TRANSLATION FROM RUSSIAN ORIGINAL

Ref: page 2

Independent auditor's report for

Consolidated financial statements of

Open Joint Stock Company
Human Stem Cells Institute
and its subsidiaries

as of 31 December 2014 and for the year then ended

April 2015

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Important remarks

Consolidated financial statements of HSCI as of and for the year ended December 31, 2014 in accordance with IFRS as well as Auditor's report were prepared in Russian. In the event of any inconsistency between the English and the Russian texts, the Russian text shall prevail.

Independent auditor's report

To:
Shareholders, Board of Directors, executive board and other who might concern in respect of OJSC "Human Stem Cells Institute" (HSCI Group).

The Audittee

Open Joint Stock Company "Human Stem Cells Institute" (OJSC "HSCI")
OGRN 1037789001315 as of 27.11.2003
Location: 18/1 Olympiskiy avenue, Moscow 129110, Russia

The Auditor:

ReKa-Audit, LLC is a member of Non-commercial Partnership "Moscow Audit Chamber" registered under (ORNZ) №11003010761 as of 24.06.2010
State Registration Certificate series 50 № 012580149 issued by the Interdistrict Inspectorate of the Federal Tax Service number 2 on the Moscow region October 4, 2010.
OGRN 1105018002726.
Location : 25 Nesterenko st., Moscow Region, Jubilee town 141090, Russia.
Mailing address: Office 2.11, entrance 4B, Bld.2, 27 Sushchevskaya st., Moscow 127055, Russia.

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Human Stem Cells Institute" (hereinafter referred as "the Company") and its subsidiaries (hereinafter referred as "the Group") prepared according to IFRS. The financial statements include the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the statement of cash flows and the notes to the financial statements for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The management of the Company is responsible for preparation and fair presentaiton of these financial statements in accordance with International Financial Reporting Standards ("IFRS") The management is also responsible for the system of internal controls needed for preparation of the financial statements, free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express our opinion on the reliability of the financial statements. We have conducted the audit in accordance with the International Audit Standards. These standards require us to abide by ethic norms and to duly plan and conduct our audit in order to gain

reasonable assurance that the financial statements are free from material misstatements. Our audit included audit procedures aimed at examining audit evidences in respect of the audited financial statements and the disclosures. We chose the audit procedures based on our professional judgment and based on our assessment of the risk that financial statements may have material misstatement due to errors or misconduct. We reviewed but not audited the system of internal controls, as a part of our risk assessment which influenced our choice of the audit procedures. We do not express our opinion on the system of internal controls of the Group.

Our audit procedure also included our assessing accounting policies and significant estimates made by, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Auditor's opinion:

In our opinion the consolidated financial statements of the Group presents fairly in all material respects the financial position of the Group as at December 31, 2014 and the results of its operations, changes in shareholders equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Standards Board.

Certificate of auditor of "ReKa- Audit" __/s/____ Mikheeva I.S.

(authorized person by power of attorney № 7 of 03.09.2014)
auditor's qualification certificate number 03-000651
Major registration record number (ORNZ) in the register of auditors and audit organizations number 21403048184

30 April 2015

	Notes	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	17	110,485	117,454
Intangible assets	18	50,636	36,855
Investments in associates	10	314,426	348,984
Non-current financial assets	19	-	7,146
Deferred tax assets	15	3,258	2,329
Total non-current assets		**478,805**	**512,768**
Current assets			
Inventories	20	50,926	15,123
Long-term assets held for sale (AFS financial investments)	10	10,000	-
Trade receivables	19	18,893	55,745
Other receivables	19	39,325	34,914
Other current financial assets	19	136,824	92,355
Cash and cash equivalents	21	70,841	18,120
Total current assets		**326,809**	**216,257**
Total assets		**805,614**	**729,025**
Equity and liabilities			
Equity			
Share capital	22	7,500	7,500
Share premium	22	139,702	139,702
Treasury shares		(43,179)	(43,179)
Retained earnings		234,653	247,846
Other components of equity	22	485	(101)
Equity attributable to equity holders of the parent		**339,161**	**351,768**
Non-controlling interests	9	82,729	10,554
Total equity		**421,890**	**362,322**
Non-current liabilities			
Interest-bearing loans and borrowings	19	-	36,742
Finance lease liabilities	19	-	329
Deferred tax liabilities	15	18,558	3,177
Total non-current liabilities		**18,558**	**40,248**
Current liabilities			
Interest-bearing loans and borrowings	19	98,367	90,598
Advances received	19	254,936	211,431
Trade and other payables	19	9,295	16,199
Finance lease liabilities		499	1,254
Taxes payable		2,069	6,973
Total current liabilities		**365,166**	**326,455**
Total liabilities		**383,724**	**366,703**
Total equity and liabilities		**805,614**	**729,025**

30 April 2015

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

The notes on pages 9 through 54 are an integral part of these consolidated financial statements

	Notes	2014	2013
Sale of goods and services	11.1	359,371	419,770
Total revenue		**359,371**	**419,770**
Operating expenses, including:	11.2	(410,630)	(377,107)
Depreciation and amortization	*11.2*	(25,002)	(22,502)
Operating profit / (loss)		**(51,259)**	**42,663**
Interest expense	14	(11,946)	(18,503)
Interest income		5,645	2,890
Share of loss of associates	10	(3,329)	(7,836)
Net other non-operating income	13	59,724	6,973
Net foreign exchange gain	13	1,325	1,201
Profit before tax		**160**	**27,388**
Income tax		(16,762)	(10,718)
Profit / (loss) for the year		**(16,602)**	**16,670**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		586	64
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**586**	**64**
Total comprehensive income / (loss) for the year, net of tax		**(16,010)**	**16,734**
Profit / (loss) for the year		**(16,602)**	**16,670**
Attributable to:			
Equity holders of the parent		(13,193)	14,722
Non-controlling interests	9	(3,409)	1,948
Total comprehensive income / (loss) for the year, net of tax		**(16,602)**	**16,734**
Attributable to:			
Equity holders of the parent		(13,193)	14,786
Non-controlling interests	9	(3,409)	1,948
Basic and diluted earnings /(loss) per share for profit / (loss) for the year attributable to equity holders of the parent (RUB)	16	(0,22)	0.22

30 April 2015

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

The notes on pages 9 through 54 are an integral part of these consolidated financial statements

	Notes	2014	2013
Operating activities			
Profit / (loss) for the year		(16,602)	16,670
Income tax expense		16,762	10,718
Profit before tax		**160**	**27,388**
Adjustment for non-cash items to reconcile profit before tax to net cash flows			
Depreciation and amortization		25,002	22,502
Interest expense		11,946	18,503
Interest income		(5,645)	(2,890)
Share of loss of associates		3,329	7,836
Net foreign exchange (gain)		(1,325)	(1,201)
Other non-operating (income)/expenses		(15,232)	2,239
Provision for loans issued		-	6,395
Net (gain) / loss from revaluation of financial instruments held for trading		21,458	(13,127)
Operating income before changes in working capital, interest and income taxes paid		**39,693**	**67,645**
Working capital adjustments			
Decrease in trade and other receivables and prepayments		3,522	9,653
(Increase) in inventories		(35,803)	(3,580)
Increase in trade and other payables		33,852	16,580
Income tax paid		(3,038)	(7,789)
Net cash flows from operating activities		**38,226**	**82,508**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(32,854)	(34,504)
Loans issued		(18,761)	(13,572)
Repayment of loans issued		3,436	5,963
Proceeds from sale of financial assets held for trading		10,461	12,568
Purchase of financial assets for trading		-	(22,000)
Interest received		2,898	2,017
Net cash flows used in investing activities		**(34,820)**	**(49,529)**
Financing activities			
Proceeds from loans and borrowings net of fees paid		61,003	33,458
Repayment of loans and borrowings		(76,102)	(56,080)
Interest paid		(9,377)	(17,935)
Payment of finance lease liabilities		(1,254)	(973)
Sale of a stake in a subsidiary		75,000	–
Net cash flows from / (used in) financing activities		**49,270**	**(41,530)**
Net increase/(decrease) in cash and cash equivalents		**52,676**	**(8,551)**
Cash and cash equivalents at the beginning of the year		18,120	26,671
Cash and cash equivalents at the end of the year		**70,796**	**18,120**

30 April 2015

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

The notes on pages 9 through 54 are an integral part of these consolidated financial statements

	Attributable to equity holders of the parent									
	Share capital (in millions of shares)	**Share capital (Note 22)**	**Treasury shares**	**Share premium (Note 22)**	**Foreign currency translation reserve**	**Other reserves (Note 22)**	**Retained earnings**	**Total**	**Non-controlling interests (Note 9)**	**Total equity**
As at 1 January 2014	**75**	**7,500**	**(43,179)**	**139,702**	**(586)**	**485**	**247,846**	**351,768**	**10,554**	**363,322**
Profit for the year	–	–	–	–		–	(13,193)	(13,193)	(3,409)	(16,602)
Other comprehensive income	–	–	–	–	586	–		586		586
Total comprehensive income	**–**	**–**	**–**	**–**	**586**	–	**(13,193)**	**(12,607)**	**(3,409)**	**(16,016)**
Increase of subsidiary's charter capital /additional capital contribution (Note 2)	–	–	–	–	–	–	–	–	74,999	74,999
Disposal of subsidiary	–	–	–	–	–	–	–	–	585	585
As at 31 December 2014	**75**	**7,500**	**(43,179)**	**139,702**	**–**	**485**	**234,653**	**339,161**	**82,729**	**585**
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 (Note 2)	–	–	–	–	–	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**

30 April 2015

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

The notes on pages 9 through 54 are an integral part of these consolidated financial statements

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1. Corporate information

The consolidated financial statements of Open Joint Stock Company Human Stem Cells Institute and its subsidiaries as of and for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the General director on 30 April 2015.

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.

In December 2009 Human Stem Cells Institute conducted an IPO on the MICEX (ticker: ISKJ), becoming the first biotech company in Russia to go public. HSCI's IPO opened trading on the iIM (Innovation & Investment Market) – a new exchange sector created as a platform for innovative and growing companies. Today MICEX is part of the Moscow Exchange (the ME MICEX-RTS).

The Company's key shareholders as of the end of 2014 were:

1. Artur Isaev; 16.80% interest; 12,600,000 shares;
2. First International Investment Group Ltd. (90 Main Street, P.O. Box 3099, Road Town, Tortola, BVI); 32.15% interest; 24,110,000 shares;
3. Dynamic Solutions Ltd. (103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles); 24.00% interest; 18,000,000 shares.

As of 31 December 2014, the Company was under control of the above shareholders (72.95% of the share capital of the Company) with First International Investment Group Ltd. and Dynamic Solutions Ltd. being under indirect control of Dr. 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:

Name	Business activity	Country of incorporation	% equity interest 31 December 2014	% equity interest 31 December 2013
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 JSC	Development and commercialization of innovative drugs and provision of high-tech medical services.	Russia	70.11	58.98
RGMC (Regenerative and Genetic Medical Center) HSCI LLC	Provision of medical services (genetic diagnostic 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	76.11	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. The shares of participants of SynBio LLC were consolidated in 2014.	Russia	54.60* was not consolidated in this CFS	53.38*
IMCB LLC	International Center of Biomaterials Processing and Cryostorage	Russia	100.00	-

** 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.

2. Group information (continued)

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.

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 JSC. 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 JSC. The acquisition of Cryonix JSC was a common control transaction, thus, in accordance with accounting policies of the Group, it was recognized as acquisition of business under common control.

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

In 2014 HSCI paid for the shares of Cryonix JSC under closed subscription for an additional securities issue. In November 2014, the report on the issue of additional securities underwent state registration. As a result, the Group's share in Cryonix JSC increased to 70.11%.

Cryonix JSC 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 JSC 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 JSC amounting to 48.07% and 9.31%, respectively.

As of 31 December 2014, the Group's effective interest in IceGen LLC was 54.60% (as of 31 December 2013: 53.56%).

IceGen LLC was established to consolidate participatory interests of SynBio LLC (except for RUSNANO OJSC) as an asset holding company. Participatory interests of SynBio LLC were consolidated in 2014, resulting in the Group's loss of control over IceGen LLC. Therefore, starting from 2014, IceGen LLC is accounted for using the equity method (Note 3.3).

In October 2012 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 diagnostic services followed by consultations with a medical geneticist, including medical genetics consultations for children and adults based on the results of genetic screening using HSCI's proprietary DNA array called Ethnogene.

2. Group information (continued)

At the new laboratory and production complex of RGMC HSCI, the Company also opened a specialized PGD-laboratory to provide pre-implantation genetic diagnosis, as well as Reprobank (high-tech reproductive cell & tissue bank) for personal storage and donation.

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 implemented by HSCI's subsidiary, the Regenerative and Genetic Medical Center of the Human Stem Cells Institute (RGMC HSCI LLC − "project company"), where RVC BioFund has acquired a stake.

Total project investment will reach RUB 309.2 million in the first two years. HSCI's investment will be RUB 206.2 million, including HSCI's non-monetary contribution in the project company (property, property rights, intellectual property), with its cost defined based on the independent appraiser's report.

By the resolution of 02 June 2014, RVC BioFund became a participant of RGMC HSCI LLC, with the nominal value of HSCI participatory interest reaching RUB 239,000 (76.11%) and the nominal value of RVC BioFund stake amounting to RUB 75,000 (23.89%).

On 01 September 2014, pursuant to the BOD Minutes, HSCI OJSC resolved to establish International Center of Biomaterials Processing and Cryostorage LLC with 100% participatory interest of HSCI OJSC.

The companies within the Group have no representative offices.

3. Associates

3.1. Investment into Hemafund Medical Center LLC

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.

Under the agreement of sale (assignment) of the share in the charter capital of Hemafund Medical Center LLC as of 17 February 2015, HSCI OJSC shall fully dispose of its share in the associated company to NORD STATE LTD. As of the reporting date, the transaction was under registration.

As of the reporting date 31 December 2014, the Group estimated its investment into Hemafund Medical Center LLC under IFRS 5 *Long-term Assets for Sale and Operations Termination* at fair value less selling expenses, and classified it as a *Long-term Asset Held for Sale* in HSCI's consolidated statement of financial position. The Investment impairment loss to fair value was recognized within the losses of the current period.

3.2. Investment into Hemafund Medical Biotech Company LLC

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.

3. Associates (continued)

On 20 October 2014, HSCI OJSC signed an agreement for the sale of its share in Hemafund Medical Biotech Company LLC, under which HSCI fully disposed of the participatory interest in Hemafund Medical Biotech Company LLC in favour of Ya.V. Isakov, Ukrainian citizen. As of the reporting date 31 December 2014, the transaction was completed.

3.3. Investment into SynBio LLC

In 2011, HSCI and Cryonix JSC 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 JSC, 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 JSC 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 JSC, a subsidiary, was 5.46%.

On 14 February 2014, HSCI OJSC and Cryonix JSC disposed of their shares in SynBio LLC by adding them as an additional contribution to the charter capital of IceGen LLC.

This move has been made to execute the conditions of the Investment Agreement on the SynBio project, signed 4 August 2011 and approved along with other transactions related to its implementation by HSCI's Extraordinary General Shareholders' Meeting on 31 August 2011.

According to the Investment Agreement, the parties of the SynBio project (except RUSNANO) committed themselves to consolidate their assets in an asset holding (nominal owner) company. The consolidation was to occur through the transfer of SynBio participants' stakes (except RUSNANO) into the holding company.

Thereby, as of 31 December 2014, SynBio LLC had only two participants: RUSNANO (41%) and the nominal owner company (59%), which represents the interests of all other partners in the project, including HSCI OJSC and Cryonix JSC. This holding company is IceGen LLC, established on 9 August 2011.

As a result, HSCI OJSC and Cryonix JSC terminated direct participation in SynBio LLC. Currently, the Group has an indirect interest in this company through its participatory interest in IceGen LLC.

After the state registration of the increased charter capital of IceGen LLC (as of 4 March 2014), the Group's participatory interest in IceGen LLC has not change, but the Group has lost a control over IceGen LLC.

The Group henceforth considers IceGen LLC as an associated company, which is accounted for by means of the equity method.

4. 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.

The consolidated financial statements provide comparative information in respect of the previous period.

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 2014. 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.

4. Operating environment (continued)
4.2. Basis of consolidation (continued)

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.

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 JSC, the share in Cryonix JSC held by the Group increased by 3%. The Group accounted for this transaction as an equity transaction.

In 2014, RVC BioFund became a participant of RGMC HSCI LLC, consequently, as of 31 December 2014, the Group's share reduced to 76.11% (31 December 2013: 100%). (refer to Note 2)

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.

In 2014, the Group lost control over subsidiary IceGen LLC resulting from performance of the Investment Agreement on SynBio project, while maintaining a significant influence on the company. Therefore, the Group considers IceGen LLC to be an associated company accounted for using the equity method (refer to Note 3).

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

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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 2014, the Group had no goodwill (as of December 2013: 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.

4. Operating environment (continued)
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 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.

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.

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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).

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 consolidated financial statements for the year ended 31 December 2013 and as of December 2013 the Group continued applying the equity method to these investments.

As of 31 December 2014, the Group stopped recognizing the participatory interest in Hemafund Medical Center LLC as an investment in the associated company and classified this investment as a long-term asset held for sale at a fair value less selling expenses (refer to Note 3).

In Q4 2014, the Group terminated participation in Hemafund Medical Biotech Company LLC under the agreement for the sale of its stake in the charter capital of Hemafund Medical Biotech Company LLC dated 20 October 2014 (refer to Note 3).

As of 31 December 2014, the Group assigned the participatory interests in SynBio LLC and now has an indirect interest in the company through its associated company IceGen LLC (refer to Note 3).

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.

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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

- 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. Operating environment (continued)
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.

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.

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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.

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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.

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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.

4. Operating environment (continued)

4.3. Summary of significant accounting policies (continued)

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.

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 2014 and 2013, 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

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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 19.

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. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

As for 31 December 2014 the Group recognizes an investment into associated company Hemafund Medical Center LLC as an AFS financial investment (long-term asset held for sale).

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.

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

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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.

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 years ended 31 December 2014 and 2013, 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 years ended 31 December 2014 and 2013, 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

4. Operating environment (continued)
4.3. Summary of significant accounting policies (continued)

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 19.

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.

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

4. Operating environment (continued)

4.3. Summary of significant accounting policies (continued)

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.

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 the accounting policies and disclosures

The IFRS Committee published new standards with amendments and interpretations, which did not come into force as of 31 December 2014 and which were not accounted for during preparation of these consolidated financial statements.

4. Operating environment (continued)
4.4. Changes in the accounting policies and disclosures (continued)

In May 2014, the IFRS Board issued a new IFRS standard 15 *Revenue from Contracts with Customers*. IFRS 15 is a uniform guide for revenue accounting and contains all requirements for information disclosure in the financial statements. The new standard replaces standards IAS 18 *Revenue*, IAS 11 *Construction Contracts,* and interpretations of IFRS provisions on revenue accounting. IFRS 15 comes into effect for annual periods starting from 01 January 2017 or later; its early application is permitted. At present, the Company analyzes how the changes under the standard affect the consolidated financial statements.

In July 2014, the IFRS Board issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 unifies new requirements to classification, evaluation and impairment of financial instruments, and to hedging accounting. IFRS 9 comes into effect for annual periods starting from 01 January 2018 or later; its early application is permitted. These changes are not expected to have significant impact on the consolidated financial statements of the Group.

In May 2014, the IFRS Board issued amendments *Accounting for Acquisition of Interests in Joint Operations* to IFRS 11 *Joint Arrangements*. These amendments clarify accounting for investment in joint operations being a separate business and require applying principles on business combinations accounting set forth in IFRS 3. Amendments to IFRS 11 come into effect for annual periods starting from 01 January 2016 or later; early application of amendments is permitted. These amendments are not expected to have significant impact on the consolidated financial statements of the Group.

In May 2014, the IFRS Board issued amendments *Clarification on Methods of Depreciation and Amortization* to IAS 16 *Fixed Assets* and IAS 38 *Intangible Assets*. These amendments clarify that revenue-based methods of depreciation and amortization cannot be considered to record consumption of future economic benefits associated with an asset. The amendments to IAS 16 and IAS 38 come into effect for annual periods starting from 01 January 2016 or later; early application of amendments is permitted.

These amendments are not expected to have significant impact on the Group's consolidated financial statements.

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.

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

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

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.

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.

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

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 2014, 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 15.

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 15.

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.

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

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.

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 11.1.

The Company provides services and sells products primarily in the Russian Federation, except for a portion of drugs that are sold in the Ukraine. 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.
In 2014, the Group disposed of the investment into Hemafund Medical Biotech Company LLC in Ukraine (associated company), and as of 31 December 2014, planned to sell the investment in Hemafund Medical Center LLC (refer to Note 26 *Events after the reporting date*).

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 2014 consolidated financial statements, the net loss of the Company was 16,602 (2013: net profit of 16,670) and its current liabilities exceeded its current assets by 38,357 as of 31 December 2014. As of 31 December 2014, current liabilities of the Company amounted to 265,166, including advances from customers of 254,936.

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 2015 and further. However, based on historical statistics, management believes that only an insignificant portion of advances will have to be returned in cash.

7. Going concern assumption (continued)

As of 31 December 2014, current loans and borrowings of the Company amounted to 98,367, including loans from SynBio LLC, an associate through IceGen LLC, of 50,834 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 50,834 in 2015. 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.

In these consolidated statements, the Group indirectly accounts for the losses of SynBio LLC by accounting the financial results of IceGen LLC (associated company) in the amount of the effective interest.

In 2014, SynBio LLC accrued the Group's loan provision in full, and these expenses were recognized in the company's financial results.

For accurate accounting of the associated company's financial performance, the Group wrote off some loans received from SynBio LLC against financial results in proportion to its effective interest in this company. Written-off loans received from SynBio LLC amounted to RUB 16,272.

The rest of current banking loans will be repaid by the Group in 2015 in line with contractual terms.

We expect that the Company's net cash flows from operating activities in 2015 will be sufficient to cover our liabilities payable in 2015, as described above. 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 2014 (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 2015, 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.

8. Capital management (continued)

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.

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 2014	**31 December 2013**
Interest-bearing loans and borrowings (Note 19)	98,367	127,340
Trade and other payables (Note 19)	9,295	16,832
Finance lease liabilities	499	1,583
Less: cash and cash equivalents (Note 21)	(70,841)	(18,120)
Net debt	**37,320**	**127,635**
Equity	421,890	362,322
Capital and net debt	**459,210**	**489,957**
Gearing ratio	0.08	0.26

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

9. 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**	**2014**	**2013**
Cryonix JSC	Russia	29.89%	41.02%
Vitacel LLC	Russia	40.00%	40.00%
RGMC HSCI LLC	Russia	23.89%	0.00%

Accumulated balances of material non-controlling interest:

	2014	**2013**
Cryonix JSC	(331)	1,206
Vitacel LLC	10,870	8,694
RGMC HSCI LLC	71,663	-

Disposal of non-controlling interest

	2014	**2013**
Cryonix JSC	-	(380)

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

	2014	**2013**
Cryonix JSC	(2,122)	(3,989)
Vitacel LLC	2,176	5,740
RGMC HSCI LLC	(3,337)	-

9. Material partly-owned subsidiaries (continued)

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 2014

	Cryonix CJSC	Vitacel LLC	RGMC HSCI LLC
Sale of goods and services	11,639	9,000	22,991
Operating expenses	(23,703)	(3,525)	(73,331)
Interest income	91	-	2,174
Interest expense	-	-	(3,684)
Other income (expenses)	5,873	(35)	(771)
Profit (loss) before tax	**(6,100)**	**5,440**	**(52,621)**
Income tax	806	-	-
Profit (loss) for the year	**(5,294)**	**5,440**	**(52,621)**
Total comprehensive income/(loss)	**(5,294)**	**5,440**	**(52,621)**
Attributable to non-controlling interests	(2,122)	2,176	(3.337)
Dividends paid to non-controlling interests	-	-	-

Summarized statement of profit or loss for 2013

	Cryonix CJSC	Vitacel LLC	RGMC HSCI LLC
Sale of goods and services	20,623	18,000	5,121
Operating expenses	(31,354)	(3,651)	(27,716)
Interest income	620	–	–
Other income (expenses)	(763)	–	(945)
Profit (loss) before tax	**(10,874)**	**14,349**	**(23,540)**
Income tax	1,149	–	–
Profit (loss) for the year	**(9,725)**	**14,349**	**(23,540)**
Total comprehensive income/(loss)	**(9,725)**	**14,349**	**(23,540)**
Attributable to non-controlling interests	(3,989)	5,740	–
Dividends paid to non-controlling interests	–	–	–

Summarized statement of financial position as at 31 December 2014:

	Cryonix CJSC	Vitacel LLC	RGMC HSCI LLC
Total current assets	11,945	4,837	86,042
Total non-current assets	123,394	23,083	14,154
Total current liabilities	(23,723)	(746)	(45,382)
Total non-current liabilities	-	-	-
Total equity	**111,616**	**27,174**	**54,814**
Attributable to:			
Equity holders of parent	111,947	16,304	(16,849)
Non-controlling interest	(331)	10,870	71,663

9. Material partly-owned subsidiaries (continued)

Summarized statement of financial position as at 31 December 2013

	Cryonix CJSC	Vitacel LLC	RGMC HSCI LLC
Total current assets	15,305	11,964	6,394
Total non-current assets	8,782	16,112	929
Total current liabilities	(20,409)	(6,342)	(31,153)
Total non-current liabilities	(739)	-	-
Total equity	**2,939**	**21,734**	**23,830**
Attributable to:			
Equity holders of parent	1,733	13,040	-
Non-controlling interest	1,206	8,694	-

10. Investments in associates

As of 31 December 2013, the Group owned a 50% interest in Hemafund Medical Biotech Company LLC. In Q4 2014, the Group fully disposed of its share in favour of an individual person.

As of 31 December 2013, the Group owned a 50% stake in Hemafund Medical Center LLC, which is a family cord blood bank holding leading positions in the Ukranian market. The Group’s share was recognized in the consolidated financial statements using the equity method.

In February 2015, HSCI OJSC signed an agreement for the sale (assignment) of the share in the charter (pooled) capital of Hemafund Medical Center LLC. As of the reporting date, the transaction was under registration.

As of the reporting date, the Group impaired investment in Hemafund Medical Center LLC to the fair value less selling expenses and classified this asset as a long-term asset held for sale (AFS financial investment).

The share of profits/(losses) in the financial results of associated company SynBio LLC in 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.

In 2014, the Group contributed its participatory interests in SynBio LLC to the charter capital of IceGen LLC (associated company), which was established as a nominal owner of all interests in SynBio LLC, except for RUSNANO OJSC, and which does not perform any other activity.

The Group’s effective interest in SynBio LLC did not change. Therefore, the share in profit/(loss) of IceGen LLC (associated company) corresponds to that in profit/(loss) of SynBio LLC, as if the Group still had a direct interest in SynBio LLC.

	2014	2013
Share of losses in the financial results of associated company Hemafund Medical Center LLC	-	(22,022)
Share of losses in the financial results of associated company Hemafund MBC LLC	-	(2)
Share of profits in the financial results of associated company SynBio LLC	-	14,187
Share of losses in the financial results of associated company IceGen LLC	(3,329)	-
Total share of losses of associates	**(3,329)**	**(7,837)**

11. Operating income and expenses

11.1. Sale of goods and services

	2014	2013
Isolation, cryopreservation and storage of cord blood stem cells	200,785	208,518
Sales of Neovasculgen®	86,083	166,680
SPRS-therapy service	23,206	19,939
Genetico® medical centers (genetic diagnostic and consulting services, Reprobank® services)	22,408	5,555
Sale of medical equipment, consumables (distribution for Cytori Therapeutics, Inc. /USA/)	16,719	1,091
R&D agreements	9,526	16,500
Other revenue	644	1,487
Total	**359,371**	**419,770**

The decrease in consolidated revenue compared to 2013 is primarily attributable to lower revenues received from the sales of HSCI's innovative drug Neovasculgen® to distributors.

11.2. Operating expenses

	2014	2013
Salary	105,992	122,154
Rent of premises	41,428	40,163
Advisory and legal services	40,472	12,141
R&D costs	35,169	21,846
Supplies and reagents	29,459	16,497
Advertising expenses	27,199	32,057
Social charges	25,912	27,831
Services provided by third parties	16,847	20,148
Transaction support and buyer search	7,563	10,487
Allowance for bad debts (bad debt expense)	5,691	7,787
Transport expenses	5,539	4,559
Business trips	5,281	4,861
Communications services	4,463	3,877
Software and maintenance	4,244	2,421
Tax expenses	3,884	1,939
Factoring commissions	3,621	3,900
Contract-based manufacturing	-	-
Maintenance of cryogenic equipment	3,353	3,038
Representation expenses	2,716	4,060
Audit fees	1,809	3,837
Current repairs of property, plant and equipment	1,121	2,058
Other expenses	13,865	8,944
Depreciation of property, plant and equipment	20,871	18,791
Amortization of intangible assets and R&D	4,131	3,711
Total operating expenses	**410,630**	**377,107**

Finance expenses of 3,621 (2013: 3,900) represent commissions for factoring of accounts receivable that initially originated from sales of Group's products.

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

	2014	2013
Other non-operating expenses:		
Revaluation of securities	(24,374)	(8,389)
Sale of securities	(69,305)	(14,141)
Provision for impairment of financial investments / impairment of financial imvestments	(21,296)	(6,395)
Adjustment of unrealized gain on agreements with associates	-	(2,661)
Allowance for bad debts	(315)	(410)
Other	(6,456)	(3,223)
Total other non-operating expenses	(121,746)	**(35,219)**
Other non-operating income:		
Revaluation of purchased securities	82,190	21,879
Sale of securities	64,081	13,777
Income from rent of property	5,585	5,797
Other income	29,614	739
Total other non-operating income	**181,470**	**42,192**
Total net other non-operating income	**59,724**	**6,973**

13. Net foreign exchange gains/(losses)

	2014	2013
Foreign exchange gains	1,403	1,674
Foreign exchange losses	(78)	(473)
Total net foreign exchange gains	**1,325**	**1,201**

14. Interest expense

	2014	2013
Interest payable accrued	(11,775)	(18,209)
Finance lease interest	(171)	(294)
Total interest expense	**(11,946)**	**(18,503)**

15. Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	2014	2013
Current income tax charge	(2,311)	(3,721)
Deferred income tax charge	(14,451)	(6,997)
Income tax expense reported in the statement of comprehensive income	**(16,762)**	**(10,718)**

Reconciliation of tax expense and the accounting profit multiplied by Russia's domestic tax rate for 2014 and 2013:

15. Income tax (continued)

	2014	2013
Profit before tax	**160**	**27,388**
Theoretical income tax at the rate of 20%	**(32)**	**(5,478)**
Provision for loans	-	(1,555)
Effect of losses of associates	(666)	(1,567)
Effect of disposal of associates	(4,259)	-
Tax difference arising from other non-operating expenses of the period	(11,805)	(2,118)
Total income tax	**(16,762)**	**(10,718)**

Deferred tax

Deferred tax relates to the following:

	31 December 2014	31 December 2013	Change for 2014
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	(1,304)	1,057	2,361
Tax difference arising from intangible assets	1,221	1,020	(201)
Prior period losses	792	973	181
Tax difference arising from the provision for unused vacations	-	700	700
Tax difference arising from the allowance for doubtful receivables	277	508	231
Tax difference arising from R&D costs	(121)	287	408
Revaluation of shares	(14,262)	(2,698)	11,564
Adjustment to write-off inventories	189	(1,920)	(2,109)
Capitalization of expenses related to creating clean rooms	-	(1,421)	(1,421)
Adjustment of payables	-	(265)	(265)
Adjustment of loans received	(3,254)	-	3,254
Other	1,163	(904)	(2,067)
Total net deferred assets (liabilities)	(15,299)	**(848)**	**14,451**
Reflected in the statement of financial position as follows:			
Deferred tax assets	3,258	2,329	
Deferred tax liabilities	(18,558)	(3,177)	

16. 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:

	2014	2013
Profit (loss) attributable to ordinary equity holders of the parent for basic earnings	(16,602)	16,670
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)	0.22
Diluted earnings per share, RUB	(0.22)	0.22

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.

17. Property, plant and equipment

	Buildings and structures	Machinery and equipment	Motor vehicles	Other	Construction in progress	Total
Balance at 31 December 2012	**34,462**	**38,607**	**6,015**	**16,099**	**6,996**	**102,179**
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**	**5,030**	**21,238**	**929**	**162,370**
Additions	1,489	8,650	-	558	4,245	**14,942**
Disposals	-	(2,635)	(4)	(337)	(929)	**(3,905)**
Balance at 31 December 2014	**92,257**	**50,420**	**5,026**	**21,459**	**4,245**	**173,407**
Accumulated depreciation						
Balance at 31 December 2012	**(5,359)**	**(11,382)**	**(1,659)**	**(10,199)**	**–**	**(28,599)**
Depreciation charge for 2013	(6,326)	(7,625)	(1,377)	(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)**	**(2,532)**	**(12,108)**	**–**	**(44,916)**
Depreciation charge for 2014	(7,876)	(7,476)	(1,378)	(4,141)	–	**(20,871)**
Depreciation of property, plant and equipment disposed in 2014	-	2,526	2	337	–	**2,865**
Balance at 31 December 2014	**(19,466)**	**(23,636)**	**(3,908)**	**(15,912)**	**–**	**(62,922)**
Balance at 31 December 2012	**29,103**	**27,225**	**4,356**	**5,900**	**6,996**	**73,580**
Balance at 31 December 2013	**79,178**	**25,719**	**2,498**	**9,130**	**929**	**117,454**
Balance at 31 December 2014	**72,791**	**26,784**	**1,118**	**5,547**	**4,245**	**110,485**

In 2012, the Group commenced the construction of a laboratory and production complex that was opened in June 2013. It was performed using own funds of HSCI and partially financed by a loan from Sberbank.

During the year ended 31 December 2014 the Group did not capitalize borrowing costs. Borrowing costs related to the loan from Sberbank capitalized during the year ended 31 December 2013 amounted to 354.

18. Intangible assets

	Software and licenses	R&D costs	User rights and patents	Trademarks	Total intangible assets
Cost					
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**
Additions	239	–	–	–	**239**
Development	–	10,725	6,575	373	**17,673**
Disposals	–	–	–	–	–
Balance at 31 December 2014	**1,231**	**34,531**	**24,341**	**1,003**	**61,106**
Accumulated amortization					
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)**
Amortization charge for 2014	(97)	(2,122)	(1,822)	(90)	**(4,131)**
Disposals	–	–	–	–	–
Balance at 31 December 2014	**(619)**	**(5,522)**	**(4,087)**	**(242)**	**(10,470)**
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**
Balance at 31 December 2014	**612**	**29,009**	**20,254**	**761**	**50,636**

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 2014, such R&D costs recognized as operating expenses amounted to 35,169 (2013: 21,846).

During 2014, the Group was engaged in a number of major R&D projects with project costs qualified for recognition as intangible assets. In 2014, the key projects included "Skin Passport 2", "Nucleostim 2" and "codon-optimized cDNA".

19. Financial assets and financial liabilities

	2014	2013
Financial assets		
Cash and cash equivalents	70,841	18,120
Trade and other receivables	58,218	90,659
Financial instruments at fair value through profit or loss	99,360	78,861
Loans issued	37,464	20,640
Total financial assets	**265,883**	**208,280**
Total current	265,883	201,134
Total non-current	-	7,146

Financial assets at fair value through profit or loss reflect the change in fair value of financial assets held for trading. 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:

	2014	2013
Non-current loans		
Hemafund Medical Center LLC (Ukraine)	–	6,546
Personnel of HSCI	–	600
Total non-current loans issued	–	**7,146**

As of 31 December 2014, loans of 11,252 (31 December 2013: 6,546) represent a USD-denominated loan (USD 200 thousand) issued to Hemafund Medical Center LLC, an associate (reclassified as current loans in 2014). As a result of impairment analysis of loans issued, management concluded that this loan will be repaid in full (including accrued interest).

Trade and other receivables:

	2014	2013
Trade receivables	18,893	55,745
Taxes paid in advance and overpayments	6,299	11,880
Advances to suppliers	21,865	15,472
Other receivables	11,161	7,562
Total	**58,218**	**90,659**

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.

19. Financial assets and financial liabilities (continued)

Financial liabilities

	2014	2013
Financial liabilities		
At amortized cost		
Current interest-bearing loans and borrowings	98,367	90,598
Non-current interest-bearing loans and borrowings	-	36,742
Current finance lease liabilities	499	1,254
Non-current finance lease liabilities	-	329
Trade and other payables	**11,364**	**23,172**
Trade payables	3,968	6,021
Other payables	5,327	10,178
Taxes payable	2,069	6,973
Total financial liabilities	**110,230**	**152,095**
Total non-current	-	37,071
Total current	110,230	108,684

As at the end of 2014 and 2013, the structure of loans and borrowings was as follows:

Creditor	Currency	Effective interest rate, %	2014	2013
Non-current loans and borrowings				
Dixcart Limited	RUB	0.0	-	739
Sberbank OJSC	RUB	14.5	-	13,943
FINAM Bank CJSC	RUB	14.5	-	22,060
Total non-current loans and borrowings			**-**	**36,742**
Current loans and borrowings				
A.A. Isaev	RUB	10.0	-	7
RVC BioFund LLC	RUB	12.0	27,437	-
Sberbank OJSC	RUB	14.5	14,031	30,280
FINAM Bank CJSC	RUB	14.5	22,336	9,752
SynBio LLC	RUB	11.0	34,563	50,559
Total current loans and borrowings			**98,367**	**90,598**
Total interest-bearing loans and borrowings			**98,367**	**127,340**

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.

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.

19. Financial assets and financial liabilities (continued)

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.

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).

19. Financial assets and financial liabilities (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 2014	Loans, borrowings and finance lease liabilities	Trade and other payables
Less than 1 year	98,866	10,575
More than 1 year	-	-
Total	**98,866**	**10,575**

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	**128,923**	**23,172**

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.

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.

19. Financial assets and financial liabilities (continued)

Industry risks

The Group develops and introduces into health care practices (commercializes and markets) innovative drugs and high-tech medical 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 advanced biomedical technologies:
- gene therapy;
- regenerative medicine (cell-based services and drugs, tissue engineering);
- medical genetics, including reproductive genetics (lab & clinics /genetic diagnostics and consulting);
- bio-insurance;
- biopharmaceuticals (within the international SynBio project).

Since these areas are innovative, they entail specific risks, including the following ones:
- risk of the emergence of new regulatory documents
- 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;

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.

19. Financial assets and financial liabilities (continued)

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 cell 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 and services abroad.

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.

20. Inventories

	2014	2013
Raw materials	15,718	4,694
Materials transferred for processing	59,894	4,343
Goods for resale	5,108	5,625
Other inventories	206	461
Total inventories	**50,926**	**15,123**

21. Cash and cash equivalents

	2014	2013
RUB-denominated cash on hand and balances on settlement account	68,711	17,967
Foreign currency-denominated balances on settlement account	2,130	153
Total cash and cash equivalents	**70,841**	**18,120**

22. 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.

22. Capital and reserves (continued)

The Company's key shareholders as of 31 December 2014 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.

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 JSC.

23. 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.

23. 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.

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.

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

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.

24. Operating lease

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

Group as a lessee

	2014	2013
Within one year	23,281	36,648
After one year but not more than five years	77,199	114,143
More than five years	48,689	118,950
Total	**149,169**	**269,741**

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

Group as a lessor

	2014	2013
Within one year	276	6,159
After one year but not more than five years	-	6,039
Total	**276**	**12,198**

25. 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;

25. Related party transactions (continued)

- 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;
- IceGen LLC.

The nature of relationship with those related parties with whom the Group entered into significant transactions in 2014 and 2013 or had significant balances outstanding as of 31 December 2014 and 2013 is detailed below.

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

	2014	2013
Revenue	**2,970**	**15,058**
SynBio LLC	2,663	14,975
IceGen LLC	307	-
IPOboard LLC	-	83
Interest income	**1,820**	**1,501**
First International Investment Group Ltd.	278	322
Hemafund Medical Center LLC	871	640
IceGen LLC	11	-
Vasiliev	-	10
Artur Isaev	131	-
Dmitry Genkin	529	529
Other income	**4,706**	**2,897**
Hemafund Medical Center LLC	4,706	476
SynBio LLC	-	2,421
Other expenses		
Interest expense	**1,275**	**4,436**
SynBio LLC	1,275	4,436
Operating expenses	**14**	**17**
SynBio LLC	14	17

25. Related party transactions (continued)

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

	2014	2013
Accounts receivable	**1,649**	**2,068**
Hemafund Medical Center LLC	–	1,830
IceGen LLC	56	–
SynBio LLC	1,593	238
Accounts payable	**9**	**55**
SynBio LLC	9	55
Current loans and borrowings issued	**20,342**	**–**
Artur Isaev	1,740	–
IceGen LLC	1,700	–
Hemafund Medical Center LLC	11,252	–
First International Investment Group Ltd.	5,650	–
Non-current loans issued	–	**14,091**
Dmitry Genkin	–	5,395
First International Investment Group Ltd.	–	8,696
Loans and borrowings received	**47,000**	**47,000**
SynBio LLC	47,000	47,000
Interest accrued and payable on loans received	**3,834**	**3,018**
SynBio LLC	3,834	3,011
A.A. Isaev	–	7

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.

	2014	2013
Salaries and other short-term benefits	10,692	15,799
Total as of 31 December	**10,692**	**15,799**

26. Events after the reporting period

Termination of participation in Hemafund Medical Center LLC

On 17 February 2015, a 50% share of Human Stem Cells Institute OJSC in the charter capital of Hemafund Medical Center LLC was sold under the sale and purchase agreement for RUB 10 mln.

As of the reporting signing date (30 April 2015), the registration of the share ownership rights assignment was not completed and is planned to be completed in May 2015.

Early payment of debts under the credit agreements

In Q1 2015, debts under the credit agreements with the Sberbank No. 1779 dated 31 July 2012 and No. 1780 dated 04 August 2012 were prepaid.

There are no other significant subsequent events.