

**Open Joint Stock Company
HUMAN STEM CELLS INSTITUTE**

Unaudited Condensed Consolidated Interim Financial Statements Prepared in
Accordance with International Financial Reporting Standards
as of June 30, 2014 and for the six-month period then ended

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Important remarks

Hereinafter contained unaudited condensed consolidated interim financial statements of HSCI as of June 30, 2014 and for the six-month period then ended in accordance with IFRS were prepared in Russian. In the event of any inconsistency between the English and the Russian texts, the Russian text shall prevail.

HSCI OJSC

Consolidated interim statement of financial position
as of 30 June 2014

(thousands of Russian rubles, unless otherwise indicated)

	Notes	30 June 2014	31 December 2013	31 December 2012
Assets				
Non-current assets				
Property, plant and equipment	3	112,502	117,454	73,579
Intangible assets	4	43,894	36,855	26,599
Investments in associates	10	348,984	348,984	359,417
Non-current financial assets	5	8,218	7,146	9,702
Deferred tax assets		2,985	2,329	6,149
Total non-current assets		516,583	512,768	475,446
Current assets				
Inventories	11	14,685	15,123	11,543
Trade receivables	5	33,232	55,745	28,376
Other receivables	5	34,795	34,914	73,953
Other current financial assets	5	139,983	92,355	66,614
Cash and cash equivalents	12	92,623	18,120	26,671
Total current assets		315,318	216,257	207,157
Total assets		831,901	729,025	682,603
Equity and liabilities				
Equity				
Share capital		7,500	7,500	7,500
Share premium		139,702	139,702	139,702
Treasury shares		(43,179)	(43,179)	(43,179)
Retained earnings		288,372	247,846	233,124
Other components of equity		54,230	(101)	(265)
Equity attributable to equity holders of the parent		446,625	351,768	336,882
Non-controlling interests		7,769	10,554	8,986
Total equity		454,394	362,322	345,868
Non-current liabilities				
Interest-bearing loans and borrowings	6	26,153	36,742	61,789
Finance lease liabilities	6	-	329	1,289
Deferred tax liabilities		15,616	3,177	-
Total non-current liabilities		41,769	40,248	63,078
Current liabilities				
Interest-bearing loans and borrowings	6	106,785	90,598	87,467
Advances received		203,754	211,431	166,356
Trade and other payables	6	18,358	16,199	14,991
Finance lease liabilities	6	1,126	1,254	1,404
Taxes payable		5,714	6,973	3,439
Total current liabilities		335,738	326,455	273,657
Total liabilities		377,507	366,703	336,735
Total equity and liabilities		831,901	729,025	682,603

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

HSCI OJSC

Consolidated interim statement of comprehensive income
for the period ended 30 June 2014

(thousands of Russian rubles, unless otherwise indicated)

	Notes	30 June 2014	30 June 2013
Sale of goods and services	7	174,201	215,686
Total revenue		174,201	215,686
Operating expenses, including:	8	(188,443)	(173,336)
Depreciation and amortization	8	(13,676)	(10,712)
Operating profit/ (loss)		(14,242)	42,350
Interest expense	9	(7,083)	(10,113)
Interest income	9	1,939	2,184
Share of profit of associates	10	-	7,861
Net other non-operating income	9	60,604	7,538
Net foreign exchange gain	9	533	1,002
Profit before tax		41,751	50,822
Income tax	13	(11,781)	(6,630)
Profit for the period		29,970	44,192
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		-	2,745
Revaluation of financial assets		-	35,770
Other comprehensive income for the period, net of tax		-	38,515
Total comprehensive income for the period, net of tax		29,970	82,707
Profit for the period		29,970	44,192
<i>Attributable to:</i>			
Equity holders of the parent		33,395	40,808
Non-controlling interests		(3,425)	3,384
Total comprehensive income for the period, net of tax			
<i>Attributable to:</i>			
Equity holders of the parent		33,395	79,323
Non-controlling interests		(3,425)	3,384
Basic and diluted earnings per share for profit for the year attributable to equity holders of the parent (in Russian rubles)	14	0.40	0.59

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

HSCI OJSC

Consolidated interim statement of cash flows
for the period ended 30 June 2014

(thousands of Russian rubles, unless otherwise indicated)

	Notes	30 June 2014	30 June 2013
Operating activities			
Profit for the period		29,969	16,670
Income tax expense	13	11,781	10,718
Profit before tax		41,750	27,388
<i>Adjustment for non-cash items to reconcile profit before tax to net cash flows</i>			
Depreciation and amortization	8	13,676	22,502
Interest expense	9	7,083	18,503
Interest income	9	(1,939)	(2,890)
Share of (profit) / loss of associates	10	-	7,836
Net foreign exchange gain	9	(533)	(1,201)
Other non-operating (income)/expenses	9	(5,004)	2,239
Provision for loans issued		0	6,395
Net gains from revaluation of financial instruments held for trading	5	(55,600)	(13,127)
Operating income / (loss) before changes in working capital, interest and income taxes paid		(567)	67,645
<i>Working capital adjustments</i>			
Decrease in trade and other receivables and prepayments		20,344	9,653
Decrease /(increase) in inventories		438	(3,580)
Increase in trade and other payables		34,248	16,580
Income tax		11,869	(7,789)
Net cash flows from operating activities		66,336	82,509
Investing activities			
Purchase of property, plant and equipment and intangible assets		(9,367)	(34,504)
Loans issued		(6,457)	(13,572)
Repayment of loans issued		450	5,963
Proceeds from sale of financial assets held for trading		14,829	12,568
Purchase of financial assets for trading		(42,693)	(22,000)
Interest received		448	2,017
Net cash flows used in investing activities		(42,790)	(49,529)
Financing activities			
Proceeds from loans and borrowings net of fees paid		25,000	33,458
Repayment of loans and borrowings		(20,419)	(56,080)
Interest paid		(6,990)	(17,935)
Payment of finance lease liabilities		(628)	(973)
Proceeds from the increase of subsidiary's additional capital		54,000	-
Net cash flows from / (used in) financing activities		50,963	(41,530)
Net increase/(decrease) in cash and cash equivalents		74,503	(8,551)
Cash and cash equivalents at the beginning of the period		18,120	26,671
Cash and cash equivalents at the end of the period		92,623	18,120

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

HSCI OJSC

Consolidated interim statement of changes in equity
for the period ended 30 June 2014

(thousands of Russian rubles, unless otherwise indicated)

Attributable to equity holders of the parent										
	Shared capital (in millions of shares)	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2013	75	7,500	(43,179)	139,702	-	(265)	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
Treasury shares	-	-	-	-	-	-	-	-	-	-
Acquisition of an interest in subsidiary	-	-	-	-	-	100	-	100	(380)	(280)
As at 31 December 2013	75	7,500	(43,179)	139,702	-	(101)	247,846	351,768	10,554	362,322
Profit for the year	-	-	-	-	-	-	33,395	33,395	(3,425)	29,971
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	33,395	33,395	(3,425)	29,971
Treasury shares	-	-	-	-	-	-	-	-	-	-
Change of share in subsidiary	-	-	-	-	-	62,101	-	62,101	-	62,101
As at 30 June 2014	75	7,500	(43,179)	139,702	-	62,000	281,241	447,265	7,129	454,395

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

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

(thousands of Russian rubles, unless otherwise indicated)

1. Corporate information

The condensed consolidated interim financial statements of Open Joint Stock Company Human Stem Cells Institute and its subsidiaries as of and for the period ended 30 June 2014 were authorized for issue in accordance with a resolution of the general director on 29 August 2014.

Open Joint Stock Company Human Stem Cells Institute (hereinafter, the "Company", "HSCI OJSC" or "HSCI") is the first Russian public biotech company founded on 27 November 2003 under the laws of the Russian Federation. The Group of HSCI companies (hereinafter, the "Group" of "HSCI Group") comprises the Company and its subsidiaries and associates both in Russia and abroad.

HSCI is engaged in drug discovery, R&D and marketing of innovative proprietary products and services in the field of advanced biomedical technologies, including such segments as:

- Gene therapy
- Regenerative medicine (stem cell therapy and services, tissue engineering products)
- Medical genetics, including reproductive genetics (Lab & clinics /genetic testing and consulting/)
- Bio-insurance
- Biopharmaceutics (within the international SynBio project)

The Company strives to foster a new culture of medical care linked to the concepts of personalized and preventive medicine.

HSCI owns Gemabank – a family cord blood stem cell bank, the largest in Russia and the CIS, as well as Reprobank - a reproductive cell and tissue bank (personal storage, donation).

The Company has brought to the market Neovasculgen® - the first Russian gene-therapy drug for treatment of Peripheral Arterial Disease (PAD), including Critical Limb Ischemia (CLI), caused by atherosclerosis. Neovasculgen® is a first-in-class drug whose action mechanism – therapeutic angiogenesis – introduces a new approach to treating ischemia. As of today, the drug has received marketing authorization in both Russia and Ukraine.

HSCI has introduced to the Russian aesthetic medicine market SPRS-therapy – a set of personalized diagnostics and treatment procedures based on the innovative cell technology which entails the use of autologous dermal fibroblasts to repair skin damage due to aging and other structural changes.

HSCI is implementing a socially significant project to create its own Russia-wide network of Genetico medical genetics centers to provide a range of genetic diagnostic and consulting services with the aim of early identification, prediction and prophylactic treatment of genetic disorders (Ethnogene, PGD, Prenetix and others).

HSCI and its subsidiary Cryonix are co-investors in SynBio – a long-term multilateral project to create new unique medicines (first-in-class and BioBetter) for the Russian and international markets with the aim of achieving progress in the treatment of socially significant diseases. The SynBio project unites top Russian and international companies engaged in biotech/biopharm R&D and is supported by an investment from RUSNANO (a state-owned fund for supporting nanotechnologies).

The Company actively promotes its products on the Russian market and intends to open new markets throughout the world.

HSCI is listed on the Innovation & Investment Market (iIM) of the Moscow Exchange (ticker ISKJ). The Company conducted its IPO in December 2009, becoming the first Russian biotech company to go public.

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

(continued)

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	
			30 June 2014	31 December 2013
NextGen LLC	R&D for gene and cell therapy, the development of techniques for treating inherited diseases using modern assisted reproductive technologies, and the creation of DNA arrays for the diagnosis of inherited diseases and predisposition to them.	Russia	100	100
Cell Technology Laboratory LLC	R&D for cell- and gene-based technologies.	Russia	75	75
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	60
Cryonix CJSC	Development and commercialization of innovative drugs and provision of high-tech medical services.	Russia	58.98	55.98
RGMC HSCI LLC (Regenerative and Genetic Medical Center of the Human Stem Cells Institute)	Provision of medical services (genetic diagnostics and consulting services with the aim of early identification, prediction and prophylactic treatment of genetic disorders; services of the reproductive cell and tissue bank / personal storage / donor bank).	Russia	100	100
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 consolidation of shares of the SynBio LLC participants was carried out in February-March 2014.	Russia	53.38*	53.38*

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

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Notes to the condensed consolidated interim financial statements as of June 30, 2014
and for the six-month period then ended

(continued)

3. Property, plant and equipment

	Land	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	-	7,136	44,405	5,029	21,239	929	162,370
Additions	-	1,489	210	367	1,197	296	3,560
Disposals	-	(2,250)	-	(4)	(62)	-	(2,316)
Balance at 30 June 2014	-	65,654	44,615	5,392	22,374	1,225	163,615
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)	(1,378)	(3,463)	-	(18,792)
Depreciation of property, plant and equipment disposed in 2013	-	95	322	505	1,553	-	2,475
Balance at 31 December 2013	-	(11,590)	(18,685)	(2,532)	(12,109)	-	(44,916)
Depreciation charge for 6 months 2014	-	(3,936)	(3,603)	(1,620)	(2,686)	-	(11,845)
Depreciation of property, plant and equipment disposed in 6 months 2014	-	-	-	2	-	-	2
Balance at 30 June 2014	-	(15,526)	(22,288)	(4,151)	(14,795)	-	(56,760)
Balance at 31 December 2012	-	29,103	27,225	4,356	5,900	6,996	73,580
Balance at 31 December 2013	-	79,178	25,720	2,497	9,130	929	117,454
Balance at 30 June 2014	-	80,129	22,327	1,242	7,579	1,225	112,502

4. Intangible assets

	Software and licenses	R&D costs	User rights and patents	Trademarks	Total intangible assets
Balance at 31 December 2012	822	16,074	12,062	269	29,227
Additions	170	-	-	-	170
Development	-	8,029	5,704	361	-
Disposals	-	(297)	-	-	(297)
Balance at 31 December 2013	992	23,806	17,766	630	43,194
Additions	85	-	-	110	195
Development	-	7,682	1,417	-	-
Disposals	-	-	-	-	-
Balance at 30 June 2014	1,077	31,488	19,183	740	52,487
Accumulated amortization					
Balance at 31 December 2012	(262)	(1,700)	(560)	(106)	(2,628)

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

(continued)

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 6 months 2014	(95)	(1,261)	(860)	(37)	(2,254)
Disposals	-	-	-	-	-
Balance at 30 June 2014	(617)	(4,661)	(3,125)	(189)	(8,593)
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 30 June 2014	460	26,826	16,058	551	43,894

5. Financial assets

Financial assets	30 June 2014	31 December 2013
Cash and cash equivalents	92,623	18,120
Trade and other receivables	68,027	90,659
Financial instruments at fair value through profit or loss	121,554	78,861
Loans issued	26,647	20,640
Total financial assets	308,851	208,280
Total current	300,633	201,134
Total non-current	8,218	7,146

Trade and other receivables	30 June 2014	31 December 2013
Trade receivables	33,232	55,745
Taxes paid in advance and overpayments	7,570	11,880
Advances to suppliers	14,410	15,472
Other receivables	12,815	7,562
Total	68,027	90,659

Non-current loans	30 June 2014	31 December 2013
Hemafund Medical Center LLC (Ukraine)	6,726	6,546
K.G. Surkov	132	-
FDS Pharma	1,025	-
Personnel of HSCI	335	600
Total non-current loans issued	8,218	7,146

Current loans	30 June 2014	31 December 2013
Atlas Finance, Inc.	13,300	9,400
First International Investment Group Ltd.	2,150	2,150
D.A. Shamenkov	789	460

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

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K.G. Surkov	-	132
FDS Pharma	-	1,025
D.D. Genkin	5,395	5,395
Rabochiy CJSC	1,000	1,000
A.A. Isaev	2,000	-
Personnel of HSCI	190	327
Allowance	(6,395)	(6,395)
Total current loans issued	18,429	13,494
Total loans issued	26,647	20,640

6. Financial liabilities

	30 June 2014	31 December 2013
Financial liabilities		
At amortized cost		
Current interest-bearing loans and borrowings	80,861	90,598
Non-current interest-bearing loans and borrowings	26,153	36,742
Current finance lease liabilities	1,126	1,254
Non-current finance lease liabilities	-	329
Trade and other payables (excluding salary payables and unused vacation reserve):	17,074	16,832
Trade payables	7,924	6,021
Other payables	3,436	3,838
Taxes payable	5,714	6,973
Total financial liabilities	125,214	145,755
Total non-current	26,153	37,071
Total current	99,061	108,684

Non-current loans and borrowings

Creditor	Currency	Effective interest rate, %	30 June 2014	31 December 2013
Dixcart Limited	RUB	0.0	-	739
Sberbank OJSC	RUB	14.5	6,443	13,943
FINAM Bank CJSC	RUB	14.5	19,710	22,060
Total non-current loans and borrowings			26,153	36,742

Current loans and borrowings

Creditor	Currency	Effective interest rate, %	30 June 2014	31 December 2013
A.A. Isaev	RUB	10.0	-	7
Sberbank OJSC	RUB	14.5	22,673	30,280
FINAM Bank CJSC	RUB	14.5	7,354	9,752
SynBio LLC	RUB	11.0	50,834	50,559
Total current loans and borrowings			80,861	90,598
Total interest-bearing loans and borrowings			107,014	127,340

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

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7. Sale of goods and services

	For the six months ended	
	30 June 2014	30 June 2013
Isolation, cryopreservation and storage of cord blood stem cells	104,188	110,066
Sales of Neovasculgen®	41,800	70,212
SPRS-therapy service	10,616	8,848
Sale of medical equipment and consumables	9,568	-
R&D revenue	-	14,975
Genetico medical genetics centers (genetic diagnostic and consulting services and Reprobank services)	7,652	1,854
Other revenue	377	9,731
Total	174,201	215,686

8. Operating expenses

	For the six months ended	
	30 June 2014	30 June 2013
Salary	62,104	58,998
Rent of premises	21,044	15,084
Social charges	16,048	15,213
Supplies and reagents	15,342	12,210
Advisory and legal services	14,640	6,345
Services provided by third parties	8,693	9,455
Advertising expenses	8,669	10,671
R&D costs	4,561	19,583
Transaction support and buyer search	3,988	-
Business trips	3,381	2,933
Tax expenses	3,168	1,018
Transport expenses	2,609	2,138
Telecommunications services	2,329	1,858
Software and maintenance	1,802	1,007
Representation expenses	1,560	588
Maintenance of cryogenic equipment	1,457	1,421
Contract-based manufacturing	1,256	1,995
Audit fees	667	-
Low-value fixed assets write-off	459	-
Current repairs of property, plant and equipment	313	2,448
Other expenses	3,542	1,768
Bad debt recovery	(2,864)	(2,109)
Depreciation of property, plant and equipment	11,521	7,742
Amortization of intangible assets and R&D	2,155	2,969
Total	188,443	173,336

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Notes to the condensed consolidated interim financial statements as of June 30, 2014
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9. Net other non-operating income / (expenses)

	For the six months ended	
	30 June 2014	30 June 2013
Other non-operating expenses:		
Sale of securities	(29,723)	(13,185)
Revaluation of securities	(11,865)	(8,208)
Provision for impairment of financial investments	-	-
Adjustment of unrealized gain on agreements with associates	-	-
Allowance for bad debts	-	-
Other	(8,456)	(4,522)
Total other non-operating expenses	(50,045)	(25,915)
	30 June 2014	30 June 2013
Other non-operating income:		
Revaluation of purchased securities	66,890	2,314
Sale of securities	30,299	12,574
Income from rent of property	3,337	-
Other income	10,123	18,565
Total other non-operating income	110,649	33,453
Total net other non-operating income	60,604	7,538
	30 June 2014	30 June 2013
Net foreign exchange gains/(losses)		
Foreign exchange gains	1,242	1,193
Foreign exchange losses	(709)	(191)
Total net foreign exchange gains	533	1,002
	30 June 2014	30 June 2013
Interest expense		
Interest payable accrued	(6,912)	(9,833)
Finance lease interest	(171)	(280)
Total interest expense	(7,083)	(10,113)

10. Investments in associates

	30 June 2014	31 December 2013
Hemafund Medical Center LLC	30,710	30,710
Hemafund MBC LLC	162	162
SynBio LLC	318,112	318,112
Total investments in associates	348,984	348,984

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Notes to the condensed consolidated interim financial statements as of June 30, 2014 and for the six-month period then ended

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11. Inventories

	30 June 2014	31 December 2013
Raw materials	10,093	4,694
Materials transferred for processing	3,375	4,343
Goods for resale	1,008	5,625
Other inventories	210	461
Total inventories	14,685	15,123

12. Cash and cash equivalents

	30 June 2014	31 December 2013
RUB-denominated cash on hand and balances on settlement account	92,214	17,967
Foreign currency-denominated balances on settlement account	409	153
Total	92,623	18,120

13. Income tax

	For the six months ended	
	30 June 2014	30 June 2014
Current income tax charge	86	(3,943)
Deferred income tax charge	(11,867)	(2,687)
Income tax expense reported in the statement of comprehensive income	(11,781)	(6,630)

14. Earnings per share (EPS)

	For the six months ended	
	30 June 2014	30 June 2014
Profit attributable to ordinary equity holders of the parent for basic earnings	29,969	44,192
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	0.40	0.59
Diluted earnings per share, RUB	0.40	0.59

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Notes to the condensed consolidated interim financial statements as of June 30, 2014
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15. Related party transactions

	For the six months ended	
	30 June 2014	30 June 2014
Interest income	938	732
First International Investment Group Ltd.	160	160
Hemafund Medical Center LLC	389	310
A.A. Isaev	126	-
D.D. Genkin	263	263
Other income	270	472
Hemafund Medical Center LLC	180	472
SynBio LLC	90	-
	30 June 2014	31 December 2013
Accounts receivable	797	2,068
Hemafund Medical Center LLC		1,830
SynBio LLC	797	238
Accounts payable	-	55
SynBio LLC	-	55
Non-current loans issued	2,150	2,150
D.D. Genkin	5,395	5,395
First International Investment Group Ltd.	2,150	2,150
Reserve	(5,395)	(5,395)
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

This consolidated interim condensed financial statements were authorized for issue in accordance with a resolution of the general director of HSCI OJSC on 29 August 2014.

General Director /s/ A.A. Isaev