal stem cells can be used for rehabilitation treatment).

11. Investments in associates (continued)

Share of profit (loss) of associates (continued)

The share of profits/(losses) in the financial results of associated company SynBio LLC in 2012 and 2013 includes the fair value revaluation of financial investments in Xenetic Biosciences, Inc. Xenetic Biosciences, Inc. is a UK-US biopharmaceutical company developing next-generation biologic drugs and novel oncology therapeutics, a leading global healthcare supplier. Xenetic Biosciences, Inc. is a key R&D partner of SynBio LLC in the project aimed at developing and introducing to the international market first-in-class drugs and also products known as BioBetters.

The Group's share in Hemafund Medical Center LLC is recognized in the consolidated financial statements using the equity method. The table below shows summarized information on the Group's investments in Hemafund Medical Center LLC. The amounts have been translated from Ukrainian hryvnias to Russian rubles:

	2013	2012
Current assets	8,488	34,079
Non-current assets	12,361	13,484
Current liabilities	(33,758)	(22,118)
Non-current liabilities	(13,981)	(8,134)
Equity	(26,890)	17,310
Goodwill on an acquisition of an associate	88,310	88,024
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	30,710	52,667

	2013	2012
Revenue	23,776	18,640
Cost of sales	(7,392)	(8,770)
Other revenue	1,726	1,358
Administrative expenses	(12,312)	(8,654)
Other operating costs	(49,784)	(6,389)
Loss before tax	(43,985)	(3,816)
Income tax expense	(58)	(58)
Loss for the year	(44,043)	(3,873)
Exchange differences on translation of foreign operations	128	–
Total comprehensive income	(43,915)	(3,873)
Proportion of the Group's ownership	50%	50%
Group's share of loss for the year	(22,022)	(1,937)
Group's share of comprehensive income for the year	(21,957)	(1,937)

Since as of 31 December 2013 there is indication of impairment of investments in Hemafund Medical Center LLC, an associate, the Group performed impairment analysis in accordance with (IAS) 28.40 и IAS 39. Based on the results of the analysis, the Group estimated the recoverable amount of the investment to be 39,219. The recoverable amount was determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows from services related to the storage of cord blood stem cells were determined subject to the increased number of stored samples and expanded list of services provided by the laboratory. The amount of expected future cash outflows reflects the systematic increase in operating costs following the increase in prices, tariffs, etc.

11. Investments in associates (continued)

Share of profit (loss) of associates (continued)

The discount rate reflects the specifics of the Group's operations and is based on the weighted-average cost of capital (WACC) which takes into account the cost of equity and debt. The cost of debt was determined based on interest rates on interest-bearing loans and borrowings raised by the Group. The cost of equity takes into account beta factors assessed based on available market data. The discount rate applied to cash flow projections is 18.4% and cash flows beyond the five-year period are extrapolated using a 2.0% growth rate that is the same as the long-term average growth rate for the pharmaceutical industry. As a result of impairment analysis as of 31 December 2013, the Group determined that the estimated value in use of the investments exceeds it carrying amount as of the reporting date. In addition, the Group determined that the sum of investments in and loans to (including interest) Hemafund Medical Center LLC, an associate, as of 31 December 2013 amounted to 39,086, which does not exceed the estimated recoverable value of such investments. As a result of the analysis, the Group concluded that it is not necessary to recognize an additional impairment loss on its investments in and loans to Hemafund Medical Center LLC as of 31 December 2013. Also refer to Note 20 "Financial assets and liabilities" and Note 27 "Subsequent events".

In 2013 and as of 31 December 2013, no indicators of impairment of investments in other associates were identified.

12. Operating income and expenses

12.1. Sale of goods and services

	2013	2012
Isolation, cryopreservation and storage of cord blood stem cells	208,518	239,399
Sales of Neovasculgen®	166,680	8,942
SPRS-therapy services	19,939	16,771
R&D revenue	16,500	24,521
Genetic diagnostics and consulting services	5,555	5,726
Other revenue	2,578	4,305
Total	419,770	299,664

The revenue increase in 2013 was due to the growth in sales of Neovasculgen®, an innovative drug developed by the Company. On 25 March 2013, HSCI signed an agreement with Sotex Pharm Firm LLC for supply of Neovasculgen®. Sotex, a member of the Protek Group, is experienced in drug introduction. The supply agreement has a term of three commercial years renewable upon mutual consent of the parties. In 2013, 2,750 boxes were supplied. In 2013, the revenue of the Group from the Neovasculgen® sales agreement with Sotex Pharm Firm LLC was 151,250 (2012: nil).

12. Operating income and expenses (continued)

12.2. Operating expenses

	2013	2012
Salary	122,154	110,318
Rent of premises	40,163	29,134
Social charges	27,831	23,172
Advertising expenses	22,673	30,604
R&D costs	21,846	32,087
Services provided by third parties	20,148	8,917
Supplies and reagents	16,497	18,733
Advisory and legal services	12,141	7,202
Transaction support and buyer search	10,487	–
Contract-based manufacturing	9,384	8,075
Allowance for bad debts	7,787	9,969
Business trips	4,861	5,844
Transport expenses	4,559	4,340
Representation expenses	4,060	7,269
Factoring commissions	3,900	–
Communications services	3,877	3,117
Audit fees	3,837	1,215
Maintenance of cryogenic equipment	3,038	2,338
Software and maintenance	2,421	2,089
Current repairs of property, plant and equipment	2,058	2,143
Tax expenses	1,939	1,024
Other expenses	8,944	14,596
Depreciation of property, plant and equipment	18,791	7,570
Amortization of intangible assets and R&D	3,711	2,548
Total operating expenses	377,107	332,304

Finance expenses of 3,900 represent commissions for factoring of accounts receivable that initially originated from sales of Group’s products.

13. Net other non-operating income/(expenses)

	2013	2012
Other non-operating expenses:		
Sale of securities	(14,141)	(906)
Revaluation of securities	(8,389)	(5,690)
Provision for impairment of financial investments	(6,395)	–
Adjustment of unrealized gain on agreements with associates	(2,661)	(5,360)
Allowance for bad debts	(410)	(1,260)
Other	(3,223)	(5,572)
Total other non-operating expenses	(35,219)	(18,788)
Other non-operating income:		
Revaluation of purchased securities	21,879	5,441
Sale of securities	13,777	664
Income from rent of property	5,797	4,415
Other income	739	2,576
Total other non-operating income	42,192	13,096
Total net other non-operating income/(expenses)	6,973	(5,692)

14. Net foreign exchange gains/losses

	2013	2012
Foreign exchange gains	1,674	37
Foreign exchange losses	(473)	(321)
Total net foreign exchange gains (losses)	1,201	(284)

15. Interest expense

	2013	2012
Interest payable accrued	(18,209)	(5,167)
Finance lease interest	(294)	(266)
Total interest expense	(18,503)	(5,433)

16. Income tax

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	2013	2012
Current income tax charge	(3,721)	(583)
Deferred income tax charge	(6,997)	5,803
Income tax expense reported in the statement of comprehensive income	(10,718)	5,220

Reconciliation of tax expense and the accounting profit multiplied by Russia's domestic tax rate for 2012 and 2013:

	2013	2012
Profit (loss) before tax	27,388	(113,334)
Theoretical income tax at the rate of 20%	(5,478)	22,667
Provision for loans	(1,555)	–
Effect of losses of associates	(1,567)	(14,322)
Tax difference arising from other non-operating expenses of the period	(2,118)	(3,125)
Total income tax	(10,718)	5,520

16. Income tax (continued)

Deferred tax

Deferred tax relates to the following:

	31 December 2013	31 December 2012	Change for 2013
Tax difference arising from services of the period for which no supporting closing documents have been received	1,815	–	1,815
Tax difference arising from amortization	1,057	334	723
Tax difference arising from intangible assets	1,020	824	196
Prior period losses	973	2,604	(1,631)
Tax difference arising from the provision for unused vacations	700	662	38
Tax difference arising from the allowance for doubtful receivables	508	913	(405)
Tax difference arising from R&D costs	287	3,685	(3,398)
Different timing of expenses recognition	–	277	(277)
Revaluation of shares	(2,698)	–	(2,698)
Adjustment to write-off inventories	(1,920)	(864)	(1,056)
Capitalization of expenses related to creating clean rooms	(1,421)	(1,095)	(326)
Adjustment of payables	(265)	–	(265)
Other	(904)	(1,191)	287
Total net deferred assets (liabilities)	(848)	6,149	(6,997)
Reflected in the statement of financial position as follows:			
Deferred tax assets	2,329	6,149	
Deferred tax liabilities	(3,177)	–	

17. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The Company had no convertible securities or any other instruments that, when converted, could result in an additional number of ordinary shares. Thus, the basic and diluted earnings per share are equal.

The following reflects the income and share data used in the basic and diluted EPS computations:

	2013	2012
Profit (loss) attributable to ordinary equity holders of the parent for basic earnings	16,670	(108,114)
Weighted average number of ordinary shares for basic EPS (with a nominal value of RUB 0.1)	75,000,000	75,000,000
Basic earnings per share, RUB	0.22	(1.44)
Diluted earnings per share, RUB	0.22	(1.44)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

18. Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Motor vehicles	Other	Construction in progress	Total
Balance at 31 December 2011	–	26,635	17,482	2,280	12,956	–	59,353
Additions	–	7,827	21,125	3,735	3,597	8,376	44,660
Disposals	–	–	–	–	(454)	(1,381)	(1,834)
Balance at 31 December 2012	–	34,462	38,607	6,015	16,099	6,996	102,178
Additions	–	56,657	6,282	–	7,326	39,223	109,488
Disposals	–	(351)	(484)	(986)	(2,186)	(45,290)	(49,297)
Balance at 31 December 2013	–	90,768	44,405	5,029	21,238	929	162,370
Accumulated depreciation							
Balance at 31 December 2011	–	(3,926)	(8,456)	(696)	(8,401)	–	(21,419)
Depreciation charge for 2012	–	(1,433)	(2,927)	(963)	(2,247)	–	(7,729)
Depreciation of property, plant and equipment disposed in 2012	–	–	–	–	450	–	450
Balance at 31 December 2012	–	(5,359)	(11,382)	(1,659)	(10,199)	–	(28,599)
Depreciation charge for 2013	–	(6,326)	(7,625)	(1,378)	(3,463)	–	(18,791)
Depreciation of property, plant and equipment disposed in 2013	–	95	322	505	1,553	–	2,475
Balance at 31 December 2013	–	(11,590)	(18,686)	(2,531)	(12,108)	–	(44,916)
Balance at 31 December 2011	–	22,709	9,026	1,585	4,554	–	37,868
Balance at 31 December 2012	–	29,103	27,224	4,356	5900	6,996	73,579
Balance at 31 December 2013	–	79,178	25,719	2,498	9,130	929	117,454

Capitalized borrowing costs

In 2012, the Group commenced the construction of a laboratory and production complex that was opened in June 2013. The construction was completed in a very short time (about 15 months). It was performed using own funds of HSCI and partially financed by a loan from Sberbank. Borrowing costs related to the loan from Sberbank capitalized during the year ended 31 December 2013 amounted to 354 (2012: 1,687).

At 31 December 2013, net book values of property, plant and equipment held by the Group under finance leases was 1,461 (2012: 2,435).

19. Intangible assets

	Software and licenses	R&D costs	User rights and patents	Trademarks	Total intangible assets
Cost					
Balance at 31 December 2011	662	23,547	53	219	24,481
Additions	160	–	–	–	160
Development	–	9,426	12,009	50	21,485
Disposals	–	(16,899)	–	–	(16,899)
Balance at 31 December 2012	822	16,074	12,062	269	29,227
Additions	170	–	–	–	170
Development	–	8,029	5,704	361	14,094
Disposals	–	(297)	–	–	(297)
Balance at 31 December 2013	992	23,806	17,766	630	43,194
Accumulated amortization					
Balance at 31 December 2011	(80)	–	–	–	(80)
Amortization charge for 2012	(182)	(1,700)	(560)	(106)	(2,548)
Disposals	–	–	–	–	–
Balance at 31 December 2012	(262)	(1,700)	(560)	(106)	(2,548)
Amortization charge for 2013	(260)	(1,700)	(1,705)	(46)	(3,711)
Disposals	–	–	–	–	–
Balance at 31 December 2013	(522)	(3,400)	(2,265)	(152)	(6,339)
Balance at 31 December 2011	582	23,547	53	219	24,401
Balance at 31 December 2012	560	14,374	11,502	163	26,599
Balance at 31 December 2013	470	20,406	15,501	478	36,855

R&D costs that do not qualify for recognition as intangible assets in accordance with accounting policies are taken to current-period expenses as incurred. In 2013, such R&D costs recognized as operating expenses amounted to 21,846 (2012: 32,087). As of 31 December 2013, R&D costs include capitalized costs related to ongoing projects of 15,306.

During 2013, the Group was engaged in a number of major R&D projects with project costs qualified for recognition as intangible assets. In 2013, the key projects included Skin Passport 2 and Nucleostim 2.

20. Financial assets and financial liabilities

Financial assets

	2013	2012
Financial assets		
Cash and cash equivalents	18,120	26,671
Trade and other receivables	90,659	102,329
Financial instruments at fair value through profit or loss	78,861	56,889
Loans issued	20,640	19,427
Total financial assets	208,280	205,316
Total current	201,134	195,614
Total non-current	7,146	9,702

20. Financial assets and financial liabilities (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss reflect the change in fair value of financial assets available for sale. The fair value of the quoted securities is determined by reference to published price quotations in an active market.

Loans and accounts receivable are held to maturity and generate a fixed or variable interest income for the Group. The carrying value might be affected by changes in the credit risk of the counterparties.

The detailed structure of loans issued is as follows:

	2013	2012
Non-current loans		
Hemafund Medical Center LLC (Ukraine)	6,546	–
First International Investment Group Ltd.	–	2,150
D.A. Shamenkov	–	1,000
D.D. Genkin	–	5,395
K.G. Surkov	–	132
FDS Pharma	–	1,025
Personnel of HSCI	600	–
Total non-current loans issued	7,146	9,702
Current loans		
Atlas Finance, Inc.	9,400	–
First International Investment Group Ltd.	2,150	–
D.A. Shamenkov	460	–
K.G. Surkov	132	–
Hemafund Medical Center LLC (Ukraine)	–	6,070
FDS Pharma	1,025	–
D.D. Genkin	5,395	–
Rabochiy CJSC	1,000	1,000
Personnel of HSCI	327	2,655
Allowance	(6,395)	–
Total current loans issued	13,494	9,725
Total loans issued	20,640	19,427

As of 31 December 2013, loans of 6,546 (31 December 2012: 6,070) represent a USD-denominated loan (USD 200 thousand) issued to Hemafund Medical Center LLC, an associate. As a result of impairment analysis of loans issued, management concluded that this loan will be repaid in full (including accrued interest).

20. Financial assets and financial liabilities (continued)

Financial assets (continued)

Trade and other receivables:

	2013	2012
Trade receivables	55,745	28,376
Taxes paid in advance and overpayments	11,880	7,862
Advances to suppliers	15,472	57,452
Other receivables	7,562	8,639
Total	90,659	102,329

The amount of allowance for doubtful receivables is determined by the Group's management based on the analysis of solvency of certain customers, most common payment methods used by customers, subsequent receipts and settlements, as well as the analysis of the expected future cash flows. Management of the Group believes that the Group will be able to realize the net receivable amount through direct collections and noncash settlements, consequently, the recorded value reflects their fair value.

Financial liabilities

	2013	2012
Financial liabilities		
At amortized cost		
Current interest-bearing loans and borrowings	90,598	87,467
Non-current interest-bearing loans and borrowings	36,742	61,789
Current finance lease liabilities	1,254	1,404
Non-current finance lease liabilities	329	1,289
Trade and other payables	23,172	18,430
Trade payables	6,021	7,949
Other payables	10,178	7,042
Taxes payable	6,973	3,439
Total financial liabilities	152,095	170,379
Total non-current	37,071	63,078
Total current	115,024	107,301

20. Financial assets and financial liabilities (continued)

Financial liabilities (continued)

As at the end of 2013 and 2012, the structure of loans and borrowings was as follows:

Creditor	Currency	Effective interest rate, %	2013	2012
Non-current loans and borrowings				
Dixcart Limited	RUB	0.0	739	739
Sberbank OJSC	RUB	14.5	13,943	37,485
FINAM Bank CJSC	RUB	14.5	22,060	23,565
Total non-current loans and borrowings			36,742	61,789
Current loans and borrowings				
A.A. Isaev	RUB	10.0	7	7
Sberbank OJSC	RUB	14.5	30,280	27,921
FINAM Bank CJSC	RUB	14.5	9,752	6,720
SynBio LLC	RUB	11.0	50,559	52,819
Total current loans and borrowings			90,598	87,467
Total interest-bearing loans and borrowings			127,340	149,256

Non-current loans from Sberbank are secured by PPE of 33,003; the non-current loan from FINAM Bank is secured by a guarantee of Artur Isaev, general director, and a pledge of HSCI's ordinary registered shares.

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash. The Group also holds available-for-sale financial instruments.

The Group is exposed to market risk, credit risk and liquidity risk.

To effectively manage these risks, the Group implements some financial risk management strategies meeting the objectives of the Group. These principles establish short-term and long-term objectives, and actions taken for managing financial risks faced by the Group.

Basic recommendations of these policies are as follows:

- minimize interest rate risk, foreign currency risk and market risk for all types of operations;
- all financial risk management activities must be performed and constantly controlled;
- all financial risk management activities must be performed reasonably and consistently, and in accordance with the best market practices.

20. Financial assets and financial liabilities (continued)

Financial risk management objectives and policies (continued)

The Group may invest in shares or similar instruments only in case of temporary excess liquidity, and such operations are subject to approval by the Board of Directors. Internal audit is performed in order to ensure compliance with the policies and procedures of the Group.

In particular, the Group follows the following risk management policies in respect of derivative instruments:

- the Group thoroughly documents all derivative instruments including relationships between them;
- the Group selects only reliable financial institutions as counterparties to derivative instrument transactions.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, and available-for-sale investments.

Interest rate risk

The Group is not exposed to interest rate risk, as it has only obligations with a fixed interest rate.

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As the Group operates only in the Russian market and most of its purchases are expressed in rubles, the Group is not exposed to foreign currency risk in the normal course of business.

The Group’s management takes the necessary measures to ensure that the share of imported goods in the cost structure does not reach a critical threshold. The Group’s sources of financing are not denominated in foreign currency.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss for the Group. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities (primarily loans issued to the associate).

20. Financial assets and financial liabilities (continued)

Financial risk management objectives and policies (continued)

Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored. Based on the results of such monitoring, an adequate allowance for doubtful receivables is made according to the concept of prudence, and accounts receivable the limitation period for which has expired are taken to the Group's expenses.

Financial instruments and cash deposits

Balances of cash and cash equivalents with maximum exposure to credit risk are represented by short-term deposits with a maturity of less than 30 days. The Group has no such assets.

Cash and cash equivalents of the Group as at the beginning and the end of the reporting period comprise balances in accounts with commercial banks.

Liquidity risk

The Group monitors its risk to a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and factoring. The following table presents financial liabilities by their remaining maturities specified by contracts (contractual and undiscounted cash flows).

Year ended 31 December 2013	Loans, borrowings and finance lease liabilities	Trade and other payables
Less than 1 year	91,852	23,172
More than 1 year	37,071	–
Total	126,052	23,172

Year ended 31 December 2012	Loans, borrowings and finance lease liabilities	Trade and other payables
Less than 1 year	88,871	18,430
More than 1 year	63,078	–
Total	151,949	18,430

The Group expects that it will have sufficient cash inflows from operating activities to meet its liabilities. In addition, the Group owns financial assets with a liquid market that can be easily converted into cash to satisfy liquidity requirements.

20. Financial assets and financial liabilities (continued)

Financial risk management objectives and policies (continued)

Fair value

The management of the Group believes that the fair value of financial assets and financial liabilities is insignificantly different from their current value.

Industry risks

The Group develops and incorporates into health care practices (commercializes and markets) innovative drugs and high-tech services.

The Company aims to foster a new culture of medical care – developing new health care opportunities in such areas as personalized and preventive medicine.

HSCI's projects encompass the following areas of modern biomedical technologies:

- gene therapy;
- regenerative medicine (cell-based services and drugs, tissue engineering);
- medical genetics, including reproductive genetics (genetic diagnostics and consulting);
- bio-insurance;
- biopharmaceuticals (within the framework of the international project SynBio).

Since these areas are innovative, they entail specific risks, including the following ones:

- ► risk of the emergence of new regulatory documents (regulatory risks that can give rise to additional requirements for products to be complied with (in the area of licensing, registration, supervision, etc.));
- ► uncertainty as to the rates of growth in demand for innovative products, and as to when the market for a particular product becomes sufficiently large, including:
  - risk that it will take some time before the market accepts innovative products/technologies/services – rejection by the medical profession (more time is needed to win trust by increasing the number of examples of successful use; it is the same, for example, in case of cell-based technologies: due to complexity of methodology, doctors must strictly follow the rules, have certain skills and spend some time to ensure that therapy is safe and effective);
  - risk that it will take some time before the market accepts innovative products/technologies/services – rejection by the end consumer (more time is needed to win trust by increasing the number of examples of successful use; high cost of service/product for the patient);
- ► reputational risks (additional information may become available on the effectiveness and side effects of drugs and technologies as they have been used for a short period of time or have not been used at all/first-in-class drugs);
- ► more attention from journalists, actions by competitors through the mass media;
- ► competition from drugs created using other technologies which may be more effective;
- ► dependency on key production and quality control personnel;
- ► risks related to registration of existing products abroad and new products in Russia (success in pre-clinical and clinical studies, and registration).

20. Financial assets and financial liabilities (continued)

Financial risk management objectives and policies (continued)

There are risks related to the promotion of the Group's services. The Group's performance is influenced by the following factors:

- level of public awareness of innovative services in the Group's field of activity;
- incidence rate of hematological and oncological diseases, primary immunodeficiency diseases, inherited metabolic disorders, and others;
- environmental situation;
- condition of biotech science in Russia and abroad;
- availability of highly qualified researchers and support personnel;
- number of examples of successful practical application of cell-based technologies (including transplantation of stem cells) in Russia;
- unforeseen changes in the market for R&D products;
- negative research results;
- negative economic consequences;
- unforeseen changes in national regulations for commercial activities (taxes, depreciation);
- decrease in population and, consequently, decrease in the number of consumers;
- decrease in salary and, consequently, lower consumer purchasing power.

The above-mentioned risks may affect the Group's business and result in the deterioration of financial results or slower growth rates, which could have an effect on the value of the Group's shares and its ability to pay dividends. However, the Group minimizes these risks, including through the implementation of a broad advertising and public awareness campaign addressing safety concerns over the latest scientific developments and discoveries associated both with principal activities and related areas.

The parent company HSCI assesses the risk of changes in the competitive environment on the main current market as rather low due to the significant market share of the Company as compared with the closest competitors (cord blood stem cells banking).

The risk of changes in the competitive environment on the target markets for new products and services is assessed as rather low due to the absence of direct competitors, as such products and services represent new brands and market niches (first-in-class gene therapy drug Neovasculgen®, portfolio of genetic diagnostics and consulting services provided by the Russia-wide network of Genetico medical genetics centers owned by the Company, and others).

According to the long-term development strategy of the parent company, it is to ensure growth through expansion and development of HSCI's unique products (Neovasculgen®, SPRS-therapy, and others) in foreign markets, including through participation in partnership programs. For this reason, management and owners of the Company do not rule out a number of risks related to the development of promising drugs abroad.

20. Financial assets and financial liabilities (continued)

Financial risk management objectives and policies (continued)

Besides, 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 harm. These risks are covered by relevant insurance in accordance with resolutions of management.

In addition, management of the Group companies pays due attention to most effective business management methodologies and fire safety measures.

The probability of the risks is low.

21. Inventories

	2013	2012
Raw materials	4,694	3,949
Materials transferred for processing	4,343	568
Goods for resale	5,625	4,845
Other inventories	461	2,181
Total inventories	15,123	11,543

22. Cash and cash equivalents

	2013	2012
RUB-denominated cash on hand and balances on settlement account	17,967	25,883
Foreign currency-denominated balances on settlement account	153	788
Total cash and cash equivalents	18,120	26,671

23. Capital and reserves

Share capital and share premium

The share capital of the parent consists of 75,000,000 non-documentary ordinary shares with a nominal value of RUB 0.10 each. The share capital was paid in full.

The Company’s key shareholders as of 31 December 2013 are presented below:

1. Artur Isaev;
2. First International Investment Group Ltd. (90 Main Street, P.O. Box 3099, Road Town, Tortola, BVI);
3. Dynamic Solutions Ltd. (103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles).

The others are minority shareholders.

23. Capital and reserves (continued)

Share capital and share premium (continued)

On 22 September 2009, the Extraordinary General Shareholders' Meeting of HSCI adopted a resolution to increase the share capital of the parent through a private offering of 20,000,000 (twenty million) additional ordinary shares with a nominal value of RUB 0.10 (zero point ten) each. State registration number of the additional issue of securities and the date of state registration: 1-01-08902-A-001D, 8 December 2009.

As a result of the Company's IPO in December 2009, 15,000,000 ordinary shares (additional issue – 20% of share capital) were placed on the MICEX at a price of RUB 9.5 per share.

As of 31 December 2009, the increase in share capital was not registered. The report on the additional issue of securities (ordinary shares) was registered in April 2010. Therefore, according to the Regulation on Disclosure of Information by Issuers of Securities, the placement could not be considered to have taken place as of 1 January 2010. As a result, in these consolidated financial statements, the total nominal value of shares placed as a result of the additional issue (1,500) was recognized in share capital and the amount of 141,000 was recognized as share premium for the year 2010. In 2012, the Group sold some of treasury shares, which resulted in a decrease in share premium by 1,298.

Other reserves

Other reserves comprise reserve capital created in accordance with the legislation of the Russian Federation, and the result from acquisition of an additional interest in the subsidiary Cryonix CJSC.

24. Contingencies and commitments, and operational risks

Political situation

Business activity and profit received 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 limited insurance policies for assets, operations, liability and other insured risks. Consequently, the Group may be exposed to risks that are not insured.

Litigations

The Group's management believes that there are no current claims or lawsuits against the Group outstanding, or final rulings thereon, which could have a material adverse effect on the financial position of the Group.

24. Contingencies and commitments, and operational risks (continued)

Currency regulation

Domestic market

Risks arising from possible changes in currency regulations are currently assessed by the Group as insignificant. The liberalization of currency regulations reduces the risks arising from changes in currency legislation.

Foreign market

Legal risks arising from changes in currency regulations in the foreign market do not have any material effect on the Group's activities due to an insignificant volume of the Group's operations in the foreign market.

Risks related to tax legislation

Domestic market

Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Interpretation of such legislation by the Group's management as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of this legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the tax authorities for a period of three calendar years immediately preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that as of 31 December 2013 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Where management strongly doubts that the Group's positions will be sustained, the Group recognizes the respective liabilities in its financial statements.

Foreign market

Legal risks arising from changes in tax legislation in the foreign market do not have any material effect on the Group's activities due to an insignificant volume of the Group's respective operations.

Environment

Environmental regulations in the Russian Federation are getting tighter, as is the position of government authorities with regard to their enforcement. The Company evaluates its environmental liabilities on a regular basis.

24. Contingencies and commitments, and operational risks (continued)

Environment (continued)

Potential liabilities may arise as a result of changes in existing legislation or regulation of civil litigation. The effect of these potential changes cannot be determined, but they can be significant.

Considering the current situation as regards the compliance with effective regulations, the Group's management believes that there are no material environmental liabilities.

Operating environment of the Group

Whilst there have been improvements in the Russian economy, it continues to display certain characteristics of a developing market. These characteristics include, without limitation, inconvertibility of the Russian ruble in most countries and a relatively high inflation. Moreover, the existing Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently.

The economic prospects of the Russian Federation is largely dependent upon the global macroeconomic situation, the effectiveness of economic measures, financial mechanisms and monetary policy of the government of the Russian Federation, and the development of the fiscal, legal, administrative and political systems.

25. Operating and finance leases

25.1. Operating lease

Future minimum rentals payable under lease agreements as of 31 December are as follows:

Group as a lessee

	2013	2012
Within one year	36,648	39,128
After one year but not more than five years	114,143	132,161
More than five years	118,950	81,923
Total	269,741	253,212

Future minimum rentals payable under lease agreements as of 31 December are as follows:

Group as a lessor

	2013	2012
Within one year	6,159	6,252
After one year but not more than five years	6,039	6,279
Total	12,198	12,531

25. Operating and finance leases (continued)

25.2. Finance lease

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal, but no purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2013		2012	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	1,267	1,254	1,417	1,404
After one year but not more than five years	528	329	1,795	1,289
Total minimum lease payments	1,795	1,583	3,212	2,693
Less finance charges	(212)	–	(519)	–
Present value of minimum lease payments	1,583	1,583	2,693	2,693

26. Related party transactions

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or is under common control with the other party.

In considering each possible related party relationship, attention must be mainly directed to the substance of the relationship, not merely the legal form.

Related parties of the Group during the reporting periods are presented below:

- Artur Isaev;
- Andrey Isaev;
- Alexander Prikhodko;
- Sergey Kiselev;
- Maria Isaeva;
- Dmitry Alexandrov;
- Vladislav Saulin;
- Sergey Avtushenko;
- Roman Deev;
- Vadim Zorin;
- Andrey Lakhturov;
- Ruslan Shebatin;
- Dmitry Genkin;
- Maxim Dremin;
- First International Investment Group Ltd. (BVI);
- Dynamic Solutions Ltd. (Seychelles);
- Hemafund Medical Biotech Company LLC (former Human Stem Cells Institute Limited Liability Company in Kiev (Ukraine));
- Hemafund Medical Center LLC (Ukraine);
- SynBio LLC;
- IPOboard LLC.

26. Related party transactions (continued)

The nature of relationship with those related parties with whom the Group entered into significant transactions in 2013 and 2012 or had significant balances outstanding as of 31 December 2013 and 2012 is detailed below.

The transactions of the parent with related parties included the following:

	2013	2012
Revenue	15,058	20,949
SynBio LLC	14,975	20,949
IPOboard LLC	83	–
Interest income	1,501	1,459
First International Investment Group Ltd.	322	310
Hemafund Medical Center LLC	640	620
D.D. Genkin	529	529
Other income	2,897	3,572
Hemafund Medical Center LLC	476	–
SynBio LLC	2,421	3,572
Other expenses		
Interest expense	4,436	2,569
SynBio LLC	4,436	2,569
Operating expenses	17	–
SynBio LLC	17	–

Revenue in the amount of 14,975 (net of VAT) includes payment for part of the works performed by HSCI OJSC and Cryonix CJSC under a contractor agreement with SynBio LLC (development of the technical documentation for the production of a drug and manufacture of the pilot batches of the drug for pharmaceutical examination and clinical studies).

The outstanding balances of the Group's related party transactions at the beginning and the end of the period are as follows:

	2013	2012
Accounts receivable	2,068	1,191
Hemafund Medical Center LLC	1,830	1,191
SynBio LLC	238	–
Accounts payable	55	5,000
SynBio LLC	55	5,000
Current loans and borrowings issued	–	3,424
First International Investment Group Ltd.	–	3,424
Non-current loans issued	14,091	9,613
D.D. Genkin	5,395	5,395
First International Investment Group Ltd.	8,696	4,218
Loans and borrowings received	47,000	50,000
SynBio LLC	47,000	50,000
Interest accrued and payable on loans received	3,018	2,576
SynBio LLC	3,011	2,569
A.A. Isaev	7	7

26. Related party transactions (continued)

Compensation of key management personnel of the Group

Compensation paid to key management personnel of the Group for the performance of their duties comprises salary specified by contracts and bonuses. Amounts shown include personal income tax but do not include insurance payments to non-budgetary funds.

	2013	2012
Salaries and other short-term benefits	15,799	15,011
Total as of 31 December	15,799	15,011

In 2013, the Group paid compensation to members of the Board of Directors for participation in its meetings. Compensation amounted to 483.

27. Events after the reporting period

Contribution of HSCI's interest in SynBio LCC to the charter capital of IceGen LLC

During February-March 2014, HSCI ceased to be a participant of SynBio LCC as it contributed its interest in the charter capital of this company as an additional contribution to IceGen LLC, having increased the nominal value of its interest in IceGen LLC.

On 14 February 2014, HSCI disposed of its interest in the charter capital of SynBio LCC by contributing it to the charter capital of IceGen LLC as an additional contribution.

HSCI did so in compliance with the investment agreement under the SynBio project signed by the company on 4 August 2011 and approved, together with transactions associated with its implementation, by the Extraordinary General Shareholders' Meeting on 31 August 2011.

According to the investment agreement, the participants of the SynBio project (except for RUSNANO) were obliged to consolidate their assets with the asset holding company (by transferring the interests in SynBio LLC held by all participants of the project (except for RUSNANO) to the charter capital of the asset holding company).

As a result, only two parties become the participants of SynBio: RUSNANO (41%) and the asset holding company (59%), which represents the interests of all other participants of the project, including HSCI. The asset holding company is IceGen LLC founded on 9 August 2011. The contribution of HSCI to the charter capital of this company, which equals 300, amounted to 144. Accordingly, HSCI's interest in IceGen LLC was 48.07%.

On 14 February 2014, HSCI signed an agreement to dispose of its interest in the charter capital of SynBio LLC (28.18% with a carrying value of 613,078) by contributing it to the charter capital of IceGen LLC as an additional contribution.

As a result, HSCI ceased to be a participant of SynBio LLC and acquired an indirect stake in this company through its interest in IceGen LLC, which remained to be equal to 48.07% after the state registration of the increase in the charter capital of IceGen LLC (4 March 2014).

The nominal value of HSCI's interest in IceGen LLC became equal to 613,222 after the charter capital of the latter increased.

27. Events after the reporting period (continued)

Signing an investment agreement with RVC Biopharmaceutical Investments, Ltd.

On 17 February 2014, HSCI and RVC Biopharmaceutical Investments, Ltd. (RVC BioFund) signed an investment agreement regulating the terms of and the procedure for the joint implementation (including financing) of a project to set up a network of medical centers in Russia for the development of personalized medicine based on the principle of individual approach to the prevention, diagnosis and treatment of reproductive and genetic disorders.

The project is being implemented using the facilities of a subsidiary of HSCI, the Regenerative and Genetic Medical Center of the Human Stem Cells Institute (RGMC HSCI LLC – "project company"). RVC BioFund will become one of its participants.

The total amount of financing for the project during the first two years will be RUB 309.2 million. The amount of financing to be provided by HSCI will be RUB 206.2 million, including HSCI's non-cash contribution to the project company in the amount of RUB 130.0 million.

The investment agreement signed by HSCI and RVC BioFund entered into force after it was approved at the Extraordinary General Shareholders' Meeting on 27 March 2014.

Depreciation of the Russian ruble

From 1 January 2014 to the date of these financial statements, the Russian ruble depreciated against the US dollar and other major world currencies by about 9%. As of 31 December 2013, the Company had no significant liabilities expressed in foreign currency, in particular in US dollars.

Economic and political situation in Ukraine

From 1 January 2014 to the date of these financial statements, the Ukrainian hryvnia depreciated against the US dollar and other major world currencies by about 26%. Non-current financial assets as of 31 December 2013 comprise the loan issued by the Company to Hemafund Medical Center LLC in the amount of 6,546. Interest receivable on this loan amounted to 1,830.

The political and economic instability in Ukraine, which has grown significantly since February 2014, may have a material adverse effect on the transactions and the market value of Hemafund Medical Center LLC and on Hemafund Medical Center LLC's ability to repay the loan provided by the Company.

Breach of the terms of the loan agreement with the associate SynBio LLC

On 1 April 2014, the Group breached the terms of the loan agreements with its associate SynBio LLC and did not make the payments due. Loans from our associate SynBio LLC as of 31 December 2013 totaled 50,559, including interest. As of the date of issuance of these consolidated financial statements, loans from SynBio LLC were still outstanding.

27. Events after the reporting period (continued)

Breach of the terms of the loan agreement with the associate SynBio LLC (continued)

Management of the Group believes that it will be able to extend loan agreements with SynBio LLC so that the Group will not be obliged to pay 50,559 in 2014. Also, management of the Group believes that failure to comply with loan agreements will not result in any fines against the Group or additional liabilities. As of the date of these consolidated financial statements, the Group received a letter signed by the general director of SynBio LLC confirming their intent to propose the extension of the loan agreement with the Company for the agenda of SynBio's BoD.

Management of the Group also believes that failure to meet the liabilities under the loan agreements with SynBio LLC will not result in the obligation to make early repayment of other loans and borrowings as the amount of this liability is insignificant in relation to the carrying value of the Group's on-balance sheet assets and revenue.