

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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MD MEDICAL GROUP INVESTMENTS PLC

OFFICERS, PROFESSIONAL ADVISORS AND REGISTERED OFFICE

Board of Directors

Mark Kurtser – Chairman
(Vitaly Ustimenko, alternate director to Mark Kurtser)
Apollon Athanasiades
Elena Mladova
Elia Nicolaou
Marios Tofaros
Andreas Petrides
Angelos Paphitis
Kirill Dmitriev
Simon Rowlands

Secretary

Menustrust Limited

Independent Auditors

KPMG Limited

Registered Office

1 Avlonos Street
Maria House, 5th floor
P.C. 1075, Nicosia
Cyprus

MD MEDICAL GROUP INVESTMENTS PLC

BOARD OF DIRECTORS' REPORT

The Board of Directors of MD Medical Group Investments Plc (the "Company") presents to the members its Annual Report together with the audited consolidated financial statements of the Company and its subsidiary companies (the Company and its subsidiaries together referred to as the "Group") for the year ended 31 December 2012.

INCORPORATION

MD Medical Group Investments Plc was incorporated in Cyprus on 5 August 2010 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. On 22 August 2012 following the special resolution passed by the shareholder, the name of the Company was changed from "MD Medical Group Investments Ltd" to "MD Medical Group Investments Plc" and the Company was converted into a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of an investment holding company and, for that purpose, to acquire and hold controlling and other interests in the share or loan capital of any company or companies of any nature, but primarily in the healthcare industry.

The Group's medical centers typically offer a range of services in the following fields:

- Obstetrics and gynaecology;
- Paediatrics;
- Fertility and in-vitro fertilisation ("IVF") treatment;
- Other medical services.

Other medical services include but are not limited to dental care, laboratory examinations, surgery, traumatology and rehabilitation.

FINANCIAL RESULTS

The Group's financial results for the year ended 31 December 2012 and its financial position at that date are set out in the consolidated Statement of Comprehensive Income on page 11 and in the consolidated Statement of Financial Position on page 12 of the consolidated financial statements.

The profit for the year ended 31 December 2012 amounted to RUB1,538,231 thousand (2011: RUB923,955 thousand). The total assets of the Group as at 31 December 2012 were RUB12,913,509 thousand (2011: RUB4,769,387 thousand) and the net assets were RUB8,623,417 thousand (2011: RUB2,807,256 thousand).

The increase in the profit for the year is mostly related to the increase of revenue as a result of the increased volume of operations. The increase in total assets of the Group is mostly related to completion of Lapino hospital and proceeds from IPO.

DIVIDENDS

In accordance with the Company's Articles of Association dividends may be paid out of its profits. To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends in respect of ordinary shares underlying the GDRs.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation in the country of their incorporation and any contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves.

During 2011 and prior to the issue of the new shares, the Board of Directors declared and paid an interim dividend out of the 2011 profits of the Company amounting to US\$51 thousand (RUB1,498 thousand), which corresponds to US\$0,00102 (RUB0,02996) per share.

MD MEDICAL GROUP INVESTMENTS PLC
BOARD OF DIRECTORS' REPORT *(continued)*

DIVIDENDS *(continued)*

During 2012, prior to the issue of any new shares and prior to the reduction in the nominal value of the share capital of the Company, the Board of Directors declared and paid an interim dividend out of the 2012 profits of the Company amounting to US\$5.050 thousand (RUB153.654 thousand) which corresponds to US\$0,10080 (RUB3,06695) per share.

The Board of Directors recommends the payment of US\$9.766 thousand (RUB296.627 thousand) as final dividend for the year 2012 which corresponds to US\$0,13 (RUB3,95) per share.

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

The current financial position and performance of the Group as presented in the financial statements is considered satisfactory.

Within 2012 the Company incorporated three new entities, LLC MD Service, LLC Mother and Child Nizhny Novgorod and LLC Mother and Child Yekaterinburg. The direct and indirect holding percentage is 98% for LLC MD Service and 99% for each of the other two companies.

The new subsidiaries of the Company are located in Moscow, Nizhny Novgorod and Yekaterinburg.

Additional brief details for all subsidiaries are given in note 1 to the consolidated financial statements.

Furthermore on 17 October 2012, the Company successfully completed an initial public offering (IPO) of its shares in the form of global depositary receipts (GDRs). The Company's GDRs (one GDR representing one ordinary share) are listed on the Main Market of the London Stock Exchange under the symbol "MDMG".

Following the IPO, 68% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr. Mark Kurtser. The remaining 32% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders.

At the end of November 2012 the construction of a 182-bed hospital in the town of Lapino in the Odintsovo district of the Moscow region has been completed. The hospital totals 42.000 square meters and offers obstetrics and gynaecology, paediatrics, diagnostics, surgery, traumatology and rehabilitation services. The opening of the hospital in Lapino marks the start of a new phase in the development of the Group as it also expands its range of services to encompass surgery, traumatology and rehabilitation alongside its core services.

PRINCIPAL RISKS AND UNCERTAINTIES

Details in relation to principal risks and uncertainties and steps taken to manage these risks and uncertainties are given in note 28 and 30 of the consolidated financial statements.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. Within 2012 the Board of Directors has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Group.

FUTURE DEVELOPMENTS

The Group's goal is to maintain its leading position in high-quality women's health and paediatrics, addressing the increasing demand for private healthcare services in Russia and beyond.

As the Group will be growing it intends to expand its portfolio of hospital and outpatient facilities, broaden its service offerings by providing patients with the most up-to-date treatment procedures and medical technology available on the market, expand its services in Moscow and other regions, exploit the value of its integrated healthcare network by making effective use of services across its facilities, optimizing the benefits for patients and the Group as a whole.

MD MEDICAL GROUP INVESTMENTS PLC**BOARD OF DIRECTORS' REPORT** *(continued)***SHARE CAPITAL***Authorised share capital*

On 18 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US\$5.010.000 divided into 50.100.000 ordinary shares of US\$0,10 each to US\$6.100.000 divided into 61.000.000 ordinary shares of US\$0,10 each by creating of 10.900.000 additional ordinary shares of US\$0,10 each.

On 19 September 2012, following special members' resolution, the authorised share capital of the Company which on that date was US\$6.100.000 divided into 61.000.000 ordinary shares of US\$0,10 each was subdivided into 610.000.000 ordinary shares of US\$0,01 each. On the same date, the authorised share capital of the Company was consolidated from US\$6.100.000 divided into 610.000.000 ordinary shares of US\$0,01 to US\$6.100.000 divided into 76.250.000 ordinary shares of US\$0,08 each.

On 19 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US\$6.100.000 divided into 76.250.000 ordinary shares of US\$0,08 each to US\$10.020.000 divided into 125.250.000 ordinary shares of US\$0,08 each by creating of 49.000.000 additional ordinary shares of US\$0,08 each.

As a result of the above changes, the authorised share capital of the Company is US\$10.020.000 divided into 125.250.000 ordinary shares of US\$0,08 each.

Issued share capital

On 18 September 2012, following a Board of Directors' resolution, the issued share capital of the Company was increased from US\$5.010.000 divided into 50.100.000 ordinary shares of US\$0,10 each to US\$5.010.001 divided into 50.100.008 ordinary shares by issue of 8 ordinary shares with a nominal value of US\$0,10 each.

On 19 September 2012, following a special members' resolution, the 50.100.008 issued ordinary shares of the Company with a nominal value of US\$0,10 each were subdivided into 501.000.080 ordinary shares of US\$0,01 each. On the same date the issued share capital of the Company was consolidated from US\$5.010.001 divided into 501.000.080 ordinary shares of US\$0,01 each to US\$5.010.001 divided into 62.625.010 ordinary shares with a nominal value of US\$0,08 each.

On 11 October 2012, as a result of the initial public offering, the Company resolved to issue 12.500.000 ordinary shares with a nominal value of US\$0,08 each at an offer price of US\$12 per ordinary share. The total proceeds from this issue amounted to US\$150.000.000 resulting in an increase of the issued share capital by US\$1.000.000 (RUB: 30.949.300) and an increase of the share premium by US\$149.000.000 (RUB: 4.611.445.700). A net amount of US\$3.160.777 (RUB: 101.212.183) related to capital issue expenses that was directly attributable to the issue of the new shares following the IPO process, was written off against share premium.

As a result of the above changes, the issued share capital of the Company is US\$6.010.000 divided into 75.125.010 ordinary shares of US\$0,08 each.

BOARD OF DIRECTORS

The Board of Directors leads the process in making new Board member appointments and makes recommendations on appointments to shareholders. In accordance with the Appointment Policy for the Board of Directors and Committees, all directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years (e.g. two three-year terms) for a non-executive director is subject to particularly rigorous review, and takes into account the need for progressive refreshing of the Board of Directors.

MD MEDICAL GROUP INVESTMENTS PLC**BOARD OF DIRECTORS' REPORT** *(continued)***BOARD OF DIRECTORS** *(continued)*

The members of the Board of Directors who served as at the date of signing of these consolidated financial statements, are presented on page 1.

The members of the Board of Directors who served during the year 2012 and as at 31 December 2012 were are as follows:

- Elia Nicolaou
- Apollon Athanasiades (appointed on 2 August 2012)
- Elena Mladova (appointed on 2 August 2012)
- Marios Tofaros (appointed on 2 August 2012)
- Mark Kurtser (appointed on 2 August 2012)
- Vitaly Ustimenko (appointed as an alternate director to Mark Kurtser on 19 September 2012)
- Simon Rowlands (appointed on 24 September 2012)
- Kirill Dmitriev (appointed on 21 December 2012)
- Olga Mikhailova (appointed on 24 September 2012 and resigned on 28 February 2013)
- Gulnara Ziadetdinova (appointed 21 December 2012 and resigned on 28 February 2013)

Other than Ms. Elia Nicolaou, all directors retire at the Annual General Meeting and, being eligible, offer themselves for reelection.

THE BOARD COMMITTEES

Since September 2012, the Board of Directors established the operation of the following three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee.

Audit Committee

The Audit Committee comprises of two non-executive directors, one of whom is independent. The Audit Committee is chaired by the independent non-executive director Mr. Simon Rowlands. Mr. Kirill Dmitriev is the other member.

The Audit Committee meets at least four times each year and is responsible for considering:

- the reliability and appropriateness of disclosures in the financial statements and external financial communication;
- the maintenance of an effective system of internal controls including financial, operational and compliance controls and risk management system;
- preparation of recommendations to the shareholders for approval in General Meetings in relation to the appointment, reappointment and removal of the external auditor;
- approval of the remuneration and terms of engagement of the external auditor in respect of audit services provided;
- the audit process, including monitoring and review of the external auditor's performance, independence and objectivity;
- development and implementation of the policy on non-audit services provided by the external auditor; and
- monitoring compliance with laws and regulations and standard of corporate governance.

The Audit Committee assists the Board of Directors in its oversight of the performance and leadership of the internal audit activity.

MD MEDICAL GROUP INVESTMENTS PLC**BOARD OF DIRECTORS' REPORT** *(continued)***THE BOARD COMMITTEES** *(continued)***Audit Committee** *(continued)*

Where the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendation to the Board of Directors on actions needed to address the issues or to make improvements.

Nomination Committee

The Nomination Committee comprises of two non-executive directors, one of whom is independent. The Nomination Committee is chaired by the non-executive director Dr. Mark Kurtser. Mr. Simon Rowlands is the other member.

The Nomination Committee meets at least once a year and is responsible for assisting the Board of Directors in discharging its corporate governance responsibilities in relation to appointment of all executive and non-executive directors, as well as the CEO and CFO of the Company and its subsidiaries. The main objective of the Nomination Committee is to lead the process for the Board of Directors' appointments and make respective recommendation to the Board of Directors, ensuring proper balance of the Board of Directors and qualification of its members. The Nomination Committee also considers the composition of the Audit and Remuneration Committees.

Remuneration Committee

The Remuneration Committee comprises of three directors, one non-executive director and two executive directors. The Remuneration Committee is chaired by the independent non-executive director Mr. Simon Rowlands. The two other members are Dr. Mark Kurtser and Dr. Elena Mladova.

The Remuneration Committee meets at least once a year and is responsible for assisting the Board of Directors in discharging its corporate governance responsibilities in relation to remuneration of all executive directors and the chairman of the Board of Directors. The main objective of the Remuneration Committee is to determine the framework and policy for the remuneration of the executive directors, the chairman of the Board of Directors and senior executives, and the specific remuneration of each executive director and the chairman of the Board of Directors and any compensation payments.

CORPORATE GOVERNANCE

The Company is committed to the highest standards of corporate governance and transparency. The Board of Directors recognises that good governance is a strategic asset that helps it to deliver consistent long-term value to its shareholders. By running the Company in an open way, the Board of Directors enables shareholders to understand how it has been able to deliver consistently strong results. The Board of Directors believes that corporate responsibility is an essential part of good governance and makes sound business sense, as well as being crucial to the appropriate management of risk within the Company.

Improving its corporate governance structure in accordance with the internationally recognised best practices the Company adopted in 2012 important policies and procedures.

The Company's corporate governance policies and practices are designed to ensure that the Company is focused on upholding its responsibilities to the shareholders. The Company's corporate governance policies and practices include, inter alia, policies governing the:

- Appointment policy for the Board of Directors and Committees;
- Terms of reference of the Audit Committee;
- Terms of reference of the Nomination Committee;
- Terms of reference of the Remuneration Committee;
- Code of Ethics and Conduct; and
- Anti-Fraud Policy.

MD MEDICAL GROUP INVESTMENTS PLCBOARD OF DIRECTORS' REPORT (continued)**BRANCHES**

During the year ended 31 December 2012, the Company did not operate any branches.

TREASURY SHARES

During the year ended 31 December 2012, the Company did not acquire either directly or through a person in that person's name but on the Company's behalf any of its own shares.

EVENTS AFTER THE REPORTING PERIOD

Since 1 January 2013 LLC KHAVEN and LLC Mother and Child Perm are subject to a 0% income tax rate.

On 11 March 2013 beginning of the construction of a new medical center of 32.000 square meters in Ufa was announced.

On 12 March 2013 the authorised share capital of LLC MD PROJECT 2010 was increased from RUB10 thousand to RUB1.500.000 thousand to provide funds for the construction of new medical center in Ufa. On 18 March 2013 the Company transferred its part of contribution in amount of RUB1.199.992 thousand to LLC MD PROJECT 2010.

On 14 March 2013 the Company announced the proposed acquisition from unrelated third parties of Vitanostra Ltd, operator of the IDK Medical Company network of women's and children's health clinics in the Russian region of Samara. The acquisition is for a cash consideration of US\$16.100 thousand for 100% of the outstanding share capital of Vitanostra Ltd which owns 100% of IDK Medical Company network. The transaction is expected to be completed in the first half of 2013 following the receipt of regulatory approvals.

INDEPENDENT AUDITORS

The independent auditors of the Company Messrs. KPMG Limited have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be submitted to the Annual General Meeting.

By order of the Board of Directors,

Mark Kurtser
Chairman of the Board of Directors

Limassol, 5 April 2013



MD MEDICAL GROUP INVESTMENTS PLCDIRECTORS' RESPONSIBILITY STATEMENT

Each of the directors, whose names are listed below, confirms that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the adoption of going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the Board of Directors' reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of the Company as at the date of this announcement are set out below:

Mark Kurtser	Chairman, non-executive director
Apollon Athanasiades	Executive director
Elena Mladova	Executive director
Elia Nicolaou	Executive director
Marios Tofaros	Executive director
Andreas Petrides	Non-executive director
Angelos Paphitis	Non-executive director
Kirill Dmitriev	Non-executive director
Simon Rowlands	Non-executive independent director

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
MD MEDICAL GROUP INVESTMENTS PLC

Report on the financial statements

We have audited the accompanying consolidated financial statements of MD Medical Group Investments Plc (the "Company") and its subsidiaries ("the Group") on pages 11 to 52 which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Board Members:

N.G. Syrimis, A.K. Christofides, E.Z. Hadjizacharias, P.G. Loizou
A.M. Gregoriades, A.A. Demetriou, D.S. Vakis, A.A. Apostolou
S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadis
C.V. Vasiliou, P.E. Antoniadis, M.J. Hallos, M.P. Michael, P.A. Peleties
G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shlammoutis
G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos
M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kallis, C.N. Kallis
M.H. Zavrou, P.S. Eita, M.G. Lazarou, Z.E. Hadjizacharias
P.S. Theophanous, M.A. Karantoni, C.A. Markides

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Polis Chrysochou

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of MD Medical Group Investments Plc as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

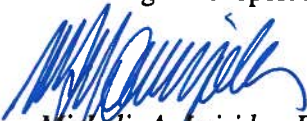
Report on other legal and regulatory requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Group's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us, and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 7 is consistent with the consolidated financial statements.

Other matter

This report, including the opinion expressed herein, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving the aforementioned opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come.



Michalis A. Loizides, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
11, June 16th 1943 Street
3022 Limassol
Cyprus

5 April 2013

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 RUB'000	2011 RUB'000
Revenue	4	4.061.092	2.907.759
Cost of sales	5	<u>(2.013.135)</u>	<u>(1.463.889)</u>
Gross profit		2.047.957	1.443.870
Other income		820	1.001
Administrative expenses	6	(484.401)	(245.613)
Other expenses		<u>(4.038)</u>	<u>(6.232)</u>
Profit from operations before net finance expenses	7	<u>1.560.338</u>	<u>1.193.026</u>
Finance income		13.135	628
Finance expenses		(68.719)	(32.076)
Net foreign exchange transactions gain / (loss)		<u>14.297</u>	<u>(12.278)</u>
Net finance expenses	9	<u>(41.287)</u>	<u>(43.726)</u>
Excess of Group's interest in the fair value of the acquired subsidiaries' net assets over the fair value of the consideration paid for their acquisition	15	<u>-</u>	<u>45.762</u>
Profit before tax		1.519.051	1.195.062
Taxation	10	<u>19.180</u>	<u>(271.107)</u>
Profit for the year		<u>1.538.231</u>	<u>923.955</u>
Other comprehensive income			
Foreign currency translation differences on foreign operations		<u>(84.401)</u>	<u>(23.707)</u>
Total comprehensive income for the year		<u>1.453.830</u>	<u>900.248</u>
Profit for the year attributable to:			
Owners of the Company		1.399.445	859.981
Non-controlling interests		<u>138.786</u>	<u>63.974</u>
		<u>1.538.231</u>	<u>923.955</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		1.315.044	836.274
Non-controlling interests		<u>138.786</u>	<u>63.974</u>
		<u>1.453.830</u>	<u>900.248</u>
Basic and fully diluted earnings per share (RUB)	11	<u>21.46</u>	<u>13.76</u>

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	31 December 2012 RUB'000	31 December 2011 RUB'000
Assets			
Property, plant and equipment	13	7.422.875	4.043.632
Intangible assets	14	30.668	30.956
Trade, other receivables and deferred expenses	17	150.483	461.763
Deferred tax assets	24	<u>136</u>	<u>311</u>
Total non-current assets		<u>7.604.162</u>	<u>4.536.662</u>
Inventories	16	50.475	27.071
Trade, other receivables and deferred expenses	17	229.224	42.898
Current income tax asset		16.899	29.282
Short term investments	18	2.429.816	-
Cash and cash equivalents	19	<u>2.582.933</u>	<u>133.474</u>
Total current assets		<u>5.309.347</u>	<u>232.725</u>
Total assets		<u>12.913.509</u>	<u>4.769.387</u>
Equity			
Share capital	20	180.585	149.636
Reserves		<u>8.101.975</u>	<u>2.430.351</u>
Total equity attributable to owners of the Company		<u>8.282.560</u>	<u>2.579.987</u>
Non-controlling interests		<u>340.857</u>	<u>227.269</u>
Total equity		<u>8.623.417</u>	<u>2.807.256</u>
Liabilities			
Loans and borrowings	22	2.694.901	1.059.828
Obligations under finance leases	23	809	-
Trade and other payables	25	64.484	-
Deferred tax liabilities	24	5.984	39.117
Deferred income	26	<u>56.716</u>	<u>41.241</u>
Total non-current liabilities		<u>2.822.894</u>	<u>1.140.186</u>
Short term portion of long-term loans	22	262.688	29.700
Obligations under finance leases	23	200	102.534
Trade and other payables	25	755.613	352.354
Deferred income	26	447.937	327.120
Current income tax liability		<u>760</u>	<u>10.237</u>
Total current liabilities		<u>1.467.198</u>	<u>821.945</u>
Total liabilities		<u>4.290.092</u>	<u>1.962.131</u>
Total equity and liabilities		<u>12.913.509</u>	<u>4.769.387</u>


On 5 April 2013 the Board of Directors of MD Medical Group Investments Plc authorised these consolidated financial statements for issue.



 Elena Mladova
 Director



 Mark Kurtser
 Director



 Vitaly Ustimenko
 Chief Financial Officer

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Attributable to owners of the Company

	Share capital RUB'000	Share premium RUB'000	Common				Retained earnings RUB'000	Total RUB'000	Non- controlling interests RUB'000	Total equity RUB'000
			Control Transactions RUB'000	Capital contribution RUB'000	Translation reserve RUB'000					
Balance at 1 January 2011	149.316	119.334	(682.873)	62.274	4.378	1.513.464	1.165.893	79.880	1.245.773	
Comprehensive income										
Profit for the year	-	-	-	-	-	859.981	859.981	63.974	923.955	
Other comprehensive income										
Foreign currency translation differences	-	-	-	-	(23.707)	-	(23.707)	-	(23.707)	
Total comprehensive income for the year	-	-	-	-	(23.707)	859.981	836.274	63.974	900.248	
Contributions by and distributions to owners										
Issue of share capital at a premium	320	613.751	-	(62.274)	-	-	551.797	-	551.797	
Dividends	-	-	-	-	-	(1.498)	(1.498)	(21.915)	(23.413)	
Contributions from shareholders	-	-	-	27.521	-	-	27.521	18.348	45.869	
Total transactions with owners	320	613.751	-	(34.753)	-	(1.498)	577.820	(3.567)	574.253	
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	-	86.182	86.182	
Non-controlling interest in new subsidiaries	-	-	-	-	-	-	-	800	800	
Total non-controlling interest	-	-	-	-	-	-	-	86.982	86.982	
Balance at 31 December 2011	149.636	733.085	(682.873)	27.521	(19.329)	2.371.947	2.579.987	227.269	2.807.256	

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2012

	Attributable to owners of the Company							Total equity RUB'000	
	Share capital RUB'000	Share premium RUB'000	Common Control Transactions RUB'000	Capital contribution RUB'000	Translation reserve RUB'000	Retained earnings RUB'000	Total RUB'000		Non- controlling interests RUB'000
Balance at 1 January 2012	149,636	733,085	(682,873)	27,521	(19,329)	2,371,947	2,579,987	227,269	2,807,256
Comprehensive income									
Profit for the year	-	-	-	-	-	1,399,445	1,399,445	138,786	1,538,231
Other comprehensive income									
Foreign currency translation differences	-	-	-	-	(84,401)	-	(84,401)	-	(84,401)
Total comprehensive income for the year	-	-	-	-	(84,401)	1,399,445	1,315,044	138,786	1,453,830
Contributions by and distributions to owners									
Issue of share capital at a premium	30,949	4,510,234	-	-	-	-	4,541,183	-	4,541,183
Dividends	-	-	-	-	-	(153,654)	(153,654)	(25,200)	(178,854)
Total transactions with owners	30,949	4,510,234	-	-	-	(153,654)	4,387,529	(25,200)	4,362,329
Non-controlling interest in new subsidiaries	-	-	-	-	-	-	-	2	2
Total non-controlling interest	-	-	-	-	-	-	-	2	2
Balance at 31 December 2012	180,585	5,243,319	(682,873)	27,521	(103,730)	3,617,738	8,282,560	340,857	8,623,417

Share premium is not available for distribution.

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 RUB'000	2011 RUB'000
Cash flows from operating activities			
Profit for the year		1.538.231	923.955
Adjustments for:			
Depreciation of property, plant and equipment	13	133.840	99.042
Net exchange (profit)/loss	9	(14.297)	12.278
Amortisation of intangible assets	14	288	249
Excess of Group's interest in the fair value of the acquired subsidiaries' net assets over the fair value of the consideration paid for their acquisition	15	-	(45.762)
Loss/(profit) from the sale of property, plant and equipment		1.954	(118)
Interest income	9	(13.135)	(628)
Interest expense	9	27.218	5.186
Impairment of financial instruments	9	1.118	1.038
Taxation	10	(19.180)	271.107
Cash flows from operations before working capital changes		<u>1.656.037</u>	<u>1.266.347</u>
Increase in inventories		(23.404)	(4.381)
Increase in trade and other receivables		(41.356)	(135.931)
Increase in trade and other payables		99.878	54.406
Increase in deferred income		136.292	138.773
Cash flows from operations		<u>1.827.447</u>	<u>1.319.214</u>
Tax paid		(10.872)	(254.168)
Net cash flows from operating activities		<u>1.816.575</u>	<u>1.065.046</u>
Cash flows from investing activities			
Payment for acquisition of intangible assets		-	(481)
Payment for acquisition/construction of property, plant and equipment		(2.646.366)	(1.811.882)
Payment for acquisition of investments in subsidiaries under common control		(9.337)	(330.617)
Acquisition of subsidiaries, net cash outflow on acquisition		-	(443.062)
Short-term investments with maturity date more than three months		(2.509.328)	-
Proceeds from disposal of property, plant and equipment		759	163
Interest received		9.078	628
Net cash flows used in investing activities		<u>(5.155.194)</u>	<u>(2.585.251)</u>

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)For the year ended 31 December 2012

	Note	2012 RUB'000	2011 RUB'000
Cash flows from financing activities			
Proceeds from issue of share capital at a premium		4,374.143	551.797
Repayment of borrowings		(59.538)	-
Repayments of obligations under finance leases		(106.574)	(71.277)
Proceeds from borrowings		1,903.366	1,085.250
Interest paid		(179.285)	(446)
Dividends paid to the owners of the Company		(153.654)	(1,498)
Dividends paid to non-controlling interests		(10.500)	(21.915)
Net cash flows from financing activities		<u>5,767.958</u>	<u>1,541.911</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		133.474	111.529
Effect of exchange rate changes on cash and cash equivalents		20.120	239
Cash and cash equivalents at the end of the year	19	<u><u>2,582,933</u></u>	<u><u>133,474</u></u>

The notes on pages 17 to 52 are an integral part of this consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. INCORPORATION AND PRINCIPAL ACTIVITIES

MD Medical Group Investments Plc (the "Company") was incorporated in Cyprus on 5 August 2010 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its Registered Office is at 1 Avlonos Street, Maria House, 5th floor, P.C. 1075, Nicosia, Cyprus.

The consolidated financial statements for the year ended 31 December 2012 consist of the consolidated statement of financial position as at the aforementioned date and the related consolidated statements of comprehensive income, changes in equity and cash flows and a summary of significant accounting policies and other explanatory notes of the Company and its subsidiaries (which together are referred to as "the Group") for the year then ended.

The principal activity of the Company is that of an investment holding company and, for that purpose, to acquire and hold controlling and other interests in the share or loan capital of any company or companies of any nature, but primarily in the healthcare industry.

The Group's medical centers typically offer a range of services in the following fields:

- Obstetrics and gynaecology;
- Paediatrics;
- Fertility and in-vitro fertilisation ("IVF") treatment;
- Other medical services.

Other medical services include but are not limited to dental care, laboratory examinations, surgery, traumatology and rehabilitation.

The details of the directly and indirectly owned subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Activities</u>	<u>Notes</u>	2012 Effective Holding %	2011 Effective Holding %
CJSC MD PROJECT 2000	Russian Federation	Medical services		95	95
LLC Khaven	Russian Federation	Medical services	1	100	100
LLC Velum	Russian Federation	Medical services	1	54	54
LLC Capital Group	Russian Federation	Renting of property	1	80	80
LLC FimedLab	Russian Federation	Medical services	1	60	60
LLC Clinic Mother and Child	Russian Federation	Holding of trademarks	1,4	100	100
LLC Clinica Zdorovia	Russian Federation	Medical services	2	60	60
LLC Ivamed	Russian Federation	Medical services	2	100	100
LLC Dilamed	Russian Federation	Medical services	2	100	100
CJSC Listom	Russian Federation	Medical services	2	100	100
LLC Ustic-ECO	Russian Federation	Medical services	2	70	70
LLC Ecodeure	Russian Federation	Medical services	2	85	85
LLC Mother and Child Perm	Russian Federation	Medical services	3	80	80
LLC Mother and Child Ufa	Russian Federation	Medical services	5	80	80
LLC Mother and Child Saint Petersburg	Russian Federation	Medical services	5	60	60
LLC MD PROJECT 2010	Russian Federation	Medical services	5,6,7	80	80
LLC Mother and Child Ugo Zapad	Russian Federation	Medical services	5,6	60	60
LLC MD Service	Russian Federation	Pharmaceutics retail	8	98	-
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services (not operating)	9	99	-
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services (not operating)	9	99	-

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. INCORPORATION AND PRINCIPAL ACTIVITIES *(continued)*

Notes:

1. These entities were acquired through the exercise in January 2011 of a Call Option agreement entered by the Company in October 2010.
2. These entities were all acquired in November 2011 from the same party.
3. This entity was acquired in May 2011.
4. 1% of the share capital of this entity is directly owned by the Company and 99% of the share capital of this entity is indirectly owned through LLC Khaven. Thus effective holding percentage for the entity is 100%.
5. These entities are indirectly owned through LLC Khaven.
6. These entities were incorporated in 2011.
7. 99% of the share capital of this entity is owned by LLC Mother and Child Ufa and 1% of the share capital of this entity is owned by LLC Mother and Child Perm. Thus effective holding percentage for the entity is 80%.
8. This entity was incorporated in 2012. 95% of the share capital of the entity is directly owned by the Company and 5% of the share capital is owned by LLC Clinica Zdorovia. Thus effective holding percentage for the entity is 98%.
9. These entities were incorporated in 2012 and did not carry any operations during the year.

As of 31 December 2012, 68% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr. Mark Kurtser. The remaining 32% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

The consolidated financial statements were approved by the Board of Directors and were authorised for issue on 5 April 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except in the case of finance leases which are shown at their fair value.

(c) Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2012, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements of the Group.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2012. The Company does not plan to adopt these Standards early.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. BASIS OF PREPARATION *(continued)*

(i) Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" - "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 (Amendments) "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (Revised) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

(ii) Standards and Interpretations not adopted by the EU

- Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013).
- IFRS 1 (Amendments): "Government Loans" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) "Financial Instruments: Disclosures" – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013).
- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective for annual periods beginning on or after 1 January 2014).

The Board of Directors expects that the adoption of these standards in future periods will not have a material effect on the consolidated financial statements of the Group.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. BASIS OF PREPARATION *(continued)*

(d) Use of estimates and judgements

Preparing consolidated financial statements in accordance with IFRSs requires management to exercise their judgement to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed and where necessary revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described below:

- **Provision for bad and doubtful debts**
The Group reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

- **Provision for obsolete and slow-moving inventory**
The Group reviews its inventory records for evidence regarding the saleability or usability of inventory and its net realisable value on disposal. The provision for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory as well as the movement and the level of stock of each category of inventory.

The amount of provision is recognised in profit or loss. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the provision for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

- **Income taxes**
Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Impairment of intangible assets**
Intangible assets are initially recorded at acquisition cost and are amortised on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. BASIS OF PREPARATION (*continued*)

- Impairment of intangible assets (*continued*)

When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs.

- Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units of the Group on which the goodwill has been allocated.

(e) Functional and presentation currency

The functional currency of the Company is the US dollar (US\$). All of the Group entities are located in Russian Federation and have the Russian Ruble (RUB) as their functional currency.

The management opted to present the consolidated financial statements in RUB, rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently for all the years presented in these consolidated financial statements and in stating the financial position of the Group. The accounting policies have been consistently applied by all companies of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of all the Group companies are prepared using uniform accounting policies. All inter-company transactions and balances between Group companies have been eliminated during consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2012**3. SIGNIFICANT ACCOUNTING POLICIES** (*continued*)Business combinations (*continued*)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on a basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

MD MEDICAL GROUP INVESTMENTS PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Business combinations (continued)**

Purchases of subsidiaries from parties under common control are accounted for using the predecessor basis of accounting. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted in these consolidated financial statements as an adjustment to common control transaction reserve within equity.

Revenue recognition

Revenue comprises the invoiced amount for the sale of goods and services net of rebates and discounts. Revenues earned by the Group are recognised on the following bases:

- **Sale of goods**
Sales of goods are recognised when significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually when the Group has sold or delivered goods to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured.
- **Rendering of services**
Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- **Rental income**
Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Finance income

Finance income includes interest income which is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses

Finance expenses include interest expense and other borrowing costs and are recognised to profit or loss using the effective interest method.

Foreign currency translation***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

MD MEDICAL GROUP INVESTMENTS PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currency translation (continued)*****Transactions and balances (continued)***

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Russian Rubles using exchange rates prevailing on the reporting date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

Dividend distribution to the Company's shareholders is recognised in the Group's financial statements in the year in which the dividends are declared, either through Board resolution (for interim dividends) or by the Group's shareholders in the Annual General Meeting (for final dividends).

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised in profit or loss on the straight-line method over the useful lives of each part of an item of property, plant and equipment. The annual depreciation rates used for the current and comparative periods are based on the following estimated useful lives of the property, plant and equipment are as follows:

	Years
Freehold buildings	50
Plant and machinery	1-10
Leased equipment	10

No depreciation is provided on land.

Assets under construction are not depreciated until they are completed and brought into use, at which time they are reclassified in the relevant class of property, plant and equipment and depreciated accordingly.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Deferred income

Deferred income represents income receipts which relate to future periods.

Intangible assets

(i) **Goodwill**

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Positive goodwill on acquisition of subsidiaries is included in "intangible assets".

MD MEDICAL GROUP INVESTMENTS PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets (continued)****(i) Goodwill (continued)**

The excess of the Group's interest in the fair value of the new subsidiaries' net assets over the consideration paid for their acquisition ("a bargain purchase gain") is written-off in profit or loss in the year of acquisition of the relevant subsidiary.

Positive goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. The estimated useful life of patents and trademarks is seven years.

(iii) Web site costs

Costs that are directly associated with web site controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently web site costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Web site costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years. Amortisation commences when the site is available for use and is included within administrative expenses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

The leases of the Group are classified as finance leases, if they transfer to the Group substantially all the risks and rewards incidental to ownership of an asset. The Group recognises a finance lease as an asset and liability at the lower of the fair value of the leased asset and the present value of minimum lease payments.

The payments are apportioned between the finance expenses and the decrease of the finance lease obligations based on the effective interest method.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

(i) **Trade receivables**

Trade and other receivables are stated at their nominal values after deducting the specific provision for doubtful debts, which is calculated based on an examination of all outstanding balances as at the year end. Bad debts are written off when identified.

(ii) **Prepayments from clients**

Payments received in advance on sale contracts for which no revenue has been recognised yet, are recorded as deferred income as at the reporting date and carried under liabilities.

(iii) **Loans granted**

Loans originated by the Group by providing money directly to the borrower are categorised as loans and are carried at amortised cost. The amortised cost is the amount at which the loan granted is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. All loans are recognised when cash is advanced to the borrower.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(iv) **Derivatives**

Derivative financial instruments are initially accounted for at cost and subsequently measured at fair value. Fair value is calculated using the current values, discounted cash flow analysis or option valuation methods. Derivatives are recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The adjustments on the fair value of derivatives held at fair value through profit or loss are transferred to profit or loss.

(v) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, cash at bank and short-term highly liquid investments with maturity of 3 months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term investments.

(vi) **Borrowings**

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(vii) **Trade payables**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

MD MEDICAL GROUP INVESTMENTS PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments (continued)****Derecognition of financial assets and liabilities****Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs to completion and selling expenses.

Share capital

Proceeds from the issue of ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

Incremental costs directly attributable to the issue of new shares are recognised as a deduction from share premium net of any tax effect.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. REVENUE

	2012 RUB'000	2011 RUB'000
Deliveries	1.056.910	873.839
Obstetrics and Gynaecology out-patient treatments	790.717	506.926
Paediatrics out-patient treatments	556.576	381.735
IVF	542.169	340.703
Obstetrics and Gynaecology in-patient treatments	416.828	309.498
Paediatrics in-patient treatments	136.580	101.210
Other medical services	386.729	248.083
Sales of goods	96.049	87.505
Other income	<u>78.534</u>	<u>58.260</u>
	<u>4.061.092</u>	<u>2.907.759</u>

5. COST OF SALES

	2012 RUB'000	2011 RUB'000
Payroll and related social taxes	1.268.403	931.653
Materials and supplies used	426.096	319.223
Depreciation	130.969	97.565
Property tax	53.884	34.534
Energy and utilities	42.799	31.787
Medical services	43.963	29.909
Repair and maintenance	20.696	12.050
Other expenses	<u>26.325</u>	<u>7.168</u>
	<u>2.013.135</u>	<u>1.463.889</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. ADMINISTRATIVE EXPENSES

	2012 RUB'000	2011 RUB'000
Payroll and related social taxes	228.115	132.214
Utilities and materials	110.311	23.870
Legal, consulting and other professional fees	54.739	23.566
Advertising	36.041	25.543
Independent auditors' remuneration	20.562	14.465
Communication costs	7.198	6.139
Depreciation	2.871	1.477
Amortisation	288	249
Other expenses	<u>24.276</u>	<u>18.090</u>
	<u><u>484.401</u></u>	<u><u>245.613</u></u>

7. PROFIT FROM OPERATIONS BEFORE NET FINANCE EXPENSES

	2012 RUB'000	2011 RUB'000
Profit before tax is stated after charging the following items:		
Staff costs	1.496.518	1.063.867
Depreciation of property, plant and equipment	133.840	99.042
Independent auditors' remuneration	20.562	14.465
Amortisation of intangible assets	<u>288</u>	<u>249</u>

8. STAFF COSTS

	2012 RUB'000	2011 RUB'000
Wages and salaries	1.227.248	882.825
Social insurance contributions and other taxes	<u>269.270</u>	<u>181.042</u>
Total staff costs	<u><u>1.496.518</u></u>	<u><u>1.063.867</u></u>

The average number of employees employed by the Group during the year 2012 and 2011 were 1.766 and 1.595 respectively.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. NET FINANCE EXPENSES

	2012 RUB'000	2011 RUB'000
Finance income		
Bank interest	<u>13.135</u>	<u>628</u>
Finance expenses		
Interest expense		
Interest on bank loans	(24.538)	-
Interest on loans from third parties	(224)	(894)
Finance leases interest	(2.456)	(4.292)
Other finance expense		
Bank charges	(40.383)	(25.852)
Impairment of trade and other receivables	(633)	(1.038)
Other impairment provision	<u>(485)</u>	<u>-</u>
	<u>(68.719)</u>	<u>(32.076)</u>
Net foreign exchange transaction gain / (loss)	<u>14.297</u>	<u>(12.278)</u>
Net finance expense	<u>(41.287)</u>	<u>(43.726)</u>

The average capitalisation rate on funds borrowed specifically for the construction of the qualifying assets is 10% per annum (2011: 10%).

Borrowing costs capitalized for qualifying assets amounted to RUB178.756 thousand for 2012 and RUB27.312 thousand for 2011.

10. TAXATION

Tax recognised in profit or loss

	2012 RUB'000	2011 RUB'000
Corporation tax	13.778	246.782
Deferred tax - (credit)/charge	<u>(32.958)</u>	<u>24.325</u>
Charge for the year	<u>(19.180)</u>	<u>271.107</u>

Numerical reconciliation of income tax expense to prima facie tax payable

	2012 RUB'000	2011 RUB'000
Accounting profit before tax	<u>1.519.051</u>	<u>1.195.062</u>
Tax calculated at the applicable tax rates of the Group	16.719	261.978
Tax effect of expenses not deductible for tax purposes	41.940	3.138
Tax effect of allowances and income not subject to tax	(22.012)	(32.940)
Tax effect of loss	448	307
Reduction in tax rates	(66.391)	22.154
Overseas tax in excess of credit claim used during the year	<u>10.116</u>	<u>16.470</u>
Tax as per consolidated statement of comprehensive income-(credit)/charge	<u>(19.180)</u>	<u>271.107</u>

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. PROFIT PER SHARE

	2012	2011
Basic and fully diluted earnings attributable to the owners of the Company (RUB'000)	<u>1.399.445</u>	<u>859.981</u>
Weighted average number of ordinary shares in issue during the year	<u>65.220.631</u>	<u>62.503.767</u>
Basic and fully diluted earnings per share (RUB)	<u>21,46</u>	<u>13,76</u>

The change of the nominal value of shares from US\$0,10 to US\$0,08 on 19 September 2012 was adjusted retrospectively for all periods presented in these consolidated financial statements.

12. DIVIDENDS

During 2011, and prior to the issue of the new shares, the Board of Directors declared and paid an interim dividend out of 2011 profits amounting to US\$51 thousand (RUB1.498 thousand), which corresponds to US\$0,00102 (RUB0,02996) per share.

During 2012, prior to the issue of the new shares and prior to the reduction in the nominal value of the share capital of the Company, the Board of Directors declared and paid an interim dividend out of 2012 profits amounting to US\$5.050 thousand (RUB153.654 thousand), which corresponds to US\$0,1080 (RUB3,06695) per share.

Dividends are subject to a deduction of special contribution to the defence fund at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011 and was increased to 17% for the period thereafter to 31 December 2011) for individual shareholders that are resident in Cyprus for taxation purposes. Dividends payable to non-residents of Cyprus for taxation purposes are not subject to such a deduction.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2012	Freehold land and buildings RUB'000	Property under construction RUB'000	Plant and equipment RUB'000	Leased equipment RUB'000	Total RUB'000
Cost					
Balance at 1 January	1.998.463	1.876.740	694.380	169.519	4.739.102
Additions	-	2.440.914	1.072.289	2.593	3.515.796
Disposals	-	-	(8.264)	-	(8.264)
Transfer from property under construction	4.112.588	(4.121.995)	9.407	-	-
Transfer from leased equipment	-	-	169.519	(169.519)	-
Balance at 31 December	<u>6.111.051</u>	<u>195.659</u>	<u>1.937.331</u>	<u>2.593</u>	<u>8.246.634</u>
Depreciation					
Balance at 1 January	185.400	-	507.246	2.824	695.470
Depreciation during the year	45.775	-	79.133	8.932	133.840
On disposals	-	-	(5.551)	-	(5.551)
Transfer from leased equipment	-	-	11.598	(11.598)	-
Balance at 31 December	<u>231.175</u>	<u>-</u>	<u>592.426</u>	<u>158</u>	<u>823.759</u>
Carrying amounts					
Balance at 31 December	<u>5.879.876</u>	<u>195.659</u>	<u>1.344.905</u>	<u>2.435</u>	<u>7.422.875</u>

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13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

31 December 2011	Freehold land and buildings RUB'000	Property under construction RUB'000	Plant and equipment RUB'000	Leased equipment RUB'000	Total RUB'000
Cost					
Balance at 1 January	1.523.890	-	561.591	-	2.085.481
Acquisitions through business combinations	360.721	165.433	101.465	-	627.619
Additions	113.852	1.711.307	32.592	169.519	2.027.270
Disposals	-	-	(1.268)	-	(1.268)
Balance at 31 December	<u>1.998.463</u>	<u>1.876.740</u>	<u>694.380</u>	<u>169.519</u>	<u>4.739.102</u>
Depreciation					
Balance at 1 January	150.623	-	447.028	-	597.651
Depreciation during the year	34.777	-	61.441	2.824	99.042
On disposals	-	-	(1.223)	-	(1.223)
Balance at 31 December	<u>185.400</u>	<u>-</u>	<u>507.246</u>	<u>2.824</u>	<u>695.470</u>
Carrying amounts					
Balance at 31 December	<u>1.813.063</u>	<u>1.876.740</u>	<u>187.134</u>	<u>166.695</u>	<u>4.043.632</u>

The total net book value of property, plant and equipment which is held as collateral for the borrowings, loans and leased assets is RUB5.991.537 thousand as at 31 December 2012 and RUB1.735.650 thousand as at 31 December 2011.

Terms and conditions relating to the pledge of property, plant and equipment are given in note 31.

14. INTANGIBLE ASSETS

2012	Goodwill RUB'000	Patents and trademarks RUB'000	Web site RUB'000	Total RUB'000
Cost				
Balance at 1 January/31 December	<u>30.051</u>	<u>949</u>	<u>280</u>	<u>31.280</u>
Amortisation				
Balance at 1 January	-	193	131	324
Amortisation during the year	-	232	56	288
Balance at 31 December	<u>-</u>	<u>425</u>	<u>187</u>	<u>612</u>
Carrying amounts				
Balance at 31 December	<u>30.051</u>	<u>524</u>	<u>93</u>	<u>30.668</u>
2011				
Cost				
Balance at 1 January	-	-	280	280
Acquisitions of subsidiaries	30.051	468	-	30.519
Additions	-	481	-	481
Balance at 31 December	<u>30.051</u>	<u>949</u>	<u>280</u>	<u>31.280</u>
Amortisation				
Balance at 1 January	-	-	75	75
Amortisation during the year	-	193	56	249
Balance at 31 December	<u>-</u>	<u>193</u>	<u>131</u>	<u>324</u>
Carrying amounts				
Balance at 31 December	<u>30.051</u>	<u>756</u>	<u>149</u>	<u>30.956</u>

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14. INTANGIBLE ASSETS *(continued)*

Goodwill is allocated to each cash-generating unit (CGU), identified according to the period of acquisition (note 15).

In order to access any impairment in the value of goodwill, the Group performed a test of the estimated recoverable amount of the CGUs compared to their carrying value.

Goodwill carrying amount:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Subsidiaries acquired through Call Option in January 2011	3.586	3.586
Subsidiaries acquired in November 2011	26.464	26.464
Subsidiary acquired in May 2011	<u>1</u>	<u>1</u>
	<u><u>30.051</u></u>	<u><u>30.051</u></u>

Goodwill has been allocated for impairment testing purposes to 3 groups of cash generating units.

The recoverable amount of each CGU group is based on the sum of the fair values of the net assets of the subsidiaries included in each CGU. The calculation of the fair value of net assets of each subsidiary is based on the current and estimated future pre-tax profitability. Additional details for determination of fair values of net assets are disclosed in note 29 of the consolidated financial statements.

No impairment was recognised in 2012. For all cash generating units management believes that any reasonable possible change in the key assumptions on which these units' estimated future profitability and recoverable amounts are based would not cause carrying amounts of these units to exceed their recoverable amounts.

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For the year ended 31 December 2012

15. ACQUISITION OF SUBSIDIARIES

Subsidiaries acquired during 2011 provide medical services in disciplines such as Gynaecology, Neonatology and Paediatrics, Fertility and In-Vitro Fertilisation (“IVF”) Treatment, Family Medicine and Dental Care. These entities are located in Moscow, Saint Petersburg, Ufa and Perm. The purpose of these acquisitions was the expansion of the Group’s activities into related business geographically and the broadening of the range of services that the Group offers aiming towards a fuller range of healthcare services for mother, child and family.

Goodwill arising on consolidation:

	Subsidiaries acquired through Call Option in January 2011 RUB'000	Subsidiaries acquired in November 2011 RUB'000	Subsidiary acquired in May 2011 RUB'000	Total RUB'000
Consideration transferred – cash	366.874	135.061	8	501.943
Plus: Non-controlling interests at acquisition date	46.950	39.230	2	86.182
Less: Fair value of the net assets acquired	<u>(452.281)</u>	<u>(151.546)</u>	<u>(9)</u>	<u>(603.836)</u>
Goodwill arising on consolidation	<u>3.586</u>	<u>26.464</u>	<u>1</u>	<u>30.051</u>

Excess of the Group’s interest in the fair value of the new subsidiaries’ net assets over the fair value of the consideration paid for their acquisition arising on consolidation

	<u>(42.043)</u>	<u>(3.719)</u>	<u>-</u>	<u>(45.762)</u>
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Goodwill arose in the above mentioned acquisitions because the cost of combinations included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The excess of the Group’s interest in the fair value of the net assets acquired over the cost of acquisition was recognised in the consolidated statement of comprehensive income. This arose mainly on the acquisition of subsidiaries through the exercise of the Call Option referred to in note 1, because the terms of these acquisitions were formally agreed some months prior to the actual acquisition date.

MD MEDICAL GROUP INVESTMENTS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. ACQUISITION OF SUBSIDIARIES (continued)

The assets and liabilities acquired were as follows:

	Carrying amounts			Fair values				
	Subsidiaries acquired through Call Option in January 2011 RUB'000	Subsidiaries acquired in November 2011 RUB'000	Subsidiary acquired in May 2011 RUB'000	Acquiree's carrying amount before combination RUB'000	Subsidiaries acquired through call option in January 2011 RUB'000	Subsidiaries acquired in November 2011 RUB'000	Subsidiary acquired in May 2011 RUB'000	Total RUB'000
Intangible assets	468	-	-	468	468	-	-	468
Property, plant and equipment	292.185	29.503	-	321.688	466.585	161.033	-	627.618
Investments	14.925	-	-	14.925	14.925	-	-	14.925
Deferred tax assets	-	931	-	931	-	-	-	-
Inventories	7.440	1.366	-	8.806	7.440	1.366	-	8.806
Trade other receivables	341.690	1.818	-	343.508	341.690	1.818	-	343.508
Cash and cash equivalents	26.796	32.075	10	58.881	26.796	32.075	10	58.881
Current tax assets	813	8.244	-	9.057	813	8.244	-	9.057
Trade and other payables	(80.938)	(37.917)	(1)	(118.856)	(80.938)	(37.917)	(1)	(118.856)
Current tax liabilities	(5.472)	(3.638)	-	(9.110)	(5.472)	(3.638)	-	(9.110)
Borrowings	(288.763)	-	-	(288.763)	(288.763)	-	-	(288.763)
Deferred tax liabilities	(4.800)	-	-	(4.800)	(31.263)	(11.435)	-	(42.698)
Net assets	304.344	32.382	9	336.735	452.281	151.546	9	603.836

Trade and other receivables acquired through business combinations mainly consist of trade receivables and CAPEX prepayments. The gross contractual amounts to be received equal to the carrying amount at fair value. All contractual amounts are expected to be received.

The valuation techniques and key models inputs used to determine the fair values of the assets and liabilities acquired are described in note 29 of the consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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15. ACQUISITION OF SUBSIDIARIES *(continued)*

Net cash outflow on acquisition of subsidiaries	2011 RUB'000
Consideration paid in cash	(501.943)
Cash and cash equivalents acquired	<u>58.881</u>
	<u>(443.062)</u>

Non-controlling interests

These acquisitions were accounted for using the acquisition method and the non-controlling interest was measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets.

The amounts of revenue contributed to the Group's revenue from the subsidiaries acquired through the Call Option in January 2011 amounted to RUB565.621 thousand and the amount of profit contributed to the Group's profit from the subsidiaries acquired through the Call Option in January 2011 amounted to RUB93.034 thousand. As the acquisition took place in January 2011, it is expected that amounts that would have been contributed to the Group as though the acquisition date of these subsidiaries occurred at the beginning of the year, would be approximately as above.

16. INVENTORIES

	31 December 2012 RUB'000	31 December 2011 RUB'000
Consumables	<u>50.475</u>	<u>27.071</u>

17. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES

	31 December 2012 RUB'000	31 December 2011 RUB'000
Trade receivables	38.459	19.607
Less: Provision for impairment of receivables	<u>(1.671)</u>	<u>(1.038)</u>
Trade receivables - net	36.788	18.569
CAPEX prepayments	150.483	461.763
Deferred expenses	3.932	15.254
Other receivables	<u>188.504</u>	<u>9.075</u>
	<u>379.707</u>	<u>504.661</u>
Non-current portion	150.483	461.763
Current portion	<u>229.224</u>	<u>42.898</u>
	<u>379.707</u>	<u>504.661</u>

Other receivables for the year ended 31 December 2011 were adjusted to include tax receivables (other than income tax) amounting to RUB2.911 thousand which was previously presented on the face of the statement of financial position under the line "Current Tax Asset". This classification was adopted in 2012 as well.

CAPEX prepayments represent capital expenditure prepayments made under contract by the Group for construction works and acquisition of plant and equipment.

The Group's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collections losses is inherent in the Group's trade receivables.

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NOTES TO THE FINANCIAL STATEMENTS

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17. TRADE, OTHER RECEIVABLES DEFERRED EXPENSES (continued)

Ageing analysis of trade and other receivables:

	Gross amount 31 December 2012 RUB'000	Impairment 31 December 2012 RUB'000	Gross amount 31 December 2011 RUB'000	Impairment 31 December 2011 RUB'000
Not past due	225.291	-	24.733	-
Past due	<u>1.671</u>	<u>(1.671)</u>	<u>1.038</u>	<u>(1.038)</u>
	<u>226.962</u>	<u>(1.671)</u>	<u>25.771</u>	<u>(1.038)</u>

Currency:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Russian Ruble	130.447	151.353
United States Dollar	175.569	226.102
Euro	<u>73.691</u>	<u>127.206</u>
	<u>379.707</u>	<u>504.661</u>

The exposure of the Group to credit risk and impairment losses in relation to trade, other receivables and deferred expenses is reported in note 28 of the consolidated financial statements.

18. SHORT TERM INVESTMENTS

	31 December 2012 RUB'000	31 December 2011 RUB'000
Bank deposits with maturity of more than 3 but less than 12 months	<u>2.429.816</u>	<u>-</u>

The exposure of the Group to credit risk and impairment losses in relation to short term investments is reported in note 28 of the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

Cash balances are analysed as follows:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Cash at bank and in hand	1.271.752	133.474
Bank deposits with maturity less than 3 months	<u>1.311.181</u>	<u>-</u>
	<u>2.582.933</u>	<u>133.474</u>

Currency:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Russian Ruble	693.122	130.770
United States Dollar	<u>1.889.811</u>	<u>2.704</u>
	<u>2.582.933</u>	<u>133.474</u>

The exposure of the Group to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 28 of the consolidated financial statements.

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20. SHARE CAPITAL

	2012 Number of shares	2012 RUB'000	2012 US\$'000	2011 Number of shares	2011 RUB'000	2011 US\$'000
Authorised						
Ordinary shares of US\$0,10 each	50.100.000		5.010	50.000.000		5.000
Increase in share capital shares of US\$0,10 each	10.900.000		1.090	100.000		10
Decrease of nominal value from US\$0,10 to US\$0,08 per ordinary share	15.250.000		-	-		-
Increase in share capital shares of US\$0,08 each	<u>49.000.000</u>		<u>3.920</u>	<u>-</u>		<u>-</u>
	<u>125.250.000</u>		<u>10.020</u>	<u>50.100.000</u>		<u>5.010</u>
Issued and fully paid						
Balance 1 January						
Ordinary shares of US\$0,10 each	50.100.000	149.636	5.010	50.000.000	149.316	5.000
Issue of new ordinary shares US\$0,10 each	8	-	-	100.000	320	10
Decrease of nominal value from US\$0,10 to US\$0,08 per ordinary share	12.525.002	-	-	-	-	-
Issue of new ordinary shares of US\$0,08 each	<u>12.500.000</u>	<u>30.949</u>	<u>1.000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December	<u>75.125.010</u>	<u>180.585</u>	<u>6.010</u>	<u>50.100.000</u>	<u>149.636</u>	<u>5.010</u>

Authorised share capital

On 19 December 2011 the Company increased its authorised share capital to US\$5.005.000 divided into 50.050.000 ordinary shares of US\$0,10 each by creating 50.000 additional ordinary shares of US\$0,10.

On 21 December 2011 the Company increased its authorised share capital to US\$5.010.000 divided into 50.100.000 ordinary shares of US\$0,10 each by creating 50.000 additional shares of US\$0,10 of the same class.

On 18 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US\$5.010.000 divided into 50.100.000 ordinary shares of US\$0,10 each to US\$6.100.000 divided into 61.000.000 ordinary shares of US\$0,10 each by creating of 10.900.000 additional ordinary shares of US\$0,10 each.

On 19 September 2012, following special members' resolution, the authorised share capital of the Company which on that date was US\$6.100.000 divided into 61.000.000 ordinary shares of US\$0,10 each was subdivided into 610.000.000 ordinary shares of US\$0,01 each. On the same date, the authorised share capital of the Company was consolidated from US\$6.100.000 divided into 610.000.000 ordinary shares of US\$0,01 to US\$6.100.000 divided into 76.250.000 ordinary shares of US\$0,08 each.

On 19 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US\$6.100.000 divided into 76.250.000 ordinary shares of US\$0,08 each to US\$10.020.000 divided into 125.250.000 ordinary shares of US\$0,08 each by creating of 49.000.000 additional ordinary shares of US\$0,08 each.

MD MEDICAL GROUP INVESTMENTS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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20. SHARE CAPITAL (continued)**Issued share capital**

On 19 December 2011 the issued share capital of the Company was increased to US\$5.005.000, divided into 50.050.000 ordinary shares of US\$0,10 each by issuing 50.000 new ordinary shares for the total cash purchase consideration of US\$15.454.500. The total share premium arising from the above mentioned issue of capital amounting to US\$15.449.500 (US\$308,99 per share) was credited to the share premium reserve.

On 21 December 2011 the issued share capital of the Company was increased to US\$5.010.000, divided into 50.100.000 ordinary shares of US\$0,10 each by issuing 50.000 new ordinary shares for the total cash purchase consideration of US\$3.840.000. The total share premium arising from the above mentioned issue of capital amounting to US\$3.835.000 (US\$76,70 per share) was credited to the share premium reserve.

On 18 September 2012, following a Board of Directors' resolution, the issued share capital of the Company was increased from US\$5.010.000 divided into 50.100.000 ordinary shares of US\$0,10 each to US\$5.010.001 divided into 50.100.008 ordinary shares by issue of 8 ordinary shares with a nominal value of US\$0,10 each.

On 19 September 2012, following a special members' resolution, the 50.100.008 issued ordinary shares of the Company with a nominal value of US\$0,10 each were subdivided into 501.000.080 ordinary shares of US\$0,01 each. On the same date the issued share capital of the Company was consolidated from US\$5.010.001 divided into 501.000.080 ordinary shares of US\$0,01 each to US\$5.010.001 divided into 62.625.010 ordinary shares with a nominal value of US\$0,08 each.

On 11 October 2012, as a result of the initial public offering, the Company resolved to issue 12.500.000 ordinary shares with a nominal value of US\$0,08 each at an offer price of US\$12 per ordinary share. The total proceeds from this issue amounted to US\$150.000.000 resulting in an increase of the issued share capital by US\$1.000.000 (RUB: 30.949.300) and an increase of the share premium by US\$149.000.000 (RUB: 4.611.445.700). A net amount of US\$3.160.777 (RUB: 101.212.183) related to capital issue expenses that was directly attributable to the issue of the new shares following the IPO process, was written off against share premium.

21. RESERVES**Share premium**

Share premium reserves include the total amounts received in excess of the total nominal value of the new share capital issued. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity (share premium) net of any tax effect.

Common control

Common control transactions reserve includes differences between the carrying amount of net assets acquired through purchases of subsidiaries from parties under common control and the consideration paid for their acquisition.

Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Russian Rubles) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

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21. RESERVES (continued)

Capital contribution

Capital contribution reserve includes contributions made by the shareholders directly in the reserves. The shareholders do not have any rights on these contributions which are distributable at the discretion of the Board of Directors, subject to the shareholders' approval.

Retained earnings

Retained earnings include accumulated profits and losses incurred by the Group.

22. LOANS AND BORROWINGS

	31 December 2012 RUB'000	31 December 2011 RUB'000
Long term liabilities		
Bank loans	2.694.901	1.049.992
Other loans	-	9.836
	<u>2.694.901</u>	<u>1.059.828</u>
Short term liabilities		
Bank loans	<u>262.688</u>	<u>29.700</u>
Maturity of loans and borrowings:		
Within one year	262.688	29.700
Between one and five years	2.504.374	1.059.828
More than five years	<u>190.527</u>	<u>-</u>
	<u>2.957.589</u>	<u>1.089.528</u>

For description of securities and covenants regarding loans and borrowings please refer to note 13 and note 31.

As at 31 December 2012, the terms and debt repayment schedule of loans is as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2012		31 December 2011	
				Face value RUB'000	Carrying amount RUB'000	Face value RUB'000	Carrying amount RUB'000
Secured bank loan	RUB	10%	2013 - 2018	2.737.996	2.737.996	1.029.692	1.029.692
Secured bank loan	RUB	10%	2014 - 2019	219.593	219.593	-	-
Secured bank loan	RUB	13%	2012 - 2013	-	-	50.000	50.000
Unsecured loans from third parties	RUB	3% -6%	2012 - 2013	<u>-</u>	<u>-</u>	<u>9.836</u>	<u>9.836</u>
				<u>2.957.589</u>	<u>2.957.589</u>	<u>1.089.528</u>	<u>1.089.528</u>

The exposure of the Group to interest rate risk in relation to loans and borrowings is reported in note 28 of the consolidated financial statements.

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23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments			Minimum lease payments		
	31 December 2012	Interest 31 December 2012	Principal 31 December 2012	31 December 2011	Interest 31 December 2011	Principal 31 December 2011
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Within one year	412	212	200	105.059	2.525	102.534
Between one and five years	<u>1.005</u>	<u>196</u>	<u>809</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>1.417</u></u>	<u><u>408</u></u>	<u><u>1.009</u></u>	<u><u>105.059</u></u>	<u><u>2.525</u></u>	<u><u>102.534</u></u>

All lease obligations are denominated in Russian Rubles.

The Group's obligations under finance leases are secured by the lessors' holding the title to the leased assets.

The exposure of the Group to interest rate risk in relation to finance leases is reported in note 28 of the consolidated financial statements.

24. DEFERRED TAX**Deferred tax liability**

	31 December 2012	31 December 2011
	RUB'000	RUB'000
Balance at 1 January	(39.117)	-
Debited in equity	-	(11.467)
Acquisition of subsidiaries	-	(42.698)
Charged to the statement of comprehensive income	33.133	14.840
Other	-	<u>208</u>
Balance at 31 December	<u><u>(5.984)</u></u>	<u><u>(39.117)</u></u>

The balance comprises of temporary differences attributable to:

	31 December 2012	31 December 2011
	RUB'000	RUB'000
Property, plant and equipment	(5.984)	(37.493)
Payables	<u>-</u>	<u>(1.624)</u>
	<u><u>(5.984)</u></u>	<u><u>(39.117)</u></u>

Deferred tax assets

	31 December 2012	31 December 2011
	RUB'000	RUB'000
Balance at 1 January	311	39.476
Charged to the statement of comprehensive income	<u>(175)</u>	<u>(39.165)</u>
Balance at 31 December	<u><u>136</u></u>	<u><u>311</u></u>

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24. DEFERRED TAX (continued)

The balance comprises of temporary differences attributable to:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Property, plant and equipment	74	-
Accruals	62	-
Deferred income	-	-
Tax losses carried forward	-	311
Other	-	-
	<u>136</u>	<u>311</u>

25. TRADE AND OTHER PAYABLES

	31 December 2012 RUB'000	31 December 2011 RUB'000
Trade payables	70.717	42.082
CAPEX payables	491.986	129.476
Payables to employees	84.716	64.158
Other payables	90.113	41.434
Accruals	<u>82.565</u>	<u>75.204</u>
	<u>820.097</u>	<u>352.354</u>
Non-current portion	64.484	-
Current portion	<u>755.613</u>	<u>352.354</u>
	<u>820.097</u>	<u>352.354</u>
Currency:		
Russian Ruble	406.380	223.693
United States Dollar	354.402	100.033
Euro	58.039	28.628
UK pound sterling	<u>1.276</u>	-
	<u>820.097</u>	<u>352.354</u>

CAPEX payables represent capital expenditure payable made under contract by the Group for construction works and acquisition of plant and equipment.

For the year ended 31 December 2011, the amount of RUB129.476 thousand which represent CAPEX payable was included in trade payables. For 2012 this was disclosed separately and the same approach was adopted in 2012.

Other payables for the year ended 31 December 2011 were adjusted to include tax payable (other than income tax) amounting to RUB31.840 thousand which was previously presented on the face of the statement of financial position under the line "Current tax liability". This classification was adopted in 2012 as well.

The exposure of the Group to liquidity risk in relation to trade and other payables is reported in note 28 of the consolidated financial statements.

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26. DEFERRED INCOME

	31 December 2012 RUB'000	31 December 2011 RUB'000
Patient advances	<u>504.653</u>	<u>368.361</u>
Deferred income after more than one year	56.716	41.241
Deferred income within one year	<u>447.937</u>	<u>327.120</u>
	<u>504.653</u>	<u>368.361</u>

Deferred income that relates to long term client advances represents money received from patients on stem cells storage contracts lasting from 1 to 20 years.

Deferred income that relates to short term client advances represents money received from patients on stem cells storage contracts, childbirth management contracts lasting from 3 to 9 months, and children care contracts valid for a specified period of time.

27. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

27.1 Key management personnel

The remuneration of the members of the key management personnel for the year ended 31 December 2012 was RUB26.882 thousand and for the year ended 31 December 2011 was RUB18.387 thousand.

The fee paid to non-executive directors for the year ended 31 December 2012 was RUB2.530 thousand and for the year ended 31 December 2011 was nil.

27.2 Transactions with other related parties

	31 December 2012 RUB'000	31 December 2011 RUB'000
Revenue received from other related parties	<u>6.275</u>	<u>-</u>

Revenue relates to income from laboratory examinations and a royalty fee from a party related through a member of the key management personnel of the Group.

27.3 Outstanding balances due to other related parties

	31 December 2012 RUB'000	31 December 2011 RUB'000
Deferred income	1.140	-
Other payables in relation to the acquisition of a subsidiary	<u>-</u>	<u>9.594</u>
	<u>1.140</u>	<u>9.594</u>

27.4 Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2012 and as at the date of signing these consolidated financial statements are as follows:

<u>Name</u>	<u>Type of holding</u>	<u>Effective holding %</u>
Mark Kurtser	Indirect shareholding	67,90
Kirill Dmitriev	Indirect shareholding	5,55
Simon Rowlands	Direct shareholding	0,33

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENTFinancial risk factors

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities.

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with various financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2012	31 December 2011
	RUB'000	RUB'000
Short term investments	2.429.816	-
Trade and other receivables	190.727	21.480
Cash and cash equivalents	<u>2.582.933</u>	<u>133.474</u>
	<u>5.203.476</u>	<u>154.954</u>

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's has no significant concentration of credit risk regarding trade and other receivables due to the long-term relationships with main suppliers. This significantly reduces possible delays and other negative consequences that may potentially affect matching the maturity of assets with liabilities. Furthermore, according to the internal policy, all clients have to pay in advance except for some particular cases when clients issue "Guarantee letter to pay", which ensures the services are duly paid afterwards.

	31 December 2012	31 December 2011
	RUB'000	RUB'000
<i>Exposure to credit risk by geographic location</i>		
Russian Federation	42.139	21.480
USA	144.531	-
Austria	<u>4.057</u>	<u>-</u>
	<u>190.727</u>	<u>21.480</u>

Cash and cash equivalents

The Group held cash at bank of RUB2.578.539 thousand at 31 December 2012 and RUB131.538 thousand at 31 December 2011 which, represents its maximum credit exposure on these assets.

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*(i) Credit risk (continued)***The credit quality of cash and cash equivalents is as follows:**

Rating	Agency	31 December 2012 RUB'000	31 December 2011 RUB'000
A2	Moody's Investors Service	1.888.574	-
Baa1	Moody's Investors Service	681.366	124.756
Ba2	Moody's Investors Service	5.063	1.553
Ba3	Moody's Investors Service	-	1.313
B2	Moody's Investors Service	-	2.705
Caa1	Moody's Investors Service	1.206	-
B3	Moody's Investors Service	-	4
N/A	*	2.330	1.207
Cash in hand		<u>4.394</u>	<u>1.936</u>
Cash and cash equivalents		<u>2.582.933</u>	<u>133.474</u>

*Cash and cash equivalents held with local banks for which there is no rating.

Short term investments amounting to RUB2,429.816 thousand (2011: RUB nil) are held with a credit institution which is rated as A2 by Moody's Investors Service.

Guarantees

The Group's policy is to provide financial guarantees only to its subsidiaries.

On 26 April 2011 CJSC MD PROJECT 2000 guaranteed a bank loan obtained by LLC Khaven from a Russian bank, which amounts to RUB2,809,467 thousand. As at 31 December 2012, the amount of outstanding loan was RUB2,737,996 thousand (RUB1,029,692 thousand as at 31 December 2011). The guarantee maturity is 10 years. The loan agreement provides for covenants in relation to revenue and net income for both CJSC MD PROJECT 2000 and LLC Khaven. As at 31 December 2012 and 31 December 2011 both companies met their covenants.

On 30 March 2012 CJSC MD PROJECT 2000 guaranteed a bank loan obtained by LLC Khaven from a Russian bank, which amounts to RUB404,919 thousand. As at 31 December 2012 the amount of outstanding loan was equal to RUB219,593 thousand. The guarantee maturity is 10 years. The loan agreement provides for covenants in relation to revenue and net income for both CJSC MD PROJECT 2000 and LLC Khaven. As at 31 December 2012 both companies met their covenants.

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The Group maintains credit facilities of RUB3,214,386 thousand for the construction of a hospital in Lapino and acquiring the necessary medical equipment for this hospital. Facilities used up to 31 December 2012 amounted to RUB2,957,589 thousand

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)(ii) *Liquidity risk* (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2012	Carrying amounts	Contractual cash flows	2 months or less	Between 2-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Bank loans	2.957.589	3.838.213	73.415	478.610	834.508	2.257.185	194.495
Obligations under finance leases	1.009	1.417	69	343	501	504	-
Trade payables	70.717	70.717	70.717	-	-	-	-
CAPEX payables	491.986	491.986	236.317	191.185	64.484	-	-
Other payables and accrued expenses	<u>257.394</u>	<u>257.394</u>	<u>195.172</u>	<u>62.222</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3.778.695</u>	<u>4.659.727</u>	<u>575.690</u>	<u>732.360</u>	<u>899.493</u>	<u>2.257.689</u>	<u>194.495</u>
31 December 2011				Between 2-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
	Carrying amounts	Contractual cash flows	2 months or less	RUB'000	RUB'000	RUB'000	RUB'000
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Bank loans	1.079.692	1.616.990	20.403	116.616	163.479	666.877	649.615
Obligations under finance leases	102.534	105.059	30.836	74.223	-	-	-
Other loans	9.836	11.611	-	212	11.399	-	-
Trade payables	42.082	42.082	42.082	-	-	-	-
CAPEX payables	129.476	129.476	129.476	-	-	-	-
Other payables and accrued expenses	<u>180.796</u>	<u>180.796</u>	<u>98.012</u>	<u>82.784</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1.544.416</u>	<u>2.086.014</u>	<u>320.809</u>	<u>273.835</u>	<u>174.878</u>	<u>666.877</u>	<u>649.615</u>

As disclosed in note 22, the Group has secured bank loans which contain debt covenants. The breach of covenants may require the Group to repay the loans earlier than indicated in the above table.

(iii) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

At the reporting date the interest rate profile of interest-bearing financial instruments was:

	2012	2011
	RUB'000	RUB'000
<i>Fixed rate instruments</i>		
Financial assets	3.740.997	-
Financial liabilities	<u>(2.958.598)</u>	<u>(1.192.062)</u>
	<u>782.399</u>	<u>(1.192.062)</u>

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)(iii) Market risk (continued)*Interest rate risk* (continued)

The Group does not account for any fixed rate instruments at fair value through profit or loss and does not have any derivative financial instruments, therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar and the Euro. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Group's exposure to foreign currency risk was as follows:

	31 December 2012			31 December 2011		
	US\$'000	EURO'000	GBP'000	US\$'000	EURO'000	GBP'000
<i>Assets</i>						
Cash at bank	62.221	-	-	84	-	-
Bank deposits	80.000	-	-	-	-	-
Other receivables	4.892	-	-	-	-	-
<i>Liabilities</i>						
CAPEX payables	(11.638)	(1.225)	-	-	-	-
Other payables and accruals	(31)	(217)	(26)	(3.107)	(687)	-
<i>Net exposure</i>	<u>135.444</u>	<u>(1.442)</u>	<u>(26)</u>	<u>(3.023)</u>	<u>(687)</u>	<u>-</u>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
US\$	31,0930	29,3874	30,3727	32,1961
EURO	39,9524	40,8848	40,2286	41,6714
GBP	49,2474	-	48,9638	49,6335

Sensitivity analysis

A 10% strengthening of the Russian Ruble against the following currencies at the reporting date would have affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the Russian Rubles against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Profit or loss		Equity	
	2012	2011	2012	2011
	RUB'000	RUB'000	RUB'000	RUB'000
US\$	(411.381)	9.733	(411.381)	9.733
EURO	5.804	2.863	5.804	2.863
GBP	128	-	128	-
	<u>(405.449)</u>	<u>12.596</u>	<u>(405.449)</u>	<u>12.596</u>

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*Capital management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to owners or issue new shares.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total loan borrowings. Total equity is calculated as "equity" as shown in the consolidated statement of financial position.

The Group's capital is analysed as follows:

	2012 RUB'000	2011 RUB'000
Total loans and borrowings/net debt	2.958.598	1.192.062
Less: Cash and cash equivalents	<u>(2.582.933)</u>	<u>(133.474)</u>
Net debt	375.665	1.058.588
Total equity	<u>8.623.418</u>	<u>2.807.256</u>
Debt to equity ratio	<u>4,36%</u>	<u>37,71%</u>

29. FAIR VALUES

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

During May 2012, management engaged a registered independent appraiser, Messrs CJSC Center Professionalnoy Otsenki, holder of a recognised professional qualification to assist with the estimation of the fair value of the Group's property, plant and equipment acquired through business combinations, for the purpose of calculation of goodwill arising from the said business combinations.

The fair value of property, plant and equipment recognised as a result of the business combinations as at 31 December 2011 is:

- *the average between the market approach and the income approach for the buildings.* Fair values based on the market approach were calculated by using market prices for similar items of property being the estimated amounts for which a building could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. Fair values based on income approach were calculated by converting a single year's net operating income expectancy into a value estimate (direct capitalisation).
- *the minimum of the cost approach and the market approach for the equipment.* Fair values based on the market approach were calculated by using market prices for similar items of property being the estimated amount for which an item of equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. Fair values based on cost approach were calculated by using depreciated replacement cost. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
- *the income approach for construction projects (including land, construction in progress and capital expenditure prepayments).* Fair values based on the income approach were calculated based on discounted cash flows expected to be derived from the use of these assets.

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30. CONTINGENT LIABILITIES (continued)**(a) Insurance (continued)**

As per current legislation in Russia medical clinics are not required to insure their activities. There is a draft Law regarding obligatory insurance of medical clinics as from 2013. The Law has not yet been enacted. At present the Group does not insure its operational activities, but has obtained insurance cover for property, plant and equipment except for fixed assets insurance. Until the Group obtains adequate insurance coverage, there is a risk of material adverse effect on operations and statement of financial position.

(b) Russian business environment

The Group's operations are mainly located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(c) Russian tax environment

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance based position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncement and court decisions. However, the interpretations of the relevant authorities could differ and the effect on this consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Cyprus economic environment

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly reduced.

The Cyprus government has concluded negotiations with the European Commission, the European Central Bank and the International Monetary Fund, as well as third parties, in order to obtain financing. As a result of the agreement reached, there are uncertainties prevailing the economic environment of Cyprus. The two largest financial institutions of Cyprus are already receiving support from the Emergency Liquidity Assistance mechanism and any negative developments will have a dramatic impact on the entire banking system and the economy of Cyprus.

The unavailability of financing, together with the current instability of the banking system and the economy may affect the Company.

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30. CONTINGENT LIABILITIES *(continued)*

(d) Cyprus economic environment *(continued)*

The Company's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company.

On the basis of the evaluation performed, the Company's management has concluded that no provisions or impairment charges are necessary. The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

31. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

	2012 RUB'000	2011 RUB'000
Property, plant and equipment	72.507	4.077
Freehold buildings	-	33.940
Construction contracts	90.127	2.322.757
	<u>162.634</u>	<u>2.360.774</u>

(b) Pledged assets and guarantees

On 26 April 2011 CJSC MD PROJECT 2000 guaranteed a bank loan obtained by LLC Khaven from a Russian bank, which amounts to RUB2.809.467 thousand. As at 31 December 2012 the amount of outstanding loan was RUB2.737.996 thousand (RUB1.029.692 thousand as at 31 December 2011). The guarantee maturity is 10 years. The loan agreement provides for covenants in relation to revenue and net income for both CJSC MD PROJECT 2000 and LLC Khaven. As at 31 December 2012 and 31 December 2011 both companies met their covenants.

On 30 March 2012 CJSC MD PROJECT 2000 guaranteed a bank loan obtained by LLC Khaven from a Russian bank, which amounts to RUB404.919 thousand. As at 31 December 2012 the amount of outstanding loan was equal to RUB219.593 thousand. The guarantee maturity is 10 years. The loan agreement provides for covenants in relation to revenue and net income for both CJSC MD PROJECT 2000 and LLC Khaven. As at 31 December 2012 both companies met their covenants.

32. EVENTS AFTER THE REPORTING PERIOD

Since 1 January 2013 LLC KHAVEN and LLC Mother and Child Perm are subject to a 0% income tax rate.

On 11 March 2013 the beginning of the construction of a new medical center of 32.000 square meters in Ufa center was announced.

On 12 March 2013 the authorised share capital of LLC MD PROJECT 2010 was increased from RUB10 thousand to RUB1.500.000 thousand to provide funds for the construction of new medical center in Ufa. On 18 March 2013 the Company transferred its part of contribution in amount of RUB1.199.992 thousand to LLC MD PROJECT 2010.

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32. EVENTS AFTER THE REPORTING PERIOD *(continued)*

On 14 March 2013 the Company announced the proposed acquisition from unrelated third parties of Vitanostra Ltd, a company registered under the laws of Cyprus, operator of the IDK Medical Company network of women's and children's health clinics in the Russian region of Samara. The acquisition is for a cash consideration of US\$16.100 thousand, for 100% of the outstanding share capital of Vitanostra Ltd which owns 100% of IDK Medical Company network. The transaction is expected to be completed in the first half of 2013 after regulatory approvals.

The acquisition is consistent with MDMG's strategy of regional expansion and development of high quality network of out-patient clinics focusing on IVF, obstetrics, gynaecology and paediatrics.

At the date of the approval of these consolidated financial statements, the initial accounting for the business combination is incomplete given that Vitanostra Ltd was incorporated in November 2012 and therefore, under the provisions of the Cyprus Companies Law does not have an obligation to prepare its first audited financial statements before the period of 18 months from the date of incorporation.

