MD Medical Group Investments Plc

5 Years of Successful Growth

MOTHER AND CHILD
GROUP OF COMPANIES

Annual Report and Accounts 2016

WELCOME
TO MD MEDICAL GROUP

GROW WITH US

2016

5 Years of Successful Growth

In 2016, our fifth year as a public company, we continued to grow across all parts of our business. We set new records in terms of key operating indicators for the year, while achieving the highest revenue and profit in the history of our sector in Russia.

We expanded our client base both in existing and new regions. We increased the number of our high-tech facilities and enhanced our portfolio of world-class services. We are happy to share the details of our success with you in this year's annual report.

CONTENTS

Introduction

4 Sustained growth
6 Key milestones
8 CEO's statement
10 Best-in-class medical services across Russia

p.10

The healthcare market in Russia

24 Public healthcare system overview
26 MDMG: the clear market leader
28 Mandatory health insurance

p.22

Our strategy

32 Our strategy

p.30

Operational and financial review

36 Deliveries
37 In-vitro fertilisation
38 In-patient treatments
39 Out-patient treatments
40 M&A supporting our growth
42 Financial review

p.34

Corporate social responsibility

46 Our people
48 Corporate social responsibility
50 Shareholder equity

p.44

Corporate governance and risk management

54 Risk management
56 Corporate governance report
58 Board of Directors
60 Board of Directors activity in 2016
62 Senior management

p.52

World-class facilities

14 We grow to become closer to our patients
16 A closer look at our hospitals
20 Boosting innovations

p.12

Audited financial statements

70 Officers, professional advisors and registered office
71 Management report
75 Directors' responsibility statement
76 Independent auditors' report
80 Consolidated statements
86 Notes to the consolidated financial statements
110 Parent company financial statements
139 Contacts and Advisers

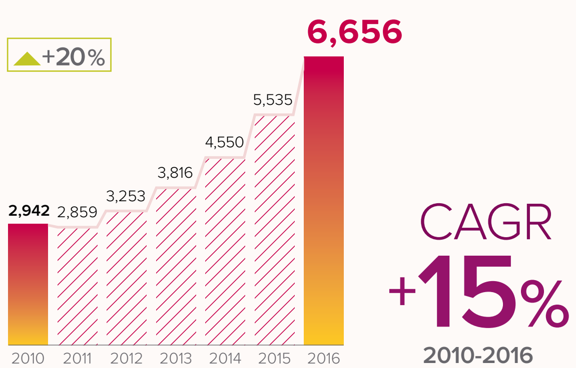
SUSTAINED GROWTH

In 2016, we continued our strategic expansion both in Moscow and in the regions, as we opened two new clinics, IVF and cardio departments in Moscow and the Moscow Region, and our first clinic in Kostroma. We also started construction of our hospital in Samara and continued to expand the capacity of our Novosibirsk hospital, with expansion completed in February 2017. We also completed the acquisition of ARTMedGroup, which consists of five clinics in major cities in Siberia.

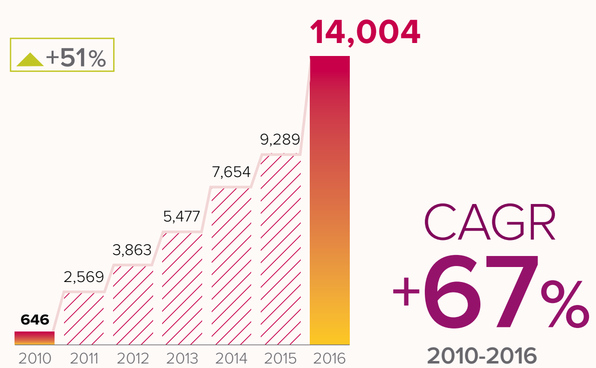
More information about Financial KPIs go to page 42

OPERATIONAL KPIs

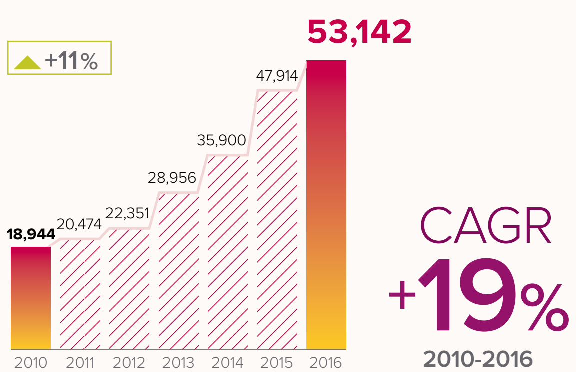
Deliveries



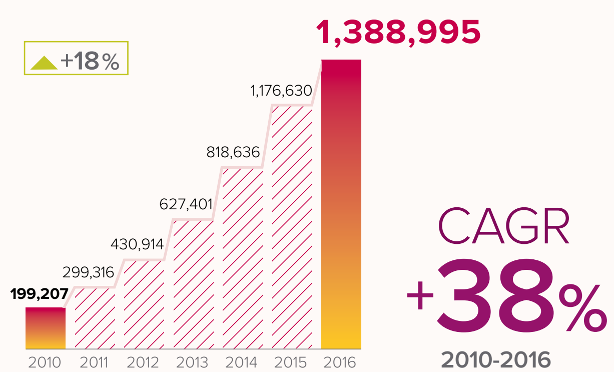
IVF



In-patient treatments

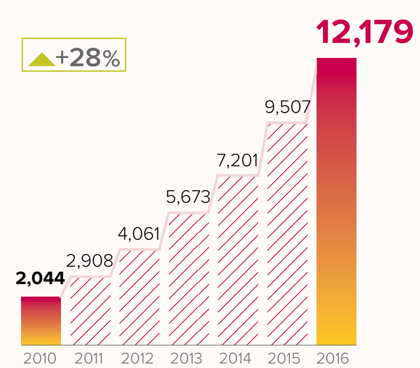


Out-patient admissions

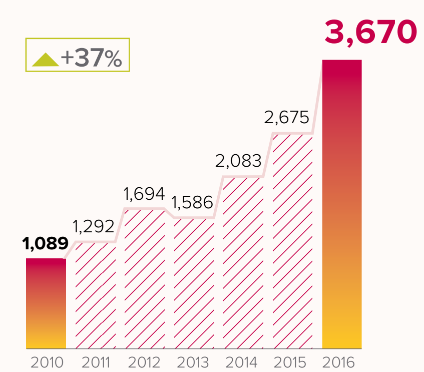


FINANCIAL KPIs (RUB mln)

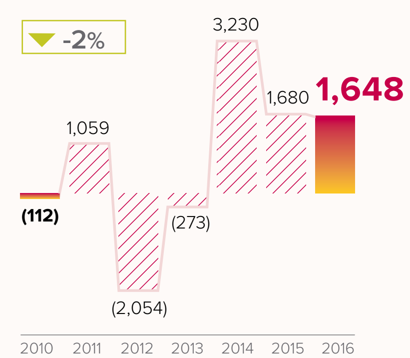
Revenue



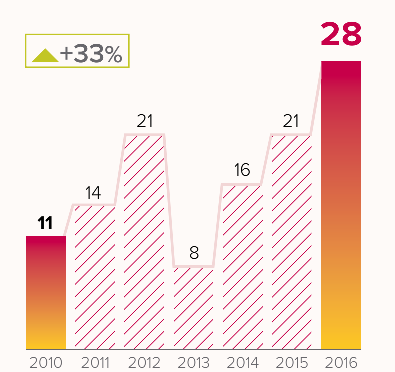
EBITDA



Net debt



EPS (RUB/GDR)*



* Basic and fully diluted earnings per share calculated as profit for the year attributable to owners of the Company divided by weighted average number of ordinary shares in issue during the year

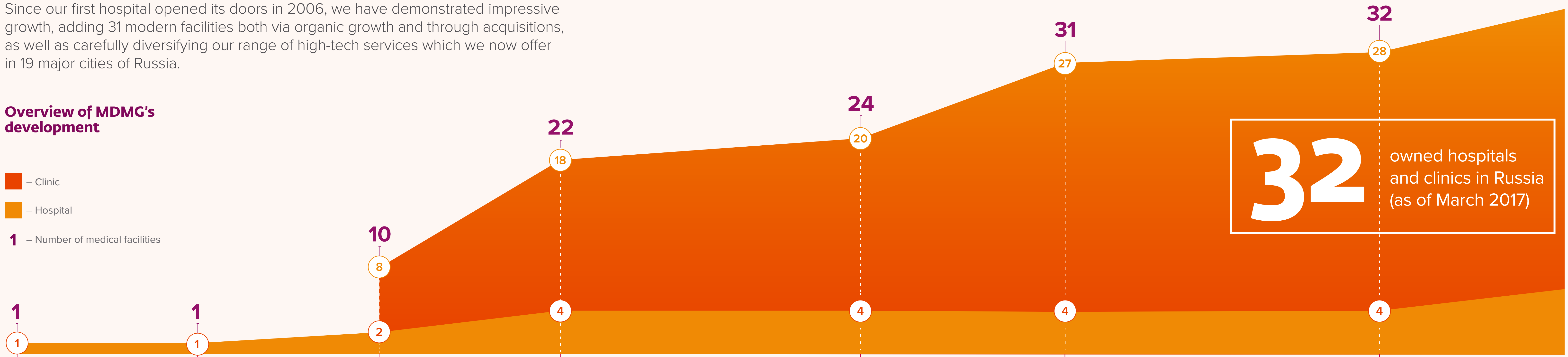
"We continue to deliver on our proven growth strategy, boosting all key operational and financial indicators while maintaining a rigorous focus on delivering the highest quality of care and expanding our network of high-tech medical institutions through carefully considered growth opportunities, which include both organic growth and selective M&A transactions"

KEY MILESTONES

“We will take our high standards of medical care to Russia’s regions by opening new hospitals and clinics across the country”

Since our first hospital opened its doors in 2006, we have demonstrated impressive growth, adding 31 modern facilities both via organic growth and through acquisitions, as well as carefully diversifying our range of high-tech services which we now offer in 19 major cities of Russia.

Overview of MDMG’s development



2003–2009
CONSTRUCTION OF OUR FIRST HOSPITAL AND DIVERSIFICATION OF OUR RANGE OF SERVICES

- 2003 – Design and start of construction of Perinatal Medical Centre (PMC), the first private maternity hospital in Russia
- 2006 — First patients at PMC
- 2006-2009 — Expansion and diversification of our range of services, launch of new departments, including IVF and stem cell storage

2010
ESTABLISHMENT OF GROWTH PLATFORM

- Incorporation of MD Medical Group Investments LTD
- Start of construction of Lapino hospital

2011–2012
ROLL OUT OF SUCCESSFUL BUSINESS MODEL

- Acquisition of Mother&Child Savelovskaya and other out-patient clinics
- Opening of out-patient diagnostic and treatment centre at PMC
- Active development of regional operations, launch of new out-patient clinic in St Petersburg and Perm
- Successful IPO of the Group on the London Stock Exchange
- Opening of Lapino hospital

2013–2014
REGIONAL EXPANSION

- Acquisition of clinics in Samara Region and Irkutsk
- Opening of a clinic in Yaroslavl
- Opening of the Group’s first regional self-constructed hospital in Ufa
- Acquisition of Avicenna Medical Centre in Novosibirsk (1 hospital and 3 clinics)

2015
A NEW LEADER IN THE RUSSIAN PRIVATE HEALTHCARE INDUSTRY

- Opening of out-patient clinic in Ryazan
- Launch of construction of a new hospital in Novosibirsk
- Acquisition of the Medica Clinic in Novokuznetsk

2016
CELEBRATING OUR 10TH ANNIVERSARY WITH FURTHER GROWTH IN MOSCOW AND THE REGIONS

- Acquisition of ARTMedGroup chain comprising five clinics in Krasnoyarsk, Omsk, Novosibirsk and Barnaul
- Opening of a new IVF department at Mother&Child Yugo-Zapad clinic in Moscow
- Opening of a new Mother&Child Khodynskoe Pole clinic in Moscow
- Opening of a new clinic in Kostroma
- Launch of construction of a new hospital in Samara
- Signing of a Memorandum of Understanding with the Tyumen Region government
- Opening of a cardiology department at Lapino hospital
- Opening of a new out-patient medical centre in the Moscow Region

2017
LAUNCHING AN AMBITIOUS PROGRAMME OF STRATEGIC EXPANSION

- Opening of a new clinic in Vladimir
- Expansion and modernisation of the clinic in St Petersburg
- Opening of a new hospital in Novosibirsk

CEO's STATEMENT

During the year, we achieved 28% y-o-y growth in revenue, reaching an industry record of RUB 12,179 mln, and 29% y-o-y growth in net profit to RUB 2,277 mln. This unprecedented growth in our financial results was underpinned by our solid operating results. Deliveries grew significantly by 20% to 6,656. And as Russia's leading provider of private IVF care, we increased the number of completed cycles by 51% to 14,004.

> "We are extremely pleased with our performance in 2016, which was our tenth year of operations as a Group. We continued to fully deliver on our strategy, while posting record-setting operating and financial results"

As in previous years, a key driver for this growth was the continued ramp-up of Lapino and Ufa hospitals, expansion of services provided by existing facilities, as PMC hospital, as well as full year operation of newly acquired entities.

Our most successful year to date, 2016 saw us strengthen still further our leading position in the market. What's more, we have a number of new projects in the pipeline that put us in good stead as we enter 2017.

During the year, we took advantage of opportunities to expand our network both in Moscow and in other regions in Russia. In the beginning of 2016, we completed the acquisition of the five-clinic chain ARTMedGroup and, in doing so, we significantly strengthened our foothold in Siberia, one of the most lucrative regions in Russia for our business.

We also continued to pursue sources of organic growth. In March 2016, we opened a new IVF department at one of our Moscow clinics in response to growing demand for this service in Russia's largest city. We further demonstrated our nationwide leadership in IVF with the opening in April of a pioneering IVF clinic in Kostroma, a new region for us. In June, we launched a new clinic covering the north and northwest of Moscow. It focuses on women's healthcare services and boosts our IVF capacity by 1,000 cycles per year. It also offers other services for the whole family.

September saw continued expansion in the Moscow Region as we opened a new out-patient medical centre in Odintsovo. We expect this to further support the continually improving performance at our nearby Lapino hospital, where we opened a high-tech interventional cardiology and cardiovascular surgery department in the same month.

In addition to our state-of-the-art purpose-built hospitals, we also executed on our regional development strategy as we made good progress in rolling out our greenfield projects across the country. We started construction of our first hospital in the Samara Region, a region which we already know well through our existing five clinics. And in July, we signed a Memorandum of Understanding with the government of the Tyumen Region, where we plan to start construction of a new hospital in 2017. In 2016, we also continued construction of a new wing at our Novosibirsk hospital which we completed in February 2017.

I am also very pleased that our share price performed very strongly, and nearly doubled over the course of the year. We continue to believe that the shares are undervalued, mostly a function of external factors beyond our control. But the solid growth in 2016 is at least movement in the right direction. As management, we will focus above all on what we do control and what will create the most value over the longer term. This

12,179

RUB mln of Revenue

is delivering on our strategy and maintaining profitable growth as we expand our world-class offering across Russia. We are confident that, in time, our efforts will be properly reflected in our share price.

In addition to our focus on long-term value creation, we are also focused on what we can do in the short term, beyond delivering excellent results. Going forward, we aim to pay dividends every six months, while adhering to our unofficial policy of paying at least 25% of net profit as dividends.

In 2016, there were two changes in the senior management team. I assumed the position of CEO from Elena Mladova, while Andrey Khoperskiy (who has been with us since shortly after our IPO) took over the position of Deputy CEO for Economics and Finance from Vitaly Ustimenko. Vitaly continues to contribute to our Board, which was further strengthened by the addition of Alsou Nazyrova, who has worked in our team since 2011 and oversaw our first regional hospital project in Ufa. Going into 2017, our team is as strong, focused and experienced as it has ever been.

We have a robust pipeline of high-quality projects and a top-notch management team to ensure that we deliver on these projects efficiently and profitably. And while we have successfully established a strong foothold in a number of key regions in Russia already, the room for further expansion remains vast, and we are uniquely well placed among our peers to take advantage of this.

I want to thank all of our shareholders and partners for their continued, dedicated support and to assure them that, as CEO, it is my highest priority to ensure their support is properly rewarded.

Dr Mark Kurtser,
Professor, Member of Russian Academy of Sciences
CEO and Member of the Board of Directors

BEST-IN-CLASS MEDICAL SERVICES ACROSS RUSSIA

MD Medical Group is cementing its position as the #1 player in the women's and children's healthcare market in Russia and the recognised leader by total revenue and EBITDA in the country's overall private healthcare market.

Delivering high-quality medical services throughout Russia

> "MDMG stands out from its peers thanks to a number of unique features. Our highly-qualified medical personnel provide an unparalleled quality of healthcare, using state-of-the-art equipment. In other words, we set and constantly improve the industry standard"

OUR CORE SERVICES

Obstetrics and gynaecology

- Pregnancy care
- Maternity services
- Gynaecology
- Deliveries
- Miscarriage treatment

Paediatrics

- Treatment of paediatric diseases
- Immunisation shots
- Home visits

Fertility and IVF treatment

- Surgery for fertility-related problems
- Reproductive technology
- Preimplantation genetic diagnosis

Other services

- Laboratory services
- Stem cell storage
- Genetic diagnosis
- Trauma
- Rehabilitation
- Surgery (incl. plastic surgery)
- Oncology
- Cardiology (interventional cardiology and cardiovascular surgery)

#1

player in the women's and children's healthcare market.

As well as providing high-quality medical services across Russia, we also aim to make healthcare more accessible – minimising the time and cost needed to travel to our facilities for the top-notch care we are known for. In 2016, for example, we opened our first clinic in Kostroma and launched construction of our first hospital in Samara, to ensure that residents would be able to access treatment much closer to their homes. Through our acquisition of ARTMedGroup in 2016, we now have a presence in three new regions in Siberia.

And we will continue our expansion into new attractive regions. In addition to the potential M&A deals, we will continue to construct state-of-the-art hospitals throughout Russia, with construction of our first hospital in Tyumen set to begin in 2017.

We are constantly improving and expanding our range of the most in-demand services. In September 2016, for example, we opened a high-tech interventional cardiology and cardiovascular surgery department at our Lapino hospital.

As we are expanding our presence regionally, we are also attracting some of the best talent anywhere. As a result, we are implementing the same high standards in all our facilities, regardless of where they are located.

See our corporate website for more information on the Company
www.mcclinics.com

World-class facilities

32

modern, high-tech hospitals and clinics of MD Medical Group offer advanced treatment and diagnostics for both in-patient and out-patient

WE GROW TO BECOME CLOSER TO OUR PATIENTS

Today, MD Medical Group comprises four modern, high-tech hospitals and 28 clinics offering advanced treatment and diagnostics. The hospitals and clinics treat in- and out-patients, allowing us to customize the care of each individual.

WE HAVE A SOLID PRESENCE IN SOME OF THE LARGEST REGIONS IN RUSSIA, INCLUDING:

Moscow...

Our current facilities include two hospitals: PMC, the first private maternity hospital in Russia (which just celebrated its 10-year anniversary), and Lapino, our largest facility (which opened in 2012). In Moscow, we also operate six out-patient clinics (two of which opened in 2016). All eight are fully equipped with the finest medical equipment available.

...and beyond

As we continue our focused expansion into the Russian regions, our facilities are offering high-quality private healthcare to more of the population than ever before.

2016 was the first full year of operations at the six clinics acquired in Siberia and at a clinic in Ryazan, which remains the only IVF provider in the region. We are pleased with these facilities' contribution to the Group's full-year results.

In March 2016, in response to the continued growth in local demand for IVF, we opened a new IVF department at the existing Mother&Child Yugo-Zapad clinic in Moscow.

In April 2016, with the opening of our first clinic in Kostroma, we further expanded our IVF offering, while consolidating our first mover track-record. The new facility was the first to offer IVF to the local residents by providing the first phase of treatment.

In June 2016, MDMG opened a new high-tech clinic, Mother&Child Khodynskoe Pole. It covers the north and north-west of the capital.

In September 2016, we further expanded our presence in the Moscow Region by launching an interventional cardiology and cardiovascular surgery department at Lapino hospital. We also opened a new out-patient medical centre in Odintsovo, which is also in the Moscow Region.

We have also moved forward with growing our network of greenfield modern hospitals by launching construction of our first hospital in Samara, signing a Memorandum of Understanding Region with the government of the Tyumen region for the 2017 construction of a new hospital, and completing construction of a large-scale wing onto the existing hospital in Novosibirsk in 2017.

It remains our long-term goal to have a facility in every Russian city with a population greater than a million. The quality of treatment at our regional facilities will continue to meet the same exacting standards as we provide in Moscow.

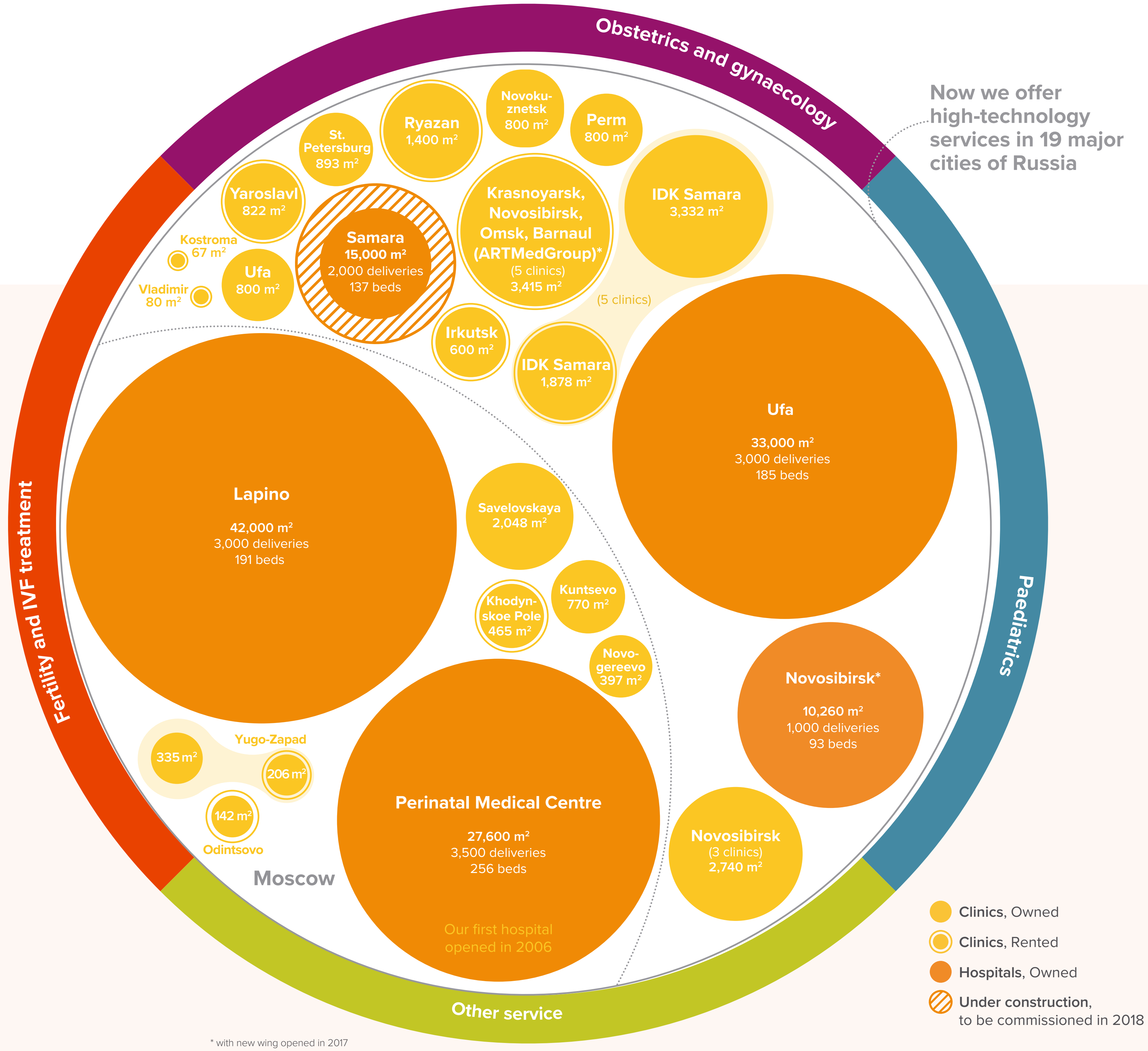
Franchises in Kiev

Our partners operate 4 clinics in Kiev. Their results are not consolidated into MDMG. These facilities specialise in reproductive technology, obstetrics and gynaecology.

Today here, tomorrow the country

We are constantly improving and expanding our network via organic growth and selective M&A deals. Constructing a new facility from scratch allows us to implement best practices from the get-go, including during the layout and logistics design process. For greenfield projects we target cities with relatively affluent populations of at least one million.

At the same time, we constantly monitor the market for M&A opportunities, and selectively target excellent companies with modern facilities, strong management teams and profiles similar to our own.



* with new wing opened in 2017

A CLOSER LOOK AT OUR HOSPITALS

PERINATAL MEDICAL CENTRE (PMC)

In 2016, PMC, the first private maternity hospital in Russia, celebrated its tenth anniversary. Since its launch in 2006, the hospital has expanded its range of services, commissioned innovative technologies and equipment, and delivered around 30,000 babies.

PMC offers a wide range of in-patient and out-patient services for mothers and children, notably in core areas such as obstetrics and gynaecology, infertility treatment (including IVF) and paediatrics. The hospital also offers laboratory research, diagnostics and assistance, a stem cell bank and other services.

This 256-bed hospital has state-of-the-art equipment including the latest MRI and CT technology.

27,600 m² Hospital

ANNUAL CAPACITY OF PMC:

Beds	FTE*	Deliveries	IVF	In-patient days	Out-patient treatments
256	958	3,500	2,000	32,120	283,000

* Actual full-time equivalent as of December 2016

> We have invested RUB 5.2 billion into the Lapino hospital, which remains the largest private investment in healthcare in the history of Russia

LAPINO HOSPITAL

Lapino, our largest hospital, is located near Moscow. It provides patients with great comfort and high-quality services. Surrounded by green space, this 191-bed hospital is capable of providing 639,540 out-patient treatments and 3,000 deliveries per year.

The 42,000 square-metre hospital offers a wide range of services in the areas of obstetrics and gynaecology, IVF, paediatrics, diagnostics, surgery, trauma and rehabilitation for not only mothers and their children but for everyone.

In September 2016, we opened a world-class interventional cardiology and cardiovascular surgery department at the hospital as well as a new out-patient medical centre nearby.

42,000 m² Hospital

LAPINO ANNUAL CAPACITY:

Beds	FTE*	Deliveries	IVF	In-patient days	Out-patient treatments
191	951	3,000	1,000	28,470	639,540

* Actual full-time equivalent as of December 2016
** Including beds in interventional cardiology and cardiovascular surgery department (opened in September 2016)

MOTHER&CHILD UFA

"By opening our Ufa hospital, we delivered on our promises to investors and brought our regional presence to a new level"

In 2016, our first regional hospital continued its growth in the capital of Bashkortostan, one of Russia's wealthiest regions.

This 33,000 square-metre hospital is an impressive example of our strategy in action. Funded mainly by the proceeds of our successful IPO in 2012, the project was completed on time in late 2014 and with an investment of RUB 4.4 billion.

Mother&Child Ufa offers a wide range of in-patient and out-patient services, notably deliveries, IVF, gynaecology and obstetrics, paediatrics and neonatology. The hospital also offers services for the whole family, including surgery, urology, plastic surgery and diagnostic services. It includes Bashkortostan's first private maternity hospital and stem-cell bank.

33,000 m^2 Hospital

ANNUAL CAPACITY OF THE UFA HOSPITAL:

Beds	FTE*	Deliveries	IVF	In-patient days	Out-patient treatments
185	668	3,000	1,100	26,280	290,800

* Actual full-time equivalent as of December 2016

MOTHER&CHILD NOVOSIBIRSK

The hospital in Novosibirsk was a part of Avicenna, the largest private healthcare chain in Russia outside Moscow and St Petersburg. Since we acquired it in Q4 2014, the hospital has performed well, and there has been steady demand from the residents of Novosibirsk and nearby regions for our high-quality services.

Core services offered at Mother&Child Novosibirsk are obstetrics and gynaecology, surgery, urology and ophthalmology, cardio, trauma. The clinic also offers out-patient and diagnostics services in nearly all therapeutic areas.

Because our in-patient facilities in Novosibirsk have reached maximum capacity, we decided to construct a new major in-patient wing that is attached to the existing hospital and significantly expends our operations in the city. Commissioning took place in February 2017.

10,260 m^2 Hospital

NOVOSIBIRSK HOSPITAL WITH A NEW WING**:

Beds	FTE*	Deliveries	IVF	In-patient days	Out-patient treatments
93**	606	1,000**	1,800	22,630**	228,888**

* Actual full-time equivalent as of December 2016
** Novosibirsk hospital with a new wing

BOOSTING INNOVATIONS

Since its foundation, MD Medical Group has been at the forefront of Russia's healthcare market, setting high standards for medical services throughout the country. The Group is unique among Russian private healthcare providers, not just because its regional expansion model has been a success but also because the services it offers are genuinely innovative. Dr Yulia Kutakova, Medical Director, shares her insight on the role played by state-of-the-art medical technologies in MD Medical Group.

Dr Yulia Kutakova,
PhD, Medical Director

In the early days of MD Medical Group, its first clinics focused on children's healthcare and obstetrics. Our patients, impressed by the quality of service we offered, encouraged their friends and family to come to us for treatment. Our focus — the health and wellbeing of women and children — remains our core value, but we have also responded to patient feedback and expanded the range of medical services. Today, at Lapino and at other Group hospitals, we provide specialised medical services in surgery, traumatology, cardiology, urology, and more.

Leader in Russia's reproductive technologies

MD Medical Group is Russia's leading player in assisted reproductive technologies (ART). The Company offers services covering the full infertility treatment cycle. We diagnose potential causes of infertility, provide treatment recommendations for one or both partners, help women conceive, and – on the successful completion of IVF treatment – monitor the pregnancy, support deliveries, provide neonatal care, and offer healthcare services to babies and children under 16.

Personalised medical treatment

We advocate the application of personalised medical care, meaning not just timely diagnostics but, crucially, the prevention of a number of diseases. Prevention occurs through treatment taking into account an individual's genes, lifestyle and environment. A good example of this is taking a blood sample and testing it for BRCA1 and BRCA2 gene mutations, which can signal a higher risk of developing breast, ovarian or prostate cancers.

Prenatal diagnostics and screening

As one of the leading modern private medical companies in Russia, we stay abreast of technical developments in treatment equipment, which helps us apply innovative approaches to the treatment of our patients. MD Medical Group's treatment facilities offer innovative treatment in prenatal diagnostics, including tests on extracellular foetal DNA in the mother's blood. This is a safe, non-invasive and reliable way to detect and diagnose foetal chromosomal abnormalities. The new generation of massive sequencing technologies has made it possible to detect and identify fragments of foetal DNA in the mother's blood during the first trimester of pregnancy. This approach rivals invasive diagnostics in sensitivity and reliability. In addition to the most common abnormalities in chromosome numbers, it can identify the gender of the foetus and its Rh factor.

Starting in February 2016, the PMC's Infertility Treatment and IVF Centre has been offering a pre-implantation genetic screening of embryo that has been recognized as the most efficient genetic diagnostics. This is an important procedure for ART because it allows us to evaluate the genetic status of the embryo and transfer only healthy embryos to the uterine cavity. This technology allows for an exponential increase inpregnancy chances in IVF.

Preterm birth complications treatment

2016 was the first complete year of the preterm birth and reproductive immunology unit's operations and development at the PMC's Infertility Treatment and IVF Centre. The centre offers expert in-patient and out-patient care services, notably high-quality diagnostics, individual high-risk pregnancy follow-up and treatment by a collaboration of the leading healthcare providers, including OBGYN, immunology, genetics and reproductive medicine professionals.

Fetal surgery

MD Medical Group is taking the lead in Fetal surgery in Russia. The unique Fetal Treatment Ward at Lapino specialises in diagnostics and intra-uterine correction of Fetal disorders, such as twin-to-twin transfusion syndrome, haemolytic disease of the foetus (HDFN), sacrococcygeal teratoma (SCT), spina bifida backbone development defect, and cardiac anomalies. Intra-uterine spina bifida treatment using advanced medical technologies helps prevent severe and irreversible damage to the foetus helps to sustain the pregnancy to full term.

In 2016, the first prenatal surgical treatment of spina bifida in Russia took place at Lapino hospital, which resulted in a successful prolongation of a pregnancy. Successful execution of this surgery was hailed by the country's expert community and won a prestigious national perinatal medicine award.

Organ-sparing surgery

We are proponents of organ-sparing surgery because we believe in helping women maintain their reproductive ability. We were the first in Russia to surgically treat placental growth into uterine scar tissue after Caesarean section operations. There was a time when, owing to the risk of massive bleeding, most of these operations resulted in hysterectomy. However, organ-sparing techniques have been developed that use angiographic bleeding control to help minimise blood loss and support a woman's reproductive ability. Our hospitals are equipped with specialised high-tech equipment for complex endovascular operations.

Cell-based treatment

Cell-based therapy is another area in which we are pushing the boundaries of the possible. Stem cells can be found in any human organ or tissue, in peripheral blood, in bone marrow, and, crucially, in umbilical blood. An automated technique for processing umbilical blood helps deliver top-quality stem cell concentrate, which can be cryogenically preserved for an almost unlimited period. Preservation offers parents a kind of "bio-insurance" policy to help treat future diseases. Today, stem cells are used to treat blood and immune system disorders and to aid recovery after cancer treatment. MD Medical Group's stem-cell bank exemplifies leading-edge technologies put to sound practical use for the benefit of today's patients today – and tomorrow's.

Preimplantation embryo genetic diagnostics

Since February 2016, the PMC's Infertility Treatment and IVF Centre has been offering preimplantation embryo genetic diagnostics, which is considered the most effective form of genetic diagnostics there is. One of the most important procedures of assisted reproductive treatment, it allows for the evaluation of the genetic status of an embryo. As a result, only healthy embryos are transferred to a woman's uterus. In Western countries, the application of this technique has increased the frequency of successful IVF pregnancies from 46.5% to 72.2%.

Developmental care

We also have an unparalleled neonatal intensive care unit for abnormally low birth weight (500 to 1,000 grams) babies and for treating retinal damage with anesthetised laser coagulation surgery. Providing medical care for new borns with low and very low birth weights is a core element in the neonatal care Mother&Child clinics operate. Our doctors are leading Russian specialists in neonatal medicine.

Cardiology

In September 2016, we opened an interventional cardiology and cardiovascular surgery unit at Lapino hospital. The unit boasts advanced equipment from the world's leading manufacturers and a team of the field's best surgeons. The unit, which already provides high-quality emergency and elective medical care, will be further upgraded with the introduction of endoprosthesis aortic replacement and transcatheteraortic valve implantation, the latest achievement of endovascular surgery.

Laboratory – Cytologic screening

Lapino's laboratories and other centres of the Group are equipped with world-class equipment and have been dynamically expanding the spectrum of their research initiatives. Since 2016, Lapino hospital has been utilising the most innovative method of liquid cytology screening. This screening method, the easiest and most painless, allows for the execution of high-accuracy tests using only one sample. Automated equipment is capable of both diagnosing precancerous and inflammatory conditions at early stages and of carrying out diagnostic procedures on all stages between detection to rehabilitation. Such laboratories are also present at other hospitals of the Group, PMC and the hospital in Ufa.

Laboratory – Histopathology

In 2016, we opened a Histopathology laboratory at Lapino hospital, where early high-quality diagnostics of various pathological processes are now carried out. The equipment of the laboratory is manufactured by leading global manufacturers, including Thermo Fisher Scientific, Carl Zeiss and Nikon. Complete automatization is key to the overall reliability of the laboratory. It helps guarantee safety, successful procedures, on-time performance of research and timely delivery of findings, efficient resource allocation and consistency of diagnostic procedures and results.

Innovations today and tomorrow

All our efforts are geared to ensuring that people across Russia have access to world-class medical services. MD Medical Group specialists not only stay abreast of international best practices, but they also deploy state-of-the-art technologies and innovative treatments in all their day-to-day activities.

The healthcare market in Russia

15%

estimated CAGR of the IVF market in Russia in 2009-16. MDMG is already the recognised leader among private players

PUBLIC HEALTHCARE SYSTEM OVERVIEW

There are two types of public healthcare service in Russia

- free (with Mandatory Health Insurance or “MHI”)
- paid-for (either by Voluntary Health Insurance or “VHI”, or by out-of-pocket payments)

The Russian healthcare system relies heavily on a large but less efficient public healthcare infrastructure. A programme to modernise the healthcare sector is underway, involving a reduction in public hospitals in Moscow as well as reductions in in-patient beds and staff numbers. Total healthcare expenditure in Russia as a percentage of GDP is 5.9% (in 2014), below the OECD average (9.0% in 2015). Overall public expenditure on healthcare in Russia is projected to grow from RUB 3,300 billion in 2016 to RUB 3,400 billion in 2019 (in 2016 prices). The many factors contributing to continued growth in healthcare expenditure include increased demand for healthcare services, higher costs of medical technologies and an aging population.

While the public sector still accounts for the lion’s share of the market, especially in terms of volumes of services provided, private companies can work alongside the government, in particular via the MHI system.

Funding sources

There are four principal sources of funding for medical services in Russia. According to a 2016 report by BusinesStat, the breakdown was as follows:

8% Voluntary Health Insurance (“VHI”)

61% Mandatory Health Insurance (“MHI”)

21% Legal payments to private healthcare providers

10% The “grey” market

The share of the Russian population holding a VHI policy is expected to increase over time. In 2016, the self-pay market accounted for 90% of MD Medical Group’s revenue. VHI made up 6% and another 4% were coming from MHI.

Private Healthcare System Overview

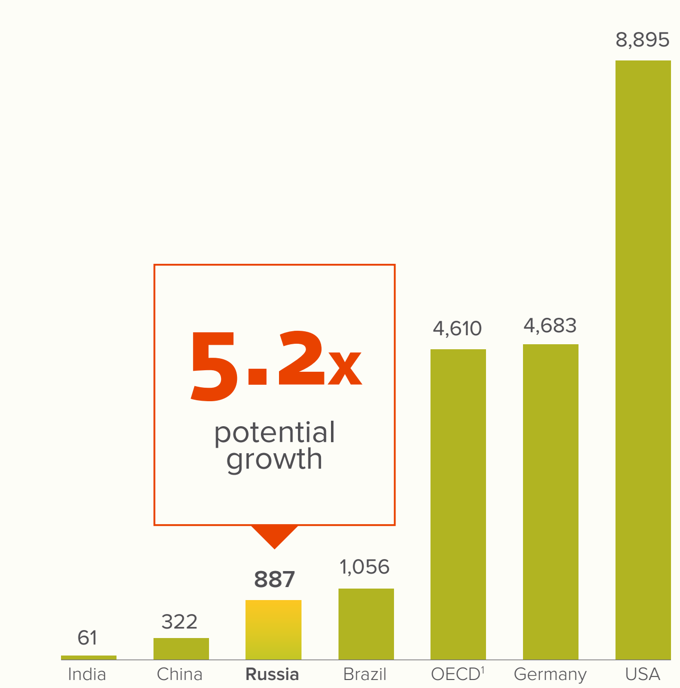
Private healthcare in Russia, which first emerged in the early 1990s, is still in its early stages and has significant growth potential. While the number of private patients is increasing year on year, as a percentage of the population it remains low in comparison with other countries. Prices, too, are comparatively low.

90%

of MDMG’s revenue comes from the self-pay market

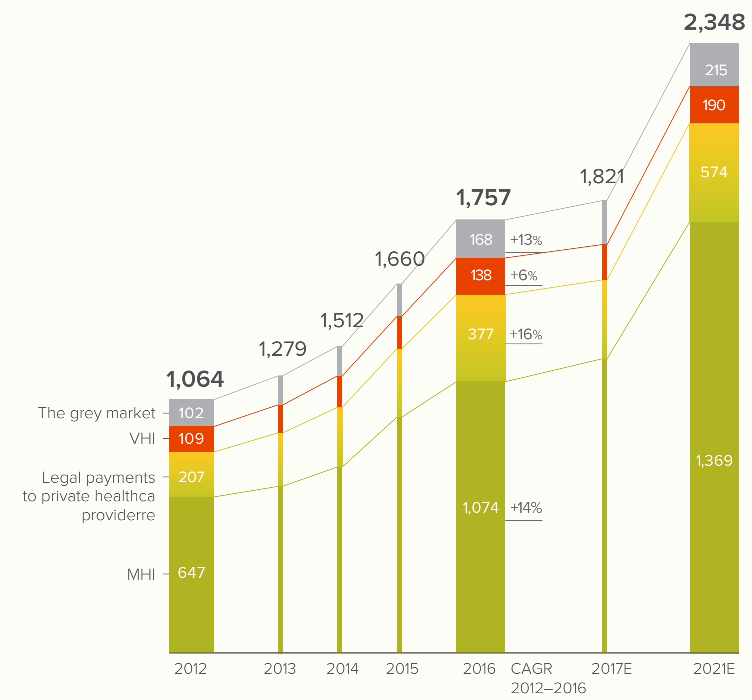
> Government support for the private healthcare market is an essential driver of growth

Per capita healthcare expenditures, per annum, USD



[1]Member countries of the Organisation for Economic Co-operation and Development.

Value of medical services market in Russia



Source: BusinesStat 2016

Consistent government support

As a result of challenges to the public healthcare sector, including widespread dissatisfaction and a reduced budget, the Russian government has taken measures to support the development of the private healthcare sector and relieve some of the strain on the public system.

Recent regulatory developments have included the following supportive measures:

- Abolition of corporation tax for private organisations involved in healthcare provision, including all licensed medical care services.
- Since 2013 MHI validity has been extended to private medical care providers. This means that citizens can choose whether to go to a public or private clinic or hospital and claim reimbursement from the state following treatment.
- Russian citizens are entitled to a tax deduction in respect of their and their family’s healthcare expenditure for up to RUB 120,000.

MDMG: THE CLEAR MARKET LEADER

MDMG is the only established market player focused on women's and children's health and, in revenue and EBITDA terms, is the leader in the private healthcare market overall.

- We are Russia's leading private healthcare provider with a focus on maternity and paediatric care.
- Our specific focus and excellent reputation set us apart from our competitors.
- We offer a wide and ever increasing range of specialised medical services, including obstetrics and gynaecology, fertility and IVF treatment, paediatrics, etc.
- In addition, we carefully expand our portfolio of services when we are 100% sure we can deliver the same high level of service we are known for. We offer family medical services, surgery, stem cell storage, cardiology, laboratory testing and radiology diagnostics, among others.
- We have a staff of highly-qualified medical personnel operating under the supervision of recognised medical experts and using equipment provided by leading international and Russian suppliers.
- We have a wide network of modern high-quality healthcare facilities that is well-established in the Moscow Metropolitan Area and is now expanding to other regions across Russia.

PRIVATE HEALTHCARE MARKET DRIVERS

Future growth of the Russian private healthcare services market will be driven by the following:

- Fertility rates exceed indicators for some developed European countries and are increasing, leading to higher birth rates
- Increased incidence of disease, raising demand for medical care
- Growing health awareness among the Russian population and healthier lifestyles
- Government support measures to stimulate the private healthcare market
- Dissatisfaction with the public healthcare system
- Regional deficiencies in quality healthcare in Russia
- Increased popularity of voluntary health insurance
- Rising life expectancy (72 years for H1 2016)
- Investments from strategic financial investors given the market's high growth potential and attractive ROI.
- Gradual eradication of the grey market for healthcare services, leading to redirection of cash flow into legitimate channels (private and public).

HIGH BARRIERS TO ENTRY

There are significant barriers to entry in the private healthcare market in Russia, including:

- High capital investment requirements (including the need for regular upgrades)
- Limited supply of skilled labour, both managerial and medical
- High cost of personnel management (conferences, training, practice abroad, etc.)
- Importance of brand awareness and reputation (both of the establishment and individual doctors)

12,179

RUB mln of Revenue

is the highest among all players in the private healthcare market in Russia

“Fertility rates and deliveries in Russia are set to grow”

CASE STUDY:

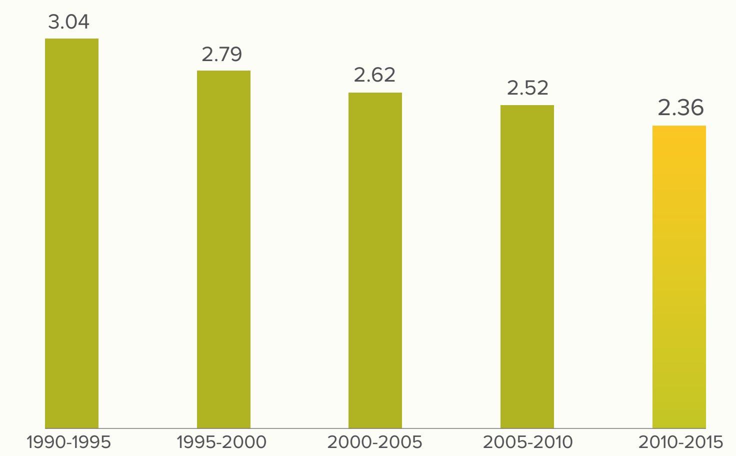
Potential deliveries growth in Russia

While the UN Secretariat Department of Economic and Social Affairs Population Division says that global fertility rates are in decline, the opposite trend is seen in Russia.

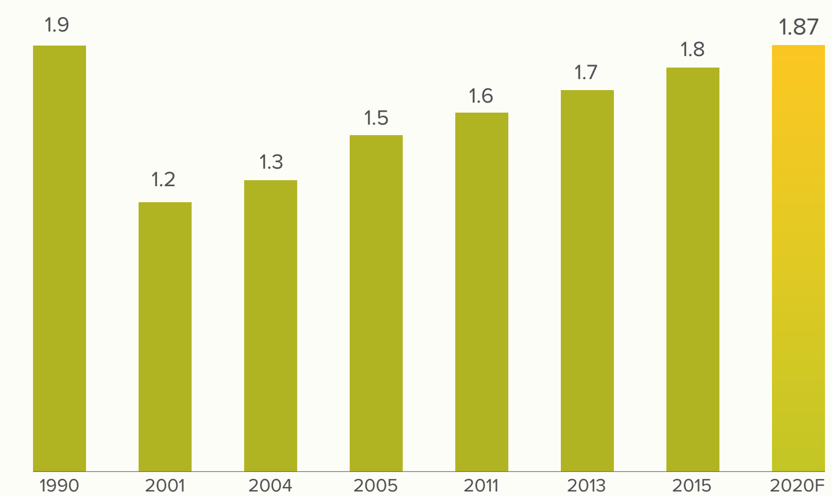
In fact, fertility has steadily grown in Russia over past years and is projected to increase further. Between 2006 and 2015 the total fertility rate in Russia increased by 36% to 1.8. At the same time, there is still potential for Russian fertility rates to improve further to the level of other countries including the USA, China and France.

In April 2016, the government adopted a plan comprising 50 initiatives to support the demographic situation in Russia through 2020 as the third phase of the 2025 Demographic Policy Concept. The plan includes measures to stimulate births of second and subsequent children in a family and to raise the overall fertility rate to 1.87. Key methods include improving the quality and accessibility of medical services, and providing monetary incentives to families with two and more children (subsidies, reduced mortgage rates, etc.).

World fertility rates (1990-2015)



Total Fertility Rates in Russia



MANDATORY HEALTH INSURANCE

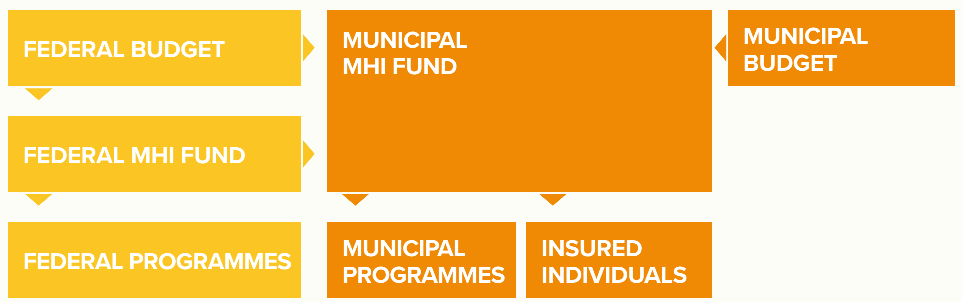
MHI in depth

Mandatory Health Insurance (MHI) is the main funding source for medical services in Russia. Other funding sources include local and state budgets, Voluntary Health Insurance Funds (both local and municipal), special-purpose healthcare budget funds and off-budget funds, income of private healthcare organisations and voluntary contributions from individuals and legal entities.

MHI funding includes:

- Revenue from:
  - MHI payments made by employers (managed by the Pension Fund of Russia)
  - insurance payments in arrears
  - penalties and fines;
- Federal budget funds that are delivered to the Federal and Municipal MHI Funds in accordance with federal laws;
- Municipal budget funds that are delivered to Municipal MHI Funds in accordance with federal and local laws;
- Returns on temporary investment of surplus funds;
- Other sources prescribed by the laws of the Russian Federation.

MHI funding structure



The way the Federal MHI Fund is financed mirrors the overall MHI funding system, with the exception of the municipal budget funds. Funds received on the state level are used largely to support Municipal MHI Funds in securing the same level of quality of medical services across the country. In addition, federal MHI funds are allocated towards Federal Targeted Investment Programmes in the medical field, such as Maternal and Child Welfare.

Money directed from the Federal MHI Fund and municipal budget to the Municipal MHI Funds comes in the form of grants-in-aid that are allocated towards a specific project or else returned and non-repayable transfer payments.

These funds are used to support the basic medical needs of insured individuals, provide some additional medical services and finance local medical programmes.

The pricing of basic and additional medical services is calculated by a territorial fund commission, after which the private healthcare providers consider the feasibility of providing such services under the suggested conditions. Tariffs are calculated using a variety of methods that take into account a number of factors, from the price of medical equipment and logistics services to payments to medical professionals and rent.

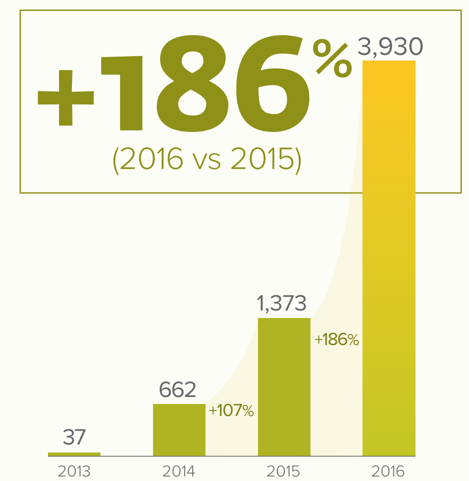
IVF via MHI is an important funding source

MD Medical Group closely monitors MHI tariffs for the services the company provides. We constantly analyse the economic feasibility of expanding our participation in the programme and consider providing new services via MHI when we believe the tariffs are fair. To date, MDMG has focused on IVF as the key service provided under the MHI programme.

The IVF market in Russia, where MDMG is already the recognised leader among private players, continues to grow with a CAGR for 2009-2016 of 15%, according to Company estimates. Since 2012, the Government has started to fund not only IVF services provided in public facilities (through both federal and regional budgets), but also in private healthcare companies as well as through the MHI system. The overall trend includes the reduction of funding provided by federal and regional budgets (for public facilities only) and a growing share of MHI funding. This creates potential for private market players to receive more MHI patients for IVF services.

In 2016, in several regions throughout Russia, the MD Medical Group completed 3,930 IVF cycles through the MHI programme. That was up 186% year-on-year. This corresponds to 28% of the total number of cycles completed by the Group during 2016, compared to a share of just 15% in 2015.

Dynamics of MDMG's IVF cycles completed through MHI



> "MDMG has accelerated its growth in IVF, and nearly doubled the share of cycles completed via the MHI programme in 2016"

The number of clinics providing IVF services via MHI has expanded. In 2013, the service was provided by just two of the Group's clinics, while in 2016 it was offered at 17 medical facilities. In 2017, two more existing clinics in Moscow will start providing IVF services through the MHI programme.

In addition to IVF, MD Medical Group provides the following services as part of the MHI programme: surgery, obstetrics, in-patient (gastroenterology, contrast-enhanced computer tomography, contrast-enhanced magnetic resonance imaging) and out-patient (gastroenterology, computertomography, magnetic resonance imaging) primary medical care and specialized medical care. In 2017, the Company plans to add traumatology and cardiology to the MHI programme.

Our strategy

At least

25%

of net profit is paid out in the form of dividends

OUR STRATEGY

Our mission

To make world-class healthcare accessible to people in more of Russia's regions.

Our strategy

Our strategic goals are simple and clear: to do the best for our customers and run a successful business for the benefit of our shareholders. We believe that we have consistently demonstrated our ability to deliver on this strategy, and that all our stakeholders have benefited.

Our strategic priorities

- Provide patients with the highest quality of care
- Invest in world-class facilities and medical talent
- Continue to expand our proven business model across Russia
- Deliver value to shareholders
- Focus primarily on care for women and children with selective addition of other high-tech services

"In 2016, we continued to deliver on our strategy. This is reflected in our network expansion, improved performance and increased shareholder value"

HOW WE CONTINUE BRINGING OUR STRATEGIC PRIORITIES TO LIFE

Provide patients with the highest quality of care

We are constantly improving the professional skills of our already highly-trained specialists, and our aim is to continuously adopt the best available technologies. In particular, in April 2016, we opened a new clinic in Kostroma, which became the first in the region to provide IVF services (the first phase of treatment), making our advanced medical treatment more accessible for the more than 650 thousand residents of the region.

We are deeply committed to maintaining the highest possible quality of our services, and will continue to invest our time, funds and efforts into technology and the professional growth of our staff to ensure that we maintain our market leadership in terms of quality of service.

Invest in world-class facilities and medical talent

Continued modernisation and expansion, such as the current construction of a new, leading-edge wing of our hospital in Novosibirsk and a new hospital in Samara, as well as the upcoming start of construction of our first hospital in Tyumen, mean that our technology and facilities are always at the forefront of innovation in our sector.

We will continue to employ the best professionals in the market by offering competitive salaries as well as fantastic opportunities for career advancement.

Roll out our proven business model

With the 2016 acquisition of ARTMedGroup, we have added five new clinics to our chain, including in new cities of Krasnoyarsk, Omsk and Barnaul.

During 2016, we also opened two clinics and IVF and cardiology departments in and around Moscow, as well as a clinic in Kostroma.

While maintaining a sharp focus on our current projects, we will continue expanding our network to encompass more and more of the Russian population.

We aim to expand both organically (we have started constructing a hospital in Samara and also signed a Memorandum of Understanding with the Tyumen Region government) and by purchasing attractive, value-accretive healthcare assets.

Deliver value to shareholders

Our financial results and leadership in terms of revenue in the overall healthcare sector in Russia reflect the successful implementation of our strategy, as well as our ability to deliver on our commitments to shareholders.

As a further demonstration of our commitment to our shareholders, from H1 2016 we plan to pay dividends twice a year. We continue to deliver on our aim of paying out at least 25% of net profit in the form of dividends.

Our long-term incentive plan, introduced in 2014, ensures that managment and key doctors remains focused on maximising shareholder returns.

We will continue to develop our network and expand in to new regions whilst realising further value from projects that we have already invested in.

Focus primarily on care for women and children

As we have strengthened our leadership in healthcare services for women and children, maternity and paediatric care remain our core priorities, and our latest acquisitions such as Medica and ARTMedGroup fit perfectly into our portfolio. During 2016 we also opened a new Mother&Child Khodynskoe Pole clinic focused on women's healthcare and an IVF department with annual capacity of cycles in Moscow, as well as the first IVF clinic in Kostroma.

8 clinics were added to our network in 2016.

Looking ahead to new opportunities

While we are committed to our focus on our core practices of providing care for women and children, we are carefully exploring the possibility of widening of the services we offer. We will only pursue such expansion if and when we are sure that we can deliver such new services at the high level for which we are recognised.

Our latest achievements include opening of a high-tech interventional cardiology and cardiovascular surgery department at our Lapino hospital in September 2016, and our first clinic in Vladimir in January 2017.

Operational and financial review

75%
of revenue generated by core business OBGYN, deliveries, IVF and paediatrics.

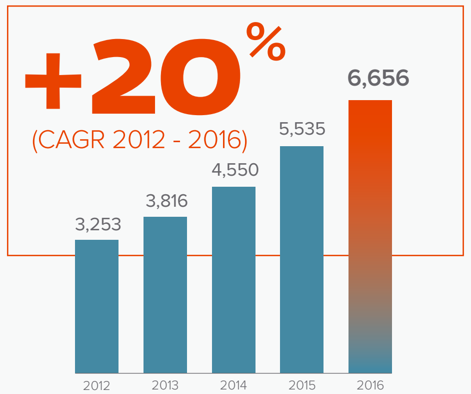
DELIVERIES

In 2016, the total number of deliveries grew by 20% y-o-y to 6,656. Revenue from deliveries rose 28% in 2016 to 2,245 and represented 18% of the Group's total income.

Ahead of growth dynamics in Russia and globally

MD Medical Group has consistently set a uniquely high standard in Russia for the level of quality, comfort and care in deliveries, which is what has allowed and will continue to allow us to increase the number of deliveries we perform year by year.

Deliveries



20%

growth in the number of deliveries

Pioneers in our market

We offer a range of unmatched services that set us apart from the market:

- We were the first in Russia to offer women the opportunity to have the same doctor who supervised their pregnancy go on to conduct the delivery;
- We offer unique anaesthesiology resources and optimal pain relief for each period of labour;
- We provide a combination of classical obstetrics and advanced medical technologies;
- Our patients benefit from individually tailored birthing programmes;
- And we offer a unique "home birth in hospital" in our luxury in-hospital apartments.

Wide choice of delivery options

We do everything possible to ensure that our clients can give birth naturally, even following surgery or caesarean section. We offer a wide range of different birth options for future mothers to choose from:

- Natural physiological childbirth;
- Traditional or horizontal natural child birth;
- Vertical birth;
- Water birth;
- "Home birth" in hospital in one of our luxury apartment rooms, furnished in the style of a home bedroom with an on hand medical team and equipment;
- Partnership birth, allowing for loved ones to be present;
- Natural birth after caesarean or previous gynaecological surgery;
- Surgical birth via planned or emergency caesarean section.

Post-delivery services

- Neonatal intensive care unit
- Neonatal pathology unit
- Premature babies unit
- ER unit with fleet of ambulances
- 24/7 emergency labour service
- Breastfeeding support and assistance for patients suffering from lactostatis or hypogalactia
- Stem cell bank, with international standards in collection, testing, processing and storage of cord blood including transportation services even if the birth is at another centre
- New parents school providing assistance and birth guidance for future parents-to-be

IN-VITRO FERTILISATION

Strengthening still further our leading market position

In 2016, the total number of IVF cycles increased 51% y-o-y to 14,004, representing a revenue increase of 63% y-o-y to RUB 2,628 mln. This was mainly due to strong performance from clinics in Siberia and Moscow.

MD Medical Group has further strengthened its position as the undisputed leader in the IVF market in Russia in 2016.

In March, we opened a new IVF department at the Mother&Child Yugo-Zapad clinic in Moscow.

In April, we opened our first IVF clinic in Kostroma, which was the pioneer on the IVF market in the Kostroma Region.

We strengthened our position even further with the purchase of ARTMedGroup, a chain of five reproductive technology centres that is one of Russia's five biggest IVF providers and the leader in Siberia by completed IVF cycles.

51%

growth in IVF cycles

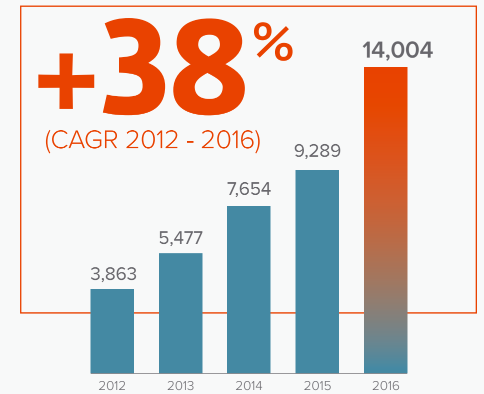
High-tech services across Russia

We provide our customers with high quality fertility services including:

- Diagnosis of possible causes of infertility within a family
- Preimplantation genetic diagnosis
- Effective treatment for one or both spouses
- Individually tailored programmes
- Achievement and maintenance of pregnancy
- Childbirth assistance
- Post-natal healthcare assistance for the child up to 16 years
- A team of highly qualified experts in areas of reproduction, gynaecology, immunology etc., providing medical expertise for every situation
- A range of alternative fertility services including auxiliary hatching, donor sperm insemination, ovulation stimulation etc.

Our facilities use state-of-the-art specialised equipment in the provision of IVF services. Our individual approach to each patient ensures a high standard of service, as well as a high probability of success.

IVF



"We do not use ready-made solutions. Each fertility treatment is specially tailored as we take into account each case individually to help our patients become the proud parents of healthy children"

IN-PATIENT TREATMENTS

In 2016, the total number of in-patient treatments increased by 11% to 53,142, which made up 15% of the Group's revenue for the year.

OBGYN

- Total number of OBGYN in-patient treatments increased by 1% y-o-y to 23,796.
- Revenue for the division increased 15%.
- Division accounted for 8% of the total revenue.
- Drivers of growth were Ufa, Mother&Child Novosibirsk and Lapino.

Paediatrics

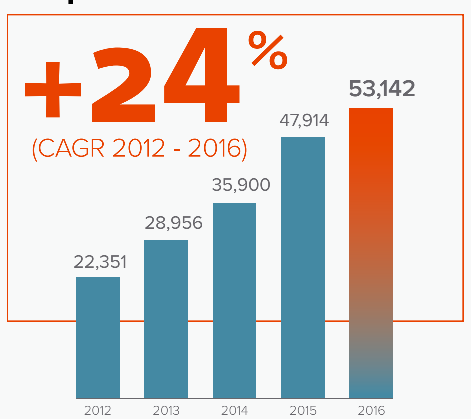
- Total number of paediatrics in-patient treatments increased by 23% y-o-y to 18,946.
- Revenue for the division increased 49%.
- Division accounted for 3% of the total revenue.
- Drivers of growth were Ufa, Mother&Child Novosibirsk and Lapino with PMC.

Other Medical Services

- The total number of other medical in-patient treatments increased by 17% y-o-y to 10,400.
- Revenue from other in-patient medical treatments is up 19%.
- Division accounted for 4% of the total revenue.

OBGYN (except deliveries)	PAEDIATRICS	OTHER MEDICAL SERVICES
23,796	18,946	10,400

In-patient treatments



53,142

the total number of in-patient treatments

OUT-PATIENT TREATMENTS

In 2016, the total number of out-patient treatments increased by 18% to 1,388,995 which made up 32% of the Group's revenue for the year.

OBGYN

- Total number of OBGYN out-patient treatments increased by 12% y-o-y to 506,756.
- LFL patient days for OBGYN increased 8%.
- Revenue for the division increased 12%.
- Division accounted for 14% of the total revenue.
- Drivers of growth were Ufa, Mother&Child Novosibirsk and Lapino.

Paediatrics

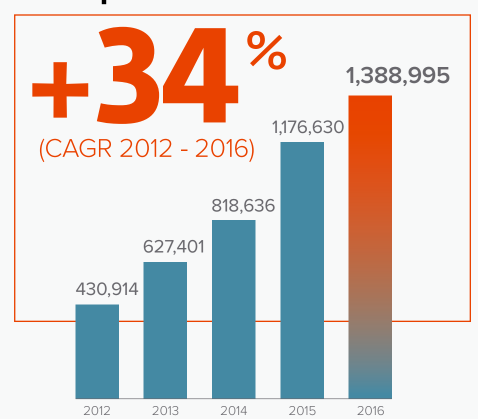
- Total number of paediatrics out-patient treatments increased by 14% y-o-y to 396,608.
- Revenue for the division increased 19%.
- Division accounted for 10% of the total revenue.
- Key growth triggers are rapid growth in Ufa, full year of operations of Mother&Child Novosibirsk, strong results at Lapino and Samara clinics.

Other Medical Services

- The total number of other out-patient treatments has increased 29% y-o-y to 485,631.
- Revenue for the division increased by 26%
- Division accounted for 8% of the total revenue.
- The largest share in other medical out-patient growth was related to Mother&Child Novosibirsk, diagnostics centres at Lapino, Ufa and PMC as well as a number of rehabilitation treatments.

OBGYN	PAEDIATRICS	OTHER MEDICAL SERVICES
506,756	396,608	485,631

Out-patient treatments



1,388,995

out-patient treatments

M&A SUPPORTING OUR GROWTH

M&A is an important element of our regional development strategy and represents an effective complement to our organic growth.

OUR MOST RECENT ACQUISITIONS INCLUDE:

- ARTMedGroup (AMG), a chain of reproductive technology centres, is one of Russia's five largest healthcare companies and the leader in Siberia in terms of IVF cycles completed. This chain has been active on the reproductive medicine market for almost 20 years. It comprises five centres in Siberia's largest cities – Krasnoyarsk, Omsk, Novosibirsk and Barnaul – which specialise mainly in IVF, but it also offers medical services in the field of women's and children's healthcare. The deal was closed in January 2016.
- Medica, established in 2009 in Novokuznetsk (the Kemerovo region), is focused on women's and reproductive health. The clinic includes an IVF department, an out-patient clinic, an operative gynaecology unit, and a "one-day" in-patient unit. The deal was closed in December 2015.
- Avicenna Medical Centre ("Avicenna"), the largest private healthcare company in Russia outside of Moscow and St Petersburg, is situated in Novosibirsk. The network includes three multi-disciplinary clinics and has its own laboratory and a hospital with a maternity ward. The deal was closed in October 2014. In 2015, we started construction of a new wing to expand the hospital's capacity. The wing was opened on 17 February 2017.
- Avicenna offers a broad range of in-patient and out-patient services including deliveries, IVF, obstetrics and gynaecology, paediatrics, cardiology, radiation and ultrasound diagnostic, dentistry and neurosurgery, plastic surgery and urology, traumatology and orthopaedics.
- Mother&Child Irkutsk (85% stake), the only private reproduction centre in the Irkutsk region, specialises in IVF and gynaecology. The deal was closed in May-July 2013.
- IDK Medical Company is a leading network of women's and children's health clinics located in the Samara Region. IDK's network includes two medical centres, a children's polyclinic, a clinical diagnostics centre, two out-patient clinics in Tolyatti (Samara Region's second largest city) and Novokuybyshevsk, as well as two pharmacies.

> Our efforts to consolidate some of the most attractive assets on the market have strengthened our overall performance

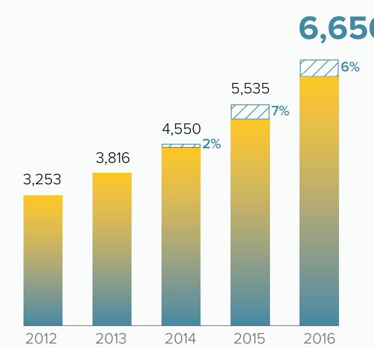
These facilities made a substantial contribution to our operating results in 2016. In particular, the recent acquisition of clinics in Siberia helped to boost the share of IVF performed at the acquired assets to a significant 19% of total cycles at the Group level.

Financially, facilities acquired by MD Medical Group in 2016, generated RUB 644 million in revenues, or 5% of the total Group revenue.

> We continually assess the market for new opportunities that meet our acquisition criteria, with a particular focus on well-established companies with relevant specialisations run by highly professional teams

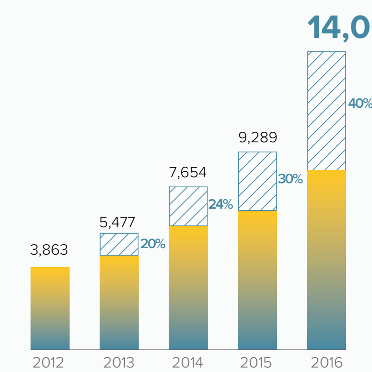
Contribution of acquired facilities to Group operational performance

Deliveries



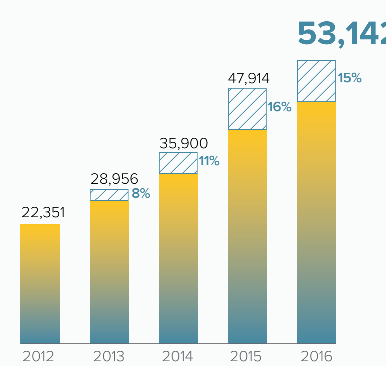
+6%
share of M&A in 2016

IVF



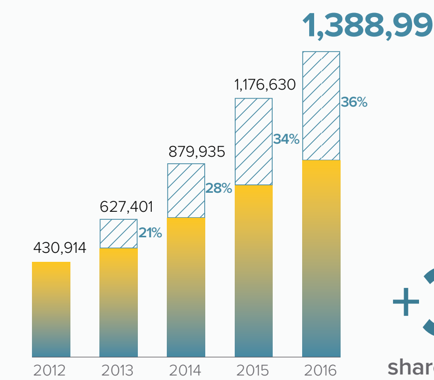
+40%
share of M&A in 2016

In-patient treatments



+15%
share of M&A in 2016

Out-patient admissions



+36%
share of M&A in 2016

FINANCIAL REVIEW

2016 was the strongest year in the Company's history in terms of financial performance on the back of solid operating results. We achieved record-breaking indicators while further delivering on our strategy and laying a foundation for future growth.

> "In 2016, our best-ever financial results strengthened our leadership of Russia's private healthcare market"

Revenue

Revenue increased by 28% to RUB 12,179 mln vs. RUB 9,507 mln in 2015 on the back of:

- continued ramp-up at Lapino;
- improved results at existing clinics and the new hospital in Ufa;
- results of new clinics in Siberia consolidated since Q1 2016.

In 2016, the share of regional clinics and hospitals in overall revenue continued to grow y-o-y and amounted to 34%, mainly thanks to increased revenue from the Ufa hospital and the acquisition of the Siberian clinics.

EBITDA

EBITDA for the year amounted to RUB 3,670 mln. Group EBITDA increased by 37% year-on-year thanks to:

- continued ramp-up at Lapino;
- improved results at existing clinics and the new hospital in Ufa;
- results of new clinics in Siberia consolidated since Q1 2016.

EBITDA margin

EBITDA margin for the year was 30% while LFL EBITDA margin amounted to 31%.

CAPEX

Total CAPEX including M&A amounted to RUB 2,222 mln (vs. RUB 1,069 in FY 2015), RUB 475 mln of which was spent on M&A.

Key major investments in 2016 included:

- Construction of a new hospital to be merged with the existing Avicenna Mother&Child Novosibirsk hospital
- Acquisition of ARTMedGroup (five clinics) in Siberia
- Start of construction of a new hospital in Samara
- Maintenance

Debt

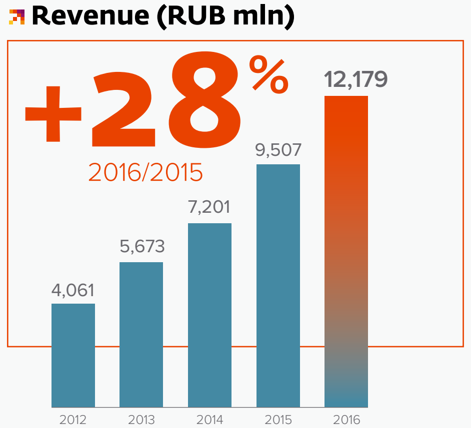
Debt amounted to RUB 3,283 mln. Net debt was RUB 1,648 mln, decreased by 10% compared to June 30, 2016.

Net debt

The net debt to EBITDA ratio was 0.4x.

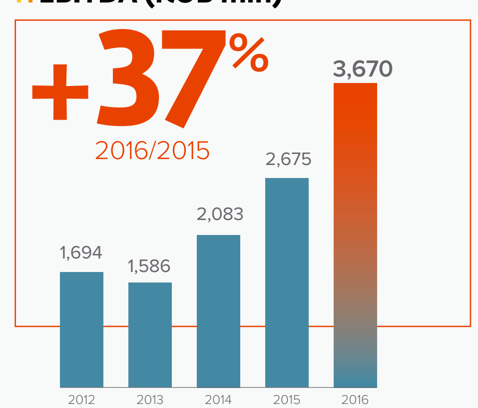
Revenue (RUB mln)	EBITDA (RUB mln)	EBITDA margin	CAPEX (RUB mln)	Debt (RUB mln)	Net debt (RUB mln)
+28% 12,179	+37% 3,670	+2p.p. 30%	2,222	3,283	1,648

Revenue (RUB mln)



2,277 RUB mln profit for the year

EBITDA (RUB mln)



28 Basic and fully diluted earnings per share (RUB)

Corporate social responsibility

OUR PEOPLE

Our growth and strengthening of the leading market position would not be possible without our core asset, the highly-qualified and talented personnel that work in all areas of our business. We offer staff competitive compensation packages, but our main focus is on wide-ranging training and improvement opportunities and the chance to work in a dynamic and respected business.

Personnel

Our successful staff base can be attributed to our personnel training and development structure. The key targets of our HR policy are:

- Retention of existing staff and addition of highly skilled employees
- Investment in employee development
- Selection of the most talented students for education in residence at PMC, including 9 students in 2016
- Opportunities for personal and career growth
- Provision of the most advanced technology and equipment
- Placing the best staff in leading positions at the right time to maximise potential and encourage internal growth
- Provision of better working conditions to maintain low staff turnover
- Incentive programmes for employees
- Training programmes across various fields as part of our corporate education system

Among our training programmes we have provided staff with:

- Webinars, featuring online training in most relevant topics
- Career enhancement completed by 202 MDMG employees (including 80 doctors and 122 nursing employees) throughout 2016
- Short-term thematic advanced training for 230 employees during 2016
- Leadership in Healthcare corporate training programme
- Business trips for specialists from Moscow to help specialists in the regions take over the leadership of regional hospitals
- International exhibitions and symposia
- Training centre, a system of improving soft skills and knowledge acquisition across different areas

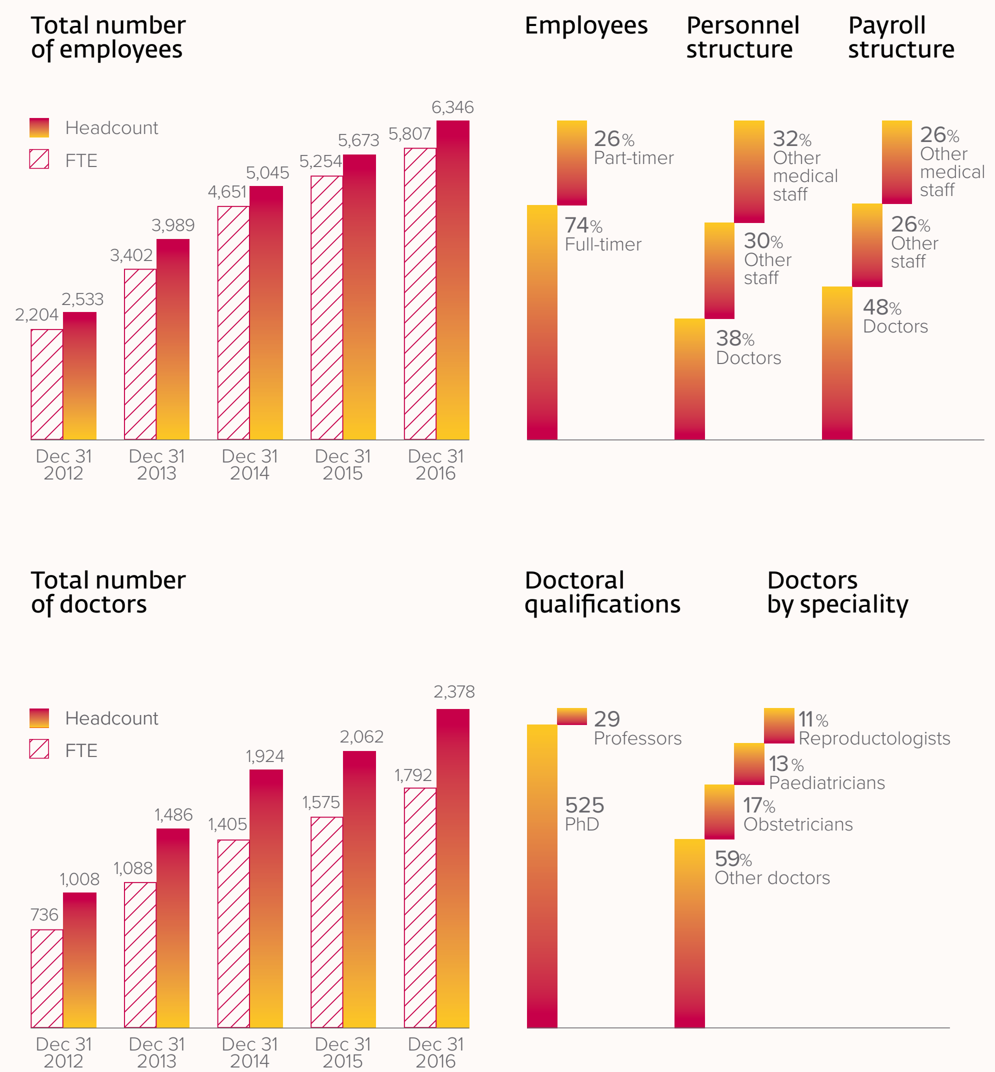
202

employees completed career enhancement programmes in 2016

"It is thanks to the excellent hard work and expertise of our team that our customers receive the highest quality care and our business continues to grow"

6,346 total number of our employees

Personnel figures (as of December 2016)



Leadership in Healthcare

As part of its corporate training programme, MD Medical Group launched its Leadership in Healthcare business education project in March 2016. This project was designed specifically for MDMG in collaboration with the Stockholm School of Economics and RosExpert.

The goal of the project was for participants to develop the business skills needed to effectively deliver on the company's mission and goals and to increase the management efficiency of the Group's medical facilities. A committee headed by Dr Mark Kurtser selected a group of participants for the programme from among the Group's employees. The programme included four modules: Marketing, Finance, Operational Management and Efficiency, and Human Resources Management. During the course, group members worked on projects that they subsequently presented to a committee comprising senior Group managers and the programme's professors. In October 2016, participants presented four projects that received the highest possible marks from Dr Mark Kurtser.

Long-term incentive plan

In 2016, we continued to implement our long-term incentive plan for doctors and key staff members from the management team. The programme is aimed at achieving closer alignment of interests between management and shareholders and increasing management's motivation to build sustainable shareholder value over the long-term.

CORPORATE SOCIAL RESPONSIBILITY

Our contribution to our people and our local communities stretches far beyond health

Our role as a responsible corporate citizen is important to us and is something we discuss regularly at Board and management meetings. While we have already made significant contributions to our local communities, we recognize that we can always do more. As such, we hope to continue sharing the benefits of our work with the people around us and in our profession as a whole.

19

We support local communities in the 19 cities where we currently operate

Our mission

Our deep commitment to CSR is not just a requirement for a major listed company and employer. Rather, it reflects our strong belief that creating value for our stakeholders is critical for the long-term sustainable growth of MDMG.

Our people

We invest heavily in training and educating our staff, creating opportunities for them to learn from the best medical practitioners in the world. Many of them have worked with the Group since its foundation, and we recognise and reward this dedication by creating an environment that encourages professional and personal growth.

Our technology

We aim to maximise efficiency and minimise patient stress by constantly updating our technology and using the most innovative procedures. Examples include occluding temporary balloons in the iliac arteries to avoid complications during OBGYN procedures and using the Cryotop method to increase the chances of embryo survival during assisted reproductive treatment.

Our communities

As we continuously expand our network throughout Russia and bring often unique services to new regions, we not only provide people with high-quality services near their homes but also encourage every employee to be helpful in their own communities.

Our profession

Above all, we recognise that one of the most important roles we can play as a leading healthcare company in Russia is to contribute our resources, time, expertise and know-how to raise the overall standard of the healthcare profession in Russia. We regularly hold open-access webinars for doctors and patients across the country where we address key issues in women's and children's health, there by helping to raise the quality of medical services provided to patients all over the country.

> “In 2016 our employees continued to help those in need, not only as healthcare professionals, but also as responsible members of society”

Key CSR activities in 2016

Wish tree: Making a child's Christmas dream come true

Christmas and New Year is a time of magic and joy. However, not everyone has an opportunity to celebrate by opening presents with their family. So, to share the Christmas spirit with the most vulnerable, we organised a charity event for orphans and other children facing difficult life situations.

In early December, children being cared for in the Aleksin boarding school for children in state care wrote their Christmas wishes on cards, which we hung on Christmas trees at the Lapino hospital and PMC. MDMG employees volunteered to make the children's dreams come true, and bought over 130 presents ranging from toys and games electronics for them.

MDMG employees joined Father Christmas in distributing these presents to children at the facility just before their main Christmas meal, showing that wishes can come true, especially at Christmas!

Library Bringing Good

In December 2016, we launched a Library Brining Good project. MD Medical Group's employees have volunteered to provide text books and classic non-fiction for students in grades 1–9 at the the Aleksin boarding school for children in state care. This initiative is aimed at sharing some of the best literature with those who are unable to buy their own books and do not have a home library. In December, a total of more than 200 books were donated by the MDMG family to the children.

Day at Lapino

On 7 November 2016, with the help of doctors and volunteers from the Moscow Station for Blood Transfusions, we held an annual “Blood Donor Day” at our Lapino hospital. Many of our top doctors joined in and, in total, our 61 donors produced more than 24 litres of blood for the patients at a number of facilities in Moscow.

SHAREHOLDER EQUITY

Since October 2012, MD Medical Group's shares have been listed on the London Stock Exchange under the ticker MDMG in the form of Global Depositary Receipts (GDRs). Each GDR represents an interest in one ordinary share.

MD Medical Group has a free float of approximately 32.1 %, with the remaining 67.9 % owned by MD Medical Holding Limited, which is beneficially owned by Dr Mark Kurtser.

The investor portfolio is represented by a number of global institutional investors.

80%
market capitalization growth in 2016

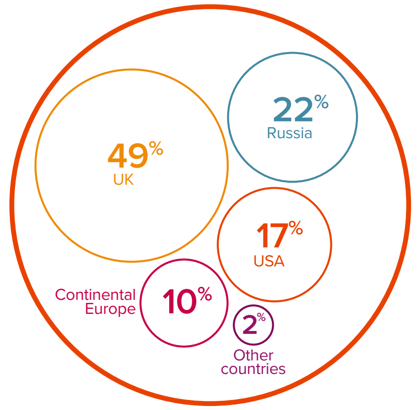
75,125,010
The total number of shares outstanding

Shareholders owning over 1% of the issued capital

Name of the fund	Number of shares as of 31.12.2015	Share of shares, outstanding (%)	Number of shares as of 31.12.2016	Share of shares, outstanding (%)
Russian Direct Investment Fund*	4,166,667	5.5%	4,166,667	5.5%
Russia Partners	3,235,000	4.3%	3,235,000	4.3%
J.P. Morgan Asset Management (UK), LTD	2,318,944	3.1%	2,531,308	3.4%
BlackRockInvestment Management (U.K.), LTD	2,159,731	2.9%	1,960,037	2.6%
M&G Investment Management, LTD	1,454,000	1.9%	1,454,000	1.9%
Baring Asset Management, LTD (U.K.)	1,170,595	1.6%	1,170,595	1.6%
Prosperity	883,899	1.2%	1,121,913	1.5%
Aberdeen Asset Managers, LTD (U.K.)	1,005,293	1.3%	819,893	1.1%
Comgest S.A.	764,600	1.0%	764,600	1.0%

Source:
IPREO BD Corporate as of March 2017;
Company information
* Shares managed by RDIF Managing company Llc., including co-investors' shares managed by RDIF Managing company Llc.

Our investors represent various geographies



ANALYST COVERAGE

As of 31 December 2016, MDMG is covered by equity research analysts representing leading banks such as Bank of America, Merrill Lynch, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan and VTB Capital.

DIVIDENDS

MD Medical Group has been adhering to its unofficial dividend policy to pay out at least 25% of a year's net profit as dividends.

Dividend frequency

At a meeting on 2 September 2016, the Board of Directors approved changes to the frequency for considering dividend payments for the benefit of its shareholders. Since H1 2016, the Company is considering payment of dividends to shareholders twice a year. Decision on payment of interim dividends will be made by the Board of Directors based on MD Medical Group's results for the first six months of the year. Payment of dividends based on the Company's full-year IFRS financial results will be approved by the General Meeting of shareholders.

MD Medical Group's dividend history

	2012	2013	2014	2015	H1 2016
Dividend approval	07.06.2013	23.05.2014	05.06.2015	15.04.2016	02.09.2016
Record date	07.06.2013	23.05.2014	05.06.2015	22.04.2016	09.09.2016
Payout date	12.06.2013	30.05.2014	03.07.2015	20.05.2016	18.10.2016
Total dividends paid, ths USD	9,766	5,259	5,455	7,298	4,375
Dividends per share, USD*	0.13	0.07	0.07	0.10	0.06
Dividends per share, USD*	0.13	0.07	0.07	0.10	0.06

* at the exchange rate as of the date of the Annual General Meeting of Shareholders or Board meeting

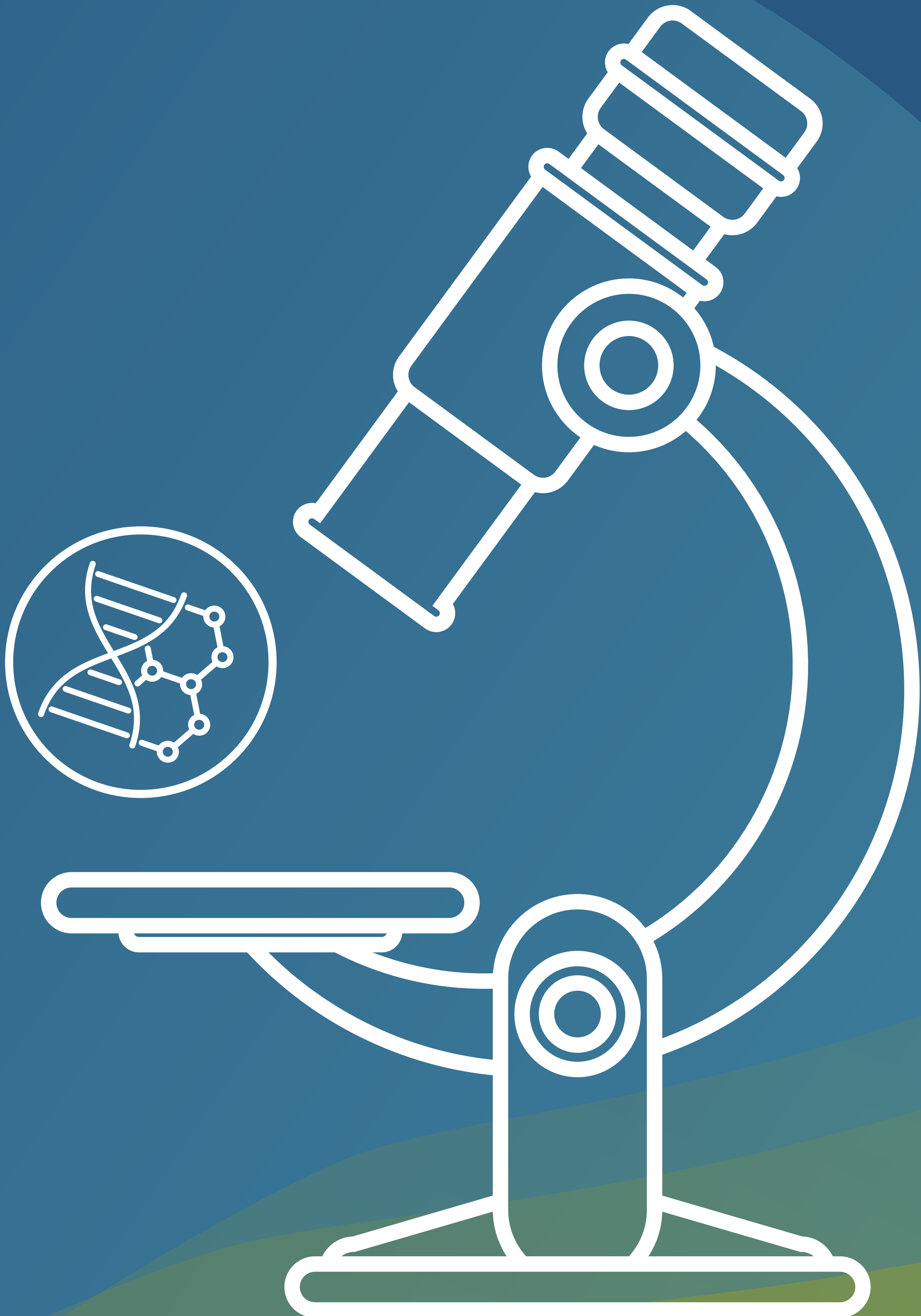
Dividend taxation

Since 1 January 2015, MD Medical Group has been a Russian tax resident and pays dividends in line with the Russian Tax Code, according to which dividends paid by Russian companies are generally subject to a tax rate of 15%. A reduced rate may be applied in the case of Russian tax residents and residents of foreign jurisdictions whose Governments have signed a double taxation treaty ("DTT") with the Government of Russia. MD Medical Group acts as a tax agent and with holds tax in order to transfer it to the Russian tax authorities when paying dividends. For a list of countries that have signed a DTT with Russia and terms for applying a reduced tax rate, please see the Company's corporate website at http://www.mcclinics.com/media/news/112.

Investor relations

We see our investor relations as an important priority and have focused on maintaining a continued active dialogue with the investment community since our successful listing on the London Stock Exchange in 2012. Our goal is to rigorously adhere to the best practices in terms of transparency and information disclosure to our investors and analysts. We regularly provide updates on operational and financial performance, new openings and acquisitions, key Board of Directors and shareholder meetings decisions, as well as other important corporate developments.

Through our investor relations function we are committed to ensuring that the investment community has a good understanding of our story and promptly receives all relevant information. We do that by making ourselves, including senior management, available for productive conversations. During 2016, we held 145 meetings with investors and attended five investor conferences in Russia, UK, US, etc.



Corporate governance and risk management

RISK MANAGEMENT

We are continuously improving our risk management systems, which enables us to quickly identify potential risks to our operations and find the most efficient ways to mitigate them.

Medical Service Risk

POTENTIAL IMPACT

By its very nature, the medical sector will always carry some risk. This is particularly so in higher-risk areas of medicine such as OBGYN, deliveries and surgery. This risk can potentially have a significant reputational impact on our business, which in turn can affect our financial performance.

MITIGATION

To minimise this risk, we place a significant emphasis on hiring medical staff of the highest professional standard, providing ongoing oversight of key medical processes and conducting systematic reviews of all complex and non-routine cases. In complex medical cases, recommendations are carefully analysed and are presented to all key personnel responsible for medical service.

We apply the same high standards of medical care in all our institutions.

Political & Regulatory Risk

The political and regulatory environment with respect to the development of private medicine in Russia is currently relatively favourable. However, there is always a risk that governmental attitudes and policies with respect to private medicine could change.

That could create difficulties for us in terms of realising our strategic objectives, including the implementation of our investment programme.

We have strong relations with the government at both a federal and regional level, and we work continually to make them even stronger. We participate in a variety of public committees on relevant health issues, including the development of the Russian healthcare sector as a whole. We also actively support the authorities and provide expert advice on relevant laws. At times, we actively advocate for laws aimed at supporting the continued development of the medical sector.

Macroeconomic Risk

There is a risk that the macroeconomic environment in Russia will deteriorate.

We monitor very closely the situation in the Russian and global economic environment and continually assess our ability to deliver on our strategies. Our strategy has been designed to allow us to adapt as needed respond to changes in the general economic environment.

Control & Efficiency Risk

The rapid development of our business, the integration of new legal entities and an increase in the number of employees increase the challenge of effectively monitoring operations throughout our Group. This can negatively impact our ability to maintain previous levels of efficiency as we continue our rapid growth.

We are constantly seeking new ways of increasing our efficiency in terms of monitoring business processes and internal controls. We have successfully centralised the most significant business functions, such as budgeting, financial control, treasury, accounting, purchasing, legal support, personnel administration, security and IT. We have established a clear division of responsibilities for all key business processes.

We have also created special committees that report to the CEO, covering key areas of our activity, including investment, operations and medical services.

Investment Project Execution Risk

POTENTIAL IMPACT

Our growth depends on acquisitions of existing healthcare facilities as well as the construction of new hospitals and clinics.

Our strategy is based on expansion of our network throughout the regions of Russia. We are pioneers in the field of regional expansion, where the effectiveness of expansion of private medicine into the regions has not been fully measured and proven. It can be challenging to forecast with precision the likely return on investment and the probable pay-back periods resulting from a lack of reliable information on the potential number of private patients in a given region. If expansion projects are not implemented effectively, projects can either have an extremely long pay-back period or even fail to deliver a profit entirely.

MITIGATION

We have a number of small clinics in regions across Russia. These operations give us an opportunity to understand the local market dynamics, including average ticket size and overall level of demand, before undertaking a major project such as the construction of a new hospital or a sizeable acquisition. We prioritise those regions where we already have out-patient clinics and/or Russia's largest regions where we can have a higher degree of certainty about the local market. We also benefit from a relative lack of competition in the regions, as currently we are practically the only sizeable provider of high-quality private medical services that is targeting regional expansion.

Recruitment Risk

Our strategy, which is based in large part on building new hospitals and clinics in the regions, involves the risk of not being able to find enough medical employees whose qualifications and experience are consistent with the high standards of service we have set for ourselves.

This risk is compounded by the general standard of medical education in Russia, which often falls short of the standards set by private clinics, whose reputation depends heavily on the quality of services they provide.

We prioritize investment in programmes to raise the level of qualifications of medical personnel throughout Russia. We focus particularly on students at the leading medical universities and, help them to develop their skills from the outset. We place a considerable emphasis on our recruitment process and liaise actively with the heads of departments at the top universities in our search for the best available talent. We also provide significant on-the-job training and continuing medical education, including specialist training programmes which we conduct in Moscow for new regional hires. Ongoing enhancement of our HR function and practices is another of our key strategic priorities.

Financial Risk

The financial risk includes such significant risks as:

- Credit risk – the risk arising from the chance that debtors will not make promised payments either on time or in full;
- Operational risk – contingent losses of the Company due to technical failures, intentional and accidental human errors;
- Liquidity risk – probability of loss arising from a situation where (1) there will not be enough cash and/or cash equivalents to meet the needs of depositors and borrowers, (2) sale of illiquid assets will yield less than their fair value, or (3) illiquid assets will not be sold at the desired time due to lack of buyers.

All managerial decisions within the Group are taken with the participation of the Finance Department, which provides decision makers with reliable and timely information on the financial standing of the Group. Divisions of the Finance Department regularly improve their expertise and maintain a high degree of interaction with each other and with other departments.

> “More than 10 years of successful operations have helped us to deepen our understanding of underlying processes in the sector and better manage potential risks”

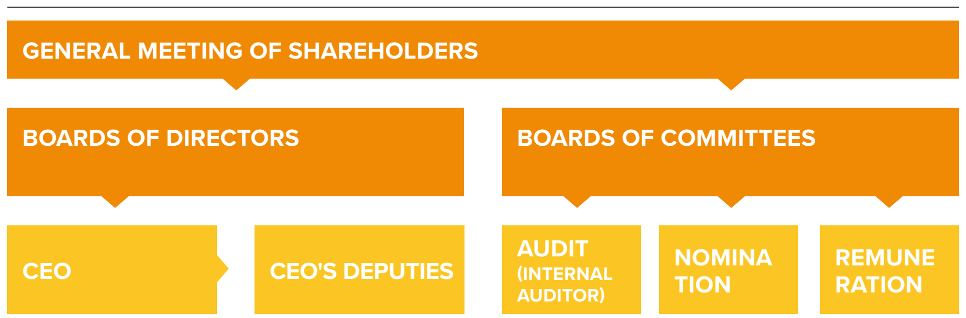
CORPORATE GOVERNANCE REPORT

At MD Medical Group, we appreciate that good corporate governance and effective management are essential to our overall success. The Board of Directors aims to uphold the highest standards in its interaction with all stakeholders.

Dr Mark Kurtser,
Professor, Member of Russian Academy of Sciences, CEO

“Our Board comprises recognized professionals with deep knowledge of MDMG’s business and the market”

Corporate governance and control structure



Since its London IPO, the Company has maintained full compliance with the UK Corporate Governance Code. It has established a remuneration committee, an audit committee and a nomination committee with formally delegated duties and responsibilities and written terms of reference.

All of the committees perform their duties on behalf of the Board of Directors, which is responsible for constituting, assigning, coopting and fixing the terms of service for the committee members.

Audit Committee

As of 31 December 2016, the Audit Committee was made up of Independent Non-Executive Director Liubov Malyarevskaya (chair), Non-Executive Director Kirill Dmitriev and Independent Non - Executive Director Simon Rowlands.

The Audit Committee meets at least four times each year and is responsible for considering, among other matters (i) the integrity of the Group’s consolidated financial statements, including its annual and interim accounts, and the effectiveness of the Group’s internal controls and risk management systems; (ii) auditors’ reports; and (iii) the terms of appointment and remuneration of the auditors.

The Audit Committee supervises, monitors, and advises the Board of Directors on risk management and control systems as well as on the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of the Group’s financial information and a number of other audit-related issues and assesses the efficiency of the work of the Chairman of the Board of Directors.

Nomination Committee

As of 31 December 2016, the Nomination Committee consisted of Non-Executive Director Vladimir Mekler (chair), Executive Director Mark Kurtser, and Independent Non-Executive Director Simon Rowlands.

The Nomination Committee meets at least once a year. Its role is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the Nomination Committee refers to the skills, knowledge and experience required of the Board of Directors, given the Company’s stage of development and makes recommendations to the Board of Directors as to any changes. The Nomination Committee also considers future appointments with respect to the composition of the Board of Directors as wells as making recommendations regarding the membership of the audit and Remuneration Committees.

Remuneration Committee

The Remuneration Committee comprises Simon Rowlands (chair), Mark Kurtser and Vladimir Mekler. The Remuneration Committee meets at least twice per year and is responsible for determining and reviewing, among other matters, the Company’s remuneration policies. The remuneration of independent directors is a matter for the Chairman of the Board of Directors and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

Internal Auditor

The Company’s internal auditor is responsible for the recommendation of an auditing plan to the Audit Committee of the Board of Directors. The internal auditor carries out auditing assignments in accordance with the plan and oversees and reports on the Company’s compliance with the plan’s recommendations. The internal auditor also files a quarterly report with the Audit Committee and the Board of Directors and must be available for any meetings of the Audit Committee or the Board of Directors.

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:

- 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
- Anti-fraud policy

BOARD OF DIRECTORS

Mr Vladimir Mekler
Chairman of the Board of Directors

Mr Vladimir Mekler became Chairman of the Board of Directors in June 2016. Mr Mekler was appointed as Non-Executive Director in February 2015. He is a senior and managing partner of Mekler& Partners. Mr Mekler specializes in corporate law, including supporting and structuring complex and cross-border contracts; creating systems of corporate governance; legal structuring development; optimization of criminal and antitrust legislation; legal support of mergers and acquisitions; settling corporate disputes; and organizing and coordinating legal representation and defence in repeat economic and property crimes. Mr Mekler has been a member of the Moscow City Bar since 1980 and is listed in the Moscow Bar's Book of Honours. He also acted as Vice-chairman of the Presidium of the Moscow City Bar Association from 2003 to 2010. He graduated from the Lomonosov Moscow State University.

Dr Mark Kurtser
Professor, Member of Russian Academy of Sciences, CEO and Member of the Board of Directors

Dr Mark Kurtser is the founder of MD Medical Group. Dr Kurtser began his career as a graduate assistant in the Obstetrics and Gynaecology Department of the Pirogov Medical University. From 1994 to 2012, Dr Kurtser was Head of the Family Planning and Reproduction Centre, part of the Health Department of Moscow, the largest public obstetrics hospital in Moscow. From 2003 to 2013, Dr Kurtser was the Chief Obstetrician and Gynaecologist of the City of Moscow. He holds a degree in medicine from Pirogov Medical University as well as a postdoctoral degree in medicine. Dr Kurtser remains actively involved in the Group's healthcare practice and day-to-day operations.

Mr Simon Rowlands
Independent Member of the Board of Directors

Mr Simon Rowlands was appointed as an independent non-executive director in September 2012. His other current appointments include non-executive directorships at Spire Health care and Avio. Mr Rowlands is a Founding Partner of European private equity firm Cinven Partners, where he established and led the healthcare team and was involved in a number of transactions including those of General Healthcare Group, Spire Healthcare and Classic Hospitals in the UK, USP in Spain and Généralede Santé in France. In July 2012, Mr Rowlands became Senior Adviser at Cinven. Simon founded a new private equity firm Africa Platform Capital in May 2016. Prior to joining Cinven, Mr Rowlands worked with an international consulting firm on multi-disciplinary engineering projects in the UK and southern Africa. He has an MBA in Business, a BSc in engineering and is a chartered engineer.

Mr Kirill Dmitriev
Member of the Board of Directors

Mr Kirill Dmitriev was elected to the Board of Directors in October 2012. He is CEO of the Russian Direct Investment Fund, a Russia's sovereign wealth fund with $10 billion of reserved capital under management. Before being asked by the Russian government to run the fund, Mr Dmitriev was president of Icon Private Equity and co-managing partner and CEO of Delta Private Equity Partners. He previously worked as an investment banker at Goldman Sachs in New York and a consultant at McKinsey & Co. Mr Dmitriev holds a B.A. in Economics with Honors and Distinction from Stanford University and an M.B.A. with High Distinction (Baker Scholar) from Harvard Business School.

Mrs Liubov Malyarevskaya
Independent Member of the Board of Directors

Mrs Liubov Malyarevskaya was appointed as Independent Non-Executive Director in February 2015. She has been Deputy CEO for Economics and Finance at the Russia Media Group since 2016. Before that, from 2014 to 2016 she was a Project Director in Sberbank Russia's Finance Department. Earlier, from 2011 to 2014, Mrs Malyarevskaya was a partner and head of the Corporate Finance Department of BDO. From 2001 through 2010 she worked at PricewaterhouseCoopers and Deloitte, including as senior manager at Deloitte Touche Tomatsu Ltd. Mrs Malyarevskay a holds a Russian Statutory Accountant Certificate as well as a certificate from the Association of Chartered Certified Accountants (ACCA). Mrs Malyarevskay graduated from the Plekhanov Russian Academy of Economics (diploma cum laude).

Dr Alsou Nazyrova
PhD, Member of the Board of Directors

Alsou Nazyrova joined the Board of Directors in June 2016. She has extensive experience in healthcare and the regional development of medical facilities. Dr Nazyrova currently serves as the director for Mother&Child Urals region and CEO of Mother&Child Ufa hospital. In 2009 Dr Nazyrova became the head of the Ufa clinic, which in 2011 entered the Group. Prior to that, she specialised in the promotion of hospital medical products for women's health at Schering Plough and was a professor in the field of social medicine.

Alsou Nazyrova graduated from Bashkir State Medical University with a specialization in Paediatrics, and later completed her post-graduate studies in Social Hygiene and Healthcare Management. She is a member of the Russian and European Society of Human Reproduction and Embryology.

Mr Vitaly Ustimenko
PhD, Member of the Board of Directors

Mr Vitaly Ustimenko was the Group's Chief Financial Officer from 2012- 2016. He was elected to the Board of Directors in February 2015. Mr Ustimenko has more than ten years of experience in finance. Previously he was the Head of Strategic and Business Planning at Russian Helicopters, and before that held the position of Senior Manager at Deloitte Tohmatsu Limited. Mr Ustimenko holds a bachelor's degree from the Finance University under the Government of the Russian Federation and a PhD in finance from the State University of Management.

BOARD OF DIRECTORS ACTIVITY IN 2016

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS IN 2016

The structure of the Board of Directors saw the following changes in June 2016:

Dr Alsou Nazyrova
CEO of the Mother&Child Ufa hospital, joined the Board.

Mrs Elena Mladova
resigned from the Board and her position as CEO.

Mr Vladimir Mekler
Non-Executive Director of the Group since February 2015, became the Chairman of the Board of Directors and the Chairman of the Nomination Committee.

Participation of the Directors in the Board meetings during 2016

Board member	Number of Board meetings	
Vladimir Mekler	8/8	– meetings held for the period as a Board member
Mark Kurtser	8/8	
Simon Rowlands	8/8	
Kirill Dmitriev	5/8	
Elena Mladova*	5/5	
Vitaly Ustimenko	8/8	
Liubov Malyarevskaya	8/8	
Alsou Nazyrova**	3/3	
Nikolay Ishmetov***	8/8	

* Resigned on 15 June 2016
** Joined on 15 June 2016
*** Alternate director for Kirill Dmitriev

"In 2016, the Board of Directors remained focused on ensuring that MDMG continued to deliver on its strategic goals"

Remuneration paid to Members of the Board in 2016

Board member	Total amount paid 2015	Total amount paid 2016
Simon Rowlands	GBP 90,000	RUB 4.5 mln
Liubov Malyarevskaya	RUB 862,069	RUB 782 ths
Vitaly Ustimenko		RUB 1.2 mln

8 meetings held

47 agenda items were discussed

SENIOR MANAGEMENT

Dr Mark Kurtser

Professor, Member of Russian Academy of Sciences, CEO

Dr Mark Kurtseris the founder of MD Medical Group. Dr Kurtser began his career as a graduate assistant in the Obstetrics and Gynaecology Department of the Pirogov Medical University. From 1994 to 2012, Dr Kurtser was Head of the Family Planning and Reproduction Centre, part of the Health Department of Moscow, the largest public obstetrics hospital in Moscow. From 2003 to 2013, Dr Kurtser was the Chief Obstetrician and Gynaecologist of the City of Moscow. He holds a degree in medicine from Pirogov Medical University as well as a postdoctoral degree in medicine. Dr Kurtser remains actively involved in the Group's healthcare practice and day-to-day operations.

Dr Natalia Yakunina

PhD, Deputy CEO for Patient Care Experience

Mrs Natalia Yakunina joined the Group in 2011. In 2016, she was appointed Deputy CEO for Patient Care Experience; in 2014- 2016 she worked as Chief Doctor and CEO of Mother&Child Savelovskaya clinic in Moscow; in 2012-2014 she was Head of OBGYN out-patient department at PMC; before that, starting from 2011 Natalia worked as Chief Doctor at Mother&Child Yugo-Zapad clinic in Moscow. Before joining the Group Mrs Yakunina was Chief Obstetrician and Gynaecologist of the Central District of Moscow.

Mrs Yakunina has more than 20 years of experience in obstetrics-gynaecology. She holds a degree in medicine from Turkmenistan State Medicine University.

Dr Yulia Kutakova

PhD, Medical Director

Dr Yulia Kutakova joined the Group in 2012. She has over eleven years of practical experience in obstetrics and gynaecology. Prior to joining the Group, Dr Kutakova was Chief of Maternity in the Organisational and Tutorial Department of Public Healthcare of the City of Moscow. She holds a degree in medicine from Pirogov Medical University, a degree in management from the Moscow Institute of Management and a PhD in medical science.

Mr Andrey Khoperskiy

Deputy CEO for Economics and Finance

Mr Andrey Khoperskiy joined the Group as Head of Finance controlling and Treasury in 2013, he was appointed to a position Director for Finance of the Group in 2016. Previously, Andrey worked for Rusagro Group and Sukhoi.

Aviation Holding Company as a Finance manager and earlier he was an Auditor in BDO Russia. Mr Khoperskiy graduated from Moscow State University of Economics, Statistics and Informatics with a degree in Taxes. Holds ACCA Advanced Diploma in Accounting and Business and ACCA Diploma in International Financial Reporting.

Mr Vadim Sigutin

Deputy CEO for Operations, Director of Mother&Child Centre

Mr Vadim Sigutin joined the Group as Deputy CEO for operations in April 2014. In 2016 he was appointed Director of Mother&Child Centre. Mr Sigutin has ten years of experience in the medicine field as both a doctor and a manager. Prior to joining the Group, Mr Sigutin was Operational Director for the South West and West districts of Moscow at Family Doctor Group. He holds a degree in medicine from the Smolensk State Medical University.

Mr Alexander Rayt

Director of Mother&Child Siberia

Mr Rayt joined the Group in 2012. In 2016 he was appointed Director of Mother&Child Siberia. Prior to that he was Head of Finance department in 2014-2016, and Head of IFRS Reporting department in 2012-2014.

Before joining the Company Mr Rayt held the position of Deputy Head of IFRS reporting department at JSC Russian Helicopters, he also worked in Audit department at JSC BDO Russia.

Mr Rayt graduated from the Finance and Credit faculty of the Academy of Economic Studies of Moldova.

Dr Alsou Nazyrova

PhD, Director of Mother&Child Urals

Dr Alsou Nazyrova joined the Group in 2009. In 2016 she was appointed Director of Mother&Child Urals and Head of Regional Projects Department. Dr Nazyrovahas held the CEO position at Mother&Child hospital in Ufa since 2014 and the CEO position at Mother&Child clinic in Ufa since 2009.

Alsou Nazyrova has more than 15 years of experience in medicine and pharmaceutical business and is the Head of reproductive health faculty at Bashkir State Medical University.
Dr Nazyrova graduated from Bashkir State Medical University and had specialty training in Paediatrics, she also holds a PhD degree.

Mr Vladislav Sherstoboev*

Director of Mother&Child Volga

Mr Vladislav Sherstoboev joined the Group in 2012 as CEO of five Mother&Child clinics in the Samara Region. In 2016 he was appointed Director of Mother&Child Volga.

Before joining the Group Mr Sherstoboev was Director for Development in JSC Vesnaand CEO of NTS Gradient Samara.

Mr Sherstoboev graduated from the Finance faculty at the Siberian State University of Telecommunications and Informatics, from Moscow Skolkovo School of Management, and holds an MBA diploma from the International University of Management.

*Until 2017

Dr Marat Tugushev**

PhD, Director of Mother&Child Volga

Dr Marat Tugushev has been Chief Doctor at five Mother&Child clinics in the Samara region since 1992. In 2017, he was also appointed as Director of Mother&Child Volga.
Dr Tugushev graduated from Samara State Medical University with a degree in General Medicine. With more than 27 years of experience in healthcare, he is currently a practicing obstetrician and gynaecologist as well as a surgeon of the highest qualification category.
Dr Marat Tugushev is actively engaged in medical research. He is also Head of Reproductive Medicine, Clinical Embryology and Genetics department at Samara State Medical University. Dr Tugushev holds a PhD in medical science.

**Since 2017

SENIOR MANAGEMENT

Dr Vladimir Zaborsky
PhD, Director for MHI programmes

Dr Vladimir Zaborsky joined the Group in 2014. He has more than 30 years of work experience at medical facilities. Prior to joining the Group, Dr Zaborsky held senior positions at a number of state medical facilities: Maternity hospitals Nº 4, Nº 6, and Nº 15, as well as Municipal Clinical Hospital Nº 72. From 2007-2014, he was Chief Obstetrician and Gynecologist of the Western Administrative District of Moscow. Dr Zaborsky is a Board Certified doctor and a Municipal Councilor of Kuntsevo District of Moscow. He graduated from Moscow State University with a degree in fundamental medicine and holds a PhD in medical science.

Mrs Ekaterina Larina
Head of Legal

Mrs Ekaterina Larina joined the Group in April 2007. With more than 15 years' experience in the legal field, Mrs Larina is responsible for running the Group's legal operations. Prior to joining the Group, Mrs Larina was employed as a leading lawyer at SCM Group, an investment and construction firm, and as a lawyer at the Moscow Regional Bar Association. Mrs Larina holds a degree in civil law from the Moscow State Law Academy.

Mr Mikhail Melnikov
Head of Corporate Governance

Mr Mikhail Melnikov joined the Group as Head of Corporate and Legal Affairs in January 2015. In total, he has 13 years of legal experience. Previously, Mikhail held positions of Manager of BDO Russia's legal consultation group, a senior lawyer at the Investment and Finance Corporation, and as a lawyer in the Corporate Department of Freshfields Bruckhaus Deringer. Mr Melnikov graduated from the Moscow State Law University with a degree in Civil Law.

Mrs Elena Romanova
Head of Investor Relations

Mrs Elena Romanova joined the Group as Head of Investor Relations in February 2014. Prior to this, she was IR Senior Manager at Norilsk Nickel. She also worked as an auditor at Ernst & Young and CTC Media. Mrs Romanova holds a degree in Financial Management from the Financial University under the Government of the Russian Federation.

Mrs Larisa Tkachenko
Patient Experience Director

Mrs Larisa Tkachenko joined the Group in July 2014. Previously, she worked at KPMG in Advisory Services for 7 years, working her way up from Senior Consultant to Project Manager, specialising in Service Quality and Service Process Optimisation. Previously she also served as Head of the Strategy Division at Maxus (part of the Svyaznoy Group), and as Deputy Branch Manager/Branch Service Manager at Citibank. Mrs Tkachenko graduated from the Moscow State University of Economics, Statistics and Informatics.

Mr Dmitriy Romanov
Head of Information Technology

Mr Dmitriy Romanov joined the Group in 2014 as Deputy Head of Information Technology. In 2016 he was appointed as Head of Information Technology. Prior to joining the Group, Mr Romanov worked as Deputy Head of Integration at Post Modern Technology. Mr Romanov has more than 7 years of experience in medical information technology. He holds a degree in computer software and automated systems from the Moscow State Industrial University where he studied applied mathematics and theoretical physics.

Mrs Olga Petrova
Head of Marketing

Mrs Olga Petrova joined the Group in 2015. In 2016 she was appointed as Head of Marketing and Advertising of the Group. Mrs Petrova has held the Commercial Director position at Lapino hospital since 2015. Prior to joining MD Medical Group, she served as Head of Strategical Marketing at Intermed Service Group. Mrs Petrova has more than 18 years of experience in marketing. She holds a degree in international economic relations with a specialisation in marketing from Moscow State Institute of International Relations.

Mrs Olga Dolgova
Head of HR

Olga Dolgova joined the Group in 2015.

Prior to that, she was Deputy HR Director at HENKEL Bautechnik and Kayros-M. Mrs Dolgova graduated from Dubna International University with a degree in psychology and holds an HR Director diploma from Moscow Business School.

Mr Alexey Ohrimenko
Head of Procurement Department

Mr Alexey Ohrimenko joined the Group in 2013. In 2016 he was appointed as Head of Procurement Department. Mr Ohrimenkohas more than 10 years of experience in procurement. Prior to joining the Group, he worked in Procurement Department of Eldorado. Mr Ohrimenko graduated from Military Academy of Strategic Rocket Forces in 2000.

Mr Rafail Sitdikov
Head of Internal Control

Mr Rafail Sitdikov joined the Group in 2011. Previously, he held a variety of management positions in the departments for combating economic crime in the Central Internal Affairs Directorate of Moscow and the Russian Interior Ministry. At the end of his career there he held the rank of Police Colonel. Mr Sitdikov graduated from the Moscow Aviation Institute as a mechanical engineer in 1987. He also holds a degree in Law from the Moscow State University of Economics, Statistics and Informatics from 2006.

MD Medical Group
Investments Plc

Audited financial statements

For the year ended 31 December 2016

MD Medical Group
Investments Plc

Consolidated financial statements

For the year ended 31 December 2016

Officers, professional advisors and registered office

BOARD OF DIRECTORS	▪ Vladimir Mekler – Chairman (since 14 June 2016) ▪ Mark Kurtser (Chairman until 14 June 2016) ▪ Vitaly Ustimenko ▪ Kirill Dmitriev ▪ Nikolay Ishmetov (appointed as an alternate director to Kirill Dmitriev) ▪ Simon Rowlands ▪ Alsu Nazyrova (appointed in June 2016) ▪ Elena Mladova (until June 2016) ▪ Liubov Malyarevskaya
SECRETARY	Menustrust Limited
SECRETARY ASSISTANT	Mikhail Melnikov
INDEPENDENT AUDITORS	KPMG Limited
REGISTERED OFFICE	15 Dimitriou Karatasou street, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus

Management 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 2016.

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. Note 4 to the consolidated financial statements gives more detailed information about the service provided by the Group`s medical centres.

Financial results

The Group's results of operations are affected by a number of factors, including acquisitions, regulatory conditions, demand for private healthcare services, patient capacity and utilisation rate, pricing and volume, staff costs, capital expenditure programmes and currency exchange fluctuations.

The Group's financial results for the year ended 31 December 2016 and its financial position at that date are set out in the consolidated statement of comprehensive income and in the consolidated statement of financial position.

The profit for the year ended 31 December 2016 amounted to RUB 2,277,427 thousand (2015: RUB 1,770,469 thousand). The total assets of the Group as at 31 December 2016 were RUB 18,715,770 thousand (31 December 2015: RUB 17,207,810 thousand) and the net assets were RUB 12,770,137 thousand (31 December 2015: RUB 11,509,414 thousand).

The main reason for the increased profit was the continuing ramp-up of Lapino and Ufa hospitals, expansion of services provided by existing facilities, as PMC hospital, as well as full year operation of newly acquired entities. The main reason for an increase in assets was the construction of a new hospital in Novosibirsk and construction of a multifunctional hospital in Samara.

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.

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to RUB 500,332 thousand (USD 7,298 thousand), which corresponds to RUB 6.66 (USD 0.1) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB 285,475 thousand (USD 4,375 thousand), which corresponds to RUB 3.8 (USD 0.06) per share. The dividend distribution was approved by the Board of Directors Meeting on 2 September 2016. The dividend was paid on 18 October 2016.

The Board of Directors recommends the payment of RUB 338,063 thousand as final dividend for the year 2016 which correspond to RUB 4.5 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 consolidated financial statements is considered satisfactory.

The Group has developed its growth strategy to meet the increasing demand for high-quality private healthcare services in Russia. The Group has grown significantly through strategic acquisitions and expansion through the construction of new facilities.

During 2016 the Company has acquired 100% share in five entities located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul and additional 10% share in LLC Velum. The details for these acquisitions are given in notes 14 and 18 of the consolidated financial statements.

The Group has one of the largest nationwide private healthcare regional networks for its core services and is expanding into new services. It has significant experience in the provision of full-service private maternity healthcare services. The Group has secured leading positions in the Russian private healthcare market across a range of services including obstetrics and gynaecology, fertility and IVF treatment, and paediatrics.

The Group's principal objective is to use its strong existing platform and experience in the regions to create a scalable concept of establishing new regional hospitals and other medical facilities, utilizing rigorous investment decision-making targeting the most attractive regions and ensuring seamless execution.

The Group believes the experience, depth and diversity of its management team to be a distinct competitive advantage in the complex and rapidly growing healthcare industry in which it operates.

Principal risks and uncertainties

The Group operates in a highly regulated industry and is subject to supervision by federal and local authorities. As a result, the Group would be significantly affected by material changes to the existing, or implementation of additional, government regulations in Russia.

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

Details in relation to principal risks and uncertainties and steps taken to manage these risks and uncertainties are given in notes 23 and 25 of the consolidated financial statements.

The reputation, expertise and professionalism of the Group's medical personnel are instrumental to the Group's ability to attract new and repeat patients. The Group's operating success depends on its medical personnel providing high-quality healthcare services throughout the Group's medical network

Directors' interest

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2016 and 31 December 2015 are as at the date of signing these financial statements are as follows:

Name	Type of interest	Effective interest %
Mark Kurtser	Indirect ownership of shares	67.90
Kirill Dmitriev	Indirect interest in shares	5.55
Simon Rowlands	Direct ownership of shares	0.33

Indirect interest in shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

The calculation of effective interest is based on the total amount of issued and fully paid shares, including treasury shares acquired by the Company.

Future developments

The Group's goal is to maintain its leading position in high-quality women's health and pediatrics, 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.

Share capital

There were no changes in the share capital of the Company during the year.

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 appointment or approval of appointment by shareholders at the first Annual General Meeting after their appointment, and to re-appointment 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.

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.

Refer to note 22 of the consolidated financial statements for the remuneration of the directors and other key management personnel.

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 three non-executive directors, two of whom are independent. The Audit Committee is chaired by independent non-executive director Liubov Malyarevskaya since 19 February 2015, Mr Kirill Dmitriev and Mr Simon Rowlands are the other members.

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.

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.

Internal audit

The Audit Committee is responsible to monitor and review the effectiveness of the Company's internal audit service. In this respect, the Audit Committee may require investigations by, or under the authority of, the head of Internal Audit Service into any activities of the Group which may be of interest or concern to the Audit Committee.

The Company`s internal auditor is responsible for the recommendation of an audit plan to the Audit Committee. The internal auditor carries out auditing assignments in accordance with such plan and oversees the Company`s compliance with the plan`s recommendations. The internal auditor files a quarterly report with his findings to the Audit Commitee.

Nomination Committee

The Nomination Committee comprises of one executive and two non-executive directors, one of whom is independent. The Nomination Committee is chaired by non-executive director Mr Vladimir Mekler (since June 2016), and Mr Simon Rowlands and executive director Dr Mark Kurtser are other members since September 2015.

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. 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 two non-executive directors and one executive director. The Remuneration Committee is chaired by an independent non-executive director Mr Simon Rowlands. The two other members are Dr Mark Kurtser and Mr Vladimir Mekler.

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

Since 2012, the Company has maintained full compliance with the UK Corporate Governance Code. 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 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:

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

Internal control in relation to the financial reporting process

The Group has set formal policies and written term of reference in relation to the financial reporting process that include:

- Corporate Accounting policy Guidelines;
- Methodology for the Transformation of Financial Statements from RAS to IFRS;
- Methodology for the Consolidation of IFRS Financial Statements;
- Financial Reporting Preparation Procedure; and
- The Group's structure.

The objective of the policies is to establish uniform procedures and to implement requirements for the preparation of the consolidated financial statements of the Group. The procedure should be reviewed for compliance with International Financial Reporting Standards as well as current conditions and planned changes in the Group's business activities at least once a year. When necessary, amendments and additions to this Procedure should be adopted.

Meetings of shareholders

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. An annual general meeting and any other shareholders' meeting called to pass a special resolution can be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued at least 21 days before the meeting. Any other meetings shall be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued at least 14 days before the meeting. If the notice period is less than 21 days or 14 days as applicable, the meeting will be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent in nominal value of the shares giving that right.

A notice convening a general meeting must be sent to each of the shareholders.

All shareholders are entitled to attend the general meeting or be represented by a proxy authorized in writing. In the general meeting, on a poll, every share gives the holder the right to cast one vote, whereas, on a show of hands, each member has one vote. A corporate member may, by resolution of its directors or other governing body, authorize a person as the corporate member could exercise if it were an individual member of the Company.

Branches

MD Medical Group Investments Plc has a branch in Moscow.

Treasury shares

During the year ended 31 December 2016 the Company did not acquire any treasury shares.

The remaining GDRs that are held in treasury are expected to be used in satisfying awards made under the Long-Term Management Incentive Plan back in 2014. As at 31 December 2016, the Company holds 230,000 GDRs. Each GDR represents an interest in one ordinary share with a nominal value of US$0.08.

Events after the reporting period

In January 2017 the Group has pledged a hospital building in Ufa with net book value RUB 3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

In February 2017 the Group opened a new hospital in Novosibirsk. The total cost of the project is approximately RUB 1.3 billion. The opening of a new building delivered a significant capacity increase, with the total floor space more than tripling to 10,260 sq m. The hospital will be able to offer a range of new services, including those not currently available in the city or the region.

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
Managing Director,
Member of the Board of Directors
Moscow, 17 March 2017

Directors' 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 the EU and the requirements of the Cyprus Companies Law, Cap.113, 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 the 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 Management report includes 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 responsible for reporting as at the date of this announcement are set out below:

Vladimir Mekler	Chairman, non-executive director
Mark Kurtser	Executive director
Vitaly Ustimenko	Non-executive director
Alsu Nazyrova	Executive director
Kirill Dmitriev	Non-executive director
Simon Rowlands	Non-executive independent director
Liubov Malyarevskaya	Non-executive independent director

Independent auditors' report

To the members of MD medical group investments Plc

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of MD Medical Group Investments Plc (the "Company") and its subsidiaries (together with the Company, referred to as "the Group") which are presented on pages 15 to 50 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill

Please refer to Note 13 of the consolidated financial statements (RUB2,046,672 thousand).

The key audit matter	How the matter was addressed in our audit
As a result of the Group's expansion, a significant amount of goodwill arising from business combinations has been recognised. There is a risk of impairment of the Group's goodwill balances, which are material to the consolidated financial statements as at 31 December 2016, due to the inherent uncertainty involved in preparing forecasts and discounting future cash flow projections for this purpose. Significant judgment is involved in determining the key assumptions used in the Group's goodwill impairment test models. The assumptions and estimates used in the forecasts and the calculation of discount rates are therefore key judgmental areas that our audit is concentrated on.	Our audit procedures included testing the assumptions and methodologies used by the Group based on which the forecast were prepared. Particular attention was given to the assumptions relating to terminal growth, after-tax profitability and discount rates. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies. We compared the Group's assumptions on revenue growth and after-tax profitability margins with equivalent medical centers of the Group in nearby regions, externally derived data as well as our own assessment in relation to key inputs into the models. We assessed the sensitivity analysis prepared by the Group and prepared our own sensitivity analysis around the key assumptions. We also assessed whether the disclosures regarding terminal growth and discount rates in Note 13 presented the Group's assumptions in relation to goodwill impairment and reflected the risks inherent in the valuation of goodwill.

Acquisition accounting

Please refer to Note 14 of the consolidated financial statements (RUB485,000 thousand).

The key audit matter	How the matter was addressed in our audit
During the year the Group acquired 100% of the share capital in 5 entities located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul for a total consideration of RUB 485,000 thousand, while fair value of the net assets acquired was RUB124,846 thousand. The allocation of the consideration to the fair value of the identifiable assets and liabilities acquired requires significant judgment, predominantly relating to fair value assumptions to determine the value of property, plant and equipment. There is also an inherent risk relating to the completeness of recognised intangible assets acquired, which may not be identified and incorrectly allocated to goodwill, as such intangible assets may not be recorded or recorded at different values in the accounting records prior to the acquisition.	Our audit procedures included challenging the methodology and key assumptions used by the Group to determine fair values of property, plant and equipment as well as challenging the completeness of the intangible assets. We used our own valuation specialists to assist us in this assessment. For property, plant and equipment acquired we evaluated the methodology and fair value inputs applied by the Group, as well as economic obsolescence testing performed, by reconciling market values of property, plant and equipment and price indexes to observable information on the market. We assessed the completeness of intangible assets acquired by testing the existence of registered trademarks, assessing the visibility of the brand in the medical center acquired and related local community as well as inquiring the Group about its intentions for future use of the acquired trademark. We also considered whether there were other identifiable intangible assets such as patents, customer relationships, etc., which should have been included in the purchase price allocation, by inspecting and analysing contracts and accounting records, making inquiries to the Group, assessing legal obligations and rights relating to the patient information with the assistance of our legal specialists, etc. We also assessed the adequacy of the disclosures of the acquisition in the consolidated financial statements by comparing them with the required disclosures per IFRS3 "Business combinations".

Revenue recognition

Please refer to Note 4 of the consolidated financial statements (RUB12,179,082 thousand).

The key audit matter	How the matter was addressed in our audit
The Group has a number of revenue streams with different revenue recognition policies. The majority of the revenue is generated from individual patients who receive medical care either based on concluded contracts or based on daily tickets for one-off visits. Contracts may last for longer periods. Generally, patients prepay for the whole amount of the contracts and visit doctors within the period of the contract. The number of visits in all medical centers of the Group is significant. Therefore, the Group relies on automation within the medical IT system for complete and accurate revenue recognition through interface with the accounting system. Given the number of different revenue streams, the volume of transactions and related reliance on IT, we consider that a risk exists in relation to revenue being recorded in the correct period at the correct amount, including related deferred income in the consolidated statement of financial position. As such, revenue recognition is an area of focus in the audit.	Our procedures included testing of general IT controls and IT application controls relevant to the revenue recognition, including segregation of duties for inputs and modification of data in the medical IT system, allocation of cash receipts and visits of patients for each individual contract, accuracy of data transfers from cash registers to the medical IT system through to the accounting system. We assessed the design and implementation and we tested the operating effectiveness of controls over daily cash movements and the completeness of the daily encashment to the bank accounts of the Group. We evaluated controls over approval of prices and discounts for individual agreements with patients, as all prices and discounts, which are included in the medical IT system, require authorisation. We obtained external confirmations from banks and compared annual cash receipts and cash balances on bank accounts to the data recorded in the accounting systems. We performed a sales cut-off test, as well as other substantive tests covering the whole year in relation to revenue contracts, to ensure accuracy of provided revenue reports, as well as analytical review of gross profit margins, revenue structure and advances received in proportion to revenue.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2016, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. Please also refer to the "Report on other legal requirements" section where we are reporting on other legal requirements with respect to the Management Report and the corporate governance statement included as a specific section of the Management Report.

Responsibilities of the Board of Directors for the consolidated 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 IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal controls as the Board of Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to either liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009, L42(I)/2009 as amended from time to time ("Law 42(I)/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, so far as it appears from our examination of these books.
- The 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 Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 2 to 7, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come.

The engagement partner on the audit resulting in this independent auditor's report is Zakis E. Hadjizacharias.

Zakis E. Hadjizacharias, CA
Certified Public Accountant and Registered Auditor
for and on behalf of KPMG Limited
Certified Public Accountants and Registered Auditors
No. 11, June 16th 1943 Street,
3022 Limassol,
Cyprus.
17 March 2017

Consolidated Statements

Comprehensive income

For the year ended 31 December 2016 (RUB'000)

	Note	2016	2015
REVENUE	**4**	**12,179,082**	**9,506,801**
Cost of sales	5	(7,399,833)	(5,918,210)
GROSS PROFIT		**4,779,249**	**3,588,591**
Other income		30,043	17,732
Administrative expenses	6	(2,067,344)	(1,792,787)
Other expenses		(18,230)	(38,492)
OPERATING PROFIT		**2,723,718**	**1,775,044**
Finance income	8	49,322	230,312
Finance expenses	8	(443,079)	(459,483)
Net foreign exchange transactions (loss) / gain	8	(90,847)	259,068
NET FINANCE (EXPENSES) / INCOME		**(484,604)**	**29,897**
PROFIT BEFORE TAX		**2,239,114**	**1,804,941**
Income tax benefit/(expense)	9	38,313	(34,472)
PROFIT FOR THE YEAR		**2,277,427**	**1,770,469**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,277,427**	**1,770,469**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		2,065,848	1,603,530
Non-controlling interests		211,579	166,939
		2,277,427	**1,770,469**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		2,065,848	1,603,530
Non-controlling interests		211,579	166,939
		2,277,427	**1,770,469**
BASIC AND FULLY DILUTED EARNINGS PER SHARE (RUB)	**10**	**27.58**	**21.41**

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Financial position

As at 31 December 2016 (RUB'000)

	Note	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment	12	13,410,453	12,364,449
Intangible assets	13	2,441,586	2,144,818
Trade, other receivables and deferred expenses	15	184,984	184,344
Investments		–	2,403
Deferred tax assets	9	175,751	99,282
TOTAL NON-CURRENT ASSETS		**16,212,774**	**14,795,296**
Inventories		445,183	327,365
Trade, other receivables and deferred expenses	15	359,855	257,889
Non-current assets held for sale		45,778	45,778
Current income tax asset		9,236	7,170
Cash and cash equivalents	16	1,642,944	1,774,312
TOTAL CURRENT ASSETS		**2,502,996**	**2,412,514**
TOTAL ASSETS		**18,715,770**	**17,207,810**
EQUITY			
Share capital	17	180,585	180,585
Reserves	18	12,166,702	10,906,097
TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**12,347,287**	**11,086,682**
NON-CONTROLLING INTERESTS	**26**	**422,850**	**422,732**
TOTAL EQUITY		**12,770,137**	**11,509,414**
LIABILITIES			
Loans and borrowings	19	2,199,768	2,292,567
Obligations under finance leases		6,120	7,359
Trade and other payables	20	232,498	243,045
Deferred tax liabilities	9	118,020	107,337
Deferred income	21	129,936	106,295
TOTAL NON-CURRENT LIABILITIES		**2,686,342**	**2,756,603**
Loans and borrowings	19	1,083,647	1,161,339
Obligations under finance leases		1,226	1,196
Trade and other payables	20	1,151,765	873,443
Deferred income	21	1,001,849	885,622
Current income tax liability		20,804	20,193
TOTAL CURRENT LIABILITIES		**3,259,291**	**2,941,793**
TOTAL LIABILITIES		**5,945,633**	**5,698,396**
TOTAL EQUITY AND LIABILITIES		**18,715,770**	**17,207,810**

On 17 March 2017 the Board of Directors of MD Medical Group Investments Plc approved and authorised these consolidated financial statements for issue.

Vladimir Mekler
Director

Mark Kurtser
Managing Director

Andrey Khopersky
Finance Director

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Changes in equity

For the year ended 31 December 2016 (RUB'000)

		Attributable to owners of the Company							
	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
BALANCE AT 1 JANUARY 2016		**180,585**	**5,243,319**	**(43,751)**	**(655,352)**	**6,361,881**	**11,086,682**	**422,732**	**11,509,414**
TOTAL COMPREHENSIVE INCOME									
Profit and total comprehensive income for the year		–	–	–	–	2,065,848	2,065,848	211,579	2,277,427
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS									
Equity-settled share-based payment	18	–	–	25,014	–	–	25,014	–	25,014
Dividends	11	–	–	–	–	(785,807)	(785,807)	(199,911)	(985,718)
TOTAL TRANSACTIONS WITH OWNERS		**–**	**–**	**25,014**	**–**	**(785,807)**	**(760,793)**	**(199,911)**	**(960,704)**
CHANGES IN OWNERSHIP INTERESTS									
Acquisition of non-controlling interests without a change in control	18	–	–	–	–	(44,450)	(44,450)	(11,550)	(56,000)
TOTAL CHANGES IN OWNERSHIP INTERESTS		–	–	–	–	**(44,450)**	**(44,450)**	**(11,550)**	**(56,000)**
BALANCE AT 31 DECEMBER 2016		**180,585**	**5,243,319**	**(18,737)**	**(655,352)**	**7,597,472**	**12,347,287**	**422,850**	**12,770,137**

For the year ended 31 December 2015 (RUB'000)

		Attributable to owners of the Company							
	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
BALANCE AT 1 JANUARY 2015		**180,585**	**5,243,319**	**(73,086)**	**(655,352)**	**5,058,812**	**9,754,278**	**382,316**	**10,136,594**
TOTAL COMPREHENSIVE INCOME									
Profit and total comprehensive income for the year		–	–	–	–	1,603,530	1,603,530	166,939	1,770,469
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS									
Equity-settled share-based payment	18	–	–	29,335	–	–	29,335	–	29,335
Dividends	11	–	–	–	–	(300,329)	(300,329)	(134,628)	(434,957)
TOTAL TRANSACTIONS WITH OWNERS		**–**	**–**	**29,335**	**–**	**(300,329)**	**(270,994)**	**(134,628)**	**(405,622)**
CHANGES IN OWNERSHIP INTERESTS									
Non-controlling interests in newly consolidated entities		–	–	–	–	–	–	7,973	7,973
Decrease in ownership in subsidiary		–	–	–	–	(132)	(132)	132	–
TOTAL CHANGES IN OWNERSHIP INTERESTS		**–**	**–**	**–**	**–**	**(132)**	**(132)**	**8,105**	**7,973**
BALANCE AT 31 DECEMBER 2015		**180,585**	**5,243,319**	**(43,751)**	**(655,352)**	**6,361,881**	**11,086,682**	**422,732**	**11,509,414**

Share premium is not available for distribution.

↗ The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Cash flows

For the year ended 31 December 2016 (RUB'000)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR		**2,277,427**	**1,770,469**
Adjustments for:			
Depreciation of property, plant and equipment	12	850,262	787,187
Equity-settled share-based payment transaction	18	25,014	29,335
Loss / (gain) from the sale of property, plant and equipment		877	(782)
Amortisation of intangible assets	13	96,126	93,493
Finance income	8	(49,322)	(230,312)
Finance expense (excluding impairment)	8	425,758	457,823
Impairment of property, plant and equipment	12	–	19,113
Impairment of trade and other receivables	8	17,321	1,660
Net foreign exchange transactions loss / (gain)	8	90,847	(259,068)
Taxation	9	(38,313)	34,472
		3,695,997	**2,703,390**
Increase in inventories		(73,332)	(57,088)
Increase in trade and other receivables		(86,333)	(12,870)
Increase in trade and other payables		216,183	79,211
Increase in deferred income		127,919	115,266
CASH FLOWS FROM OPERATIONS		**3,880,434**	**2,827,909**
Tax paid		(19,604)	(9,691)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**3,860,830**	**2,818,218**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for acquisition/construction of property, plant and equipment		(1,716,097)	(779,840)
Proceeds from disposal of property, plant and equipment		21,426	782
Payment for acquisition of intangible assets		(31,359)	(7,862)
Acquisition of subsidiaries, net cash outflow on acquisition		(474,873)	(280,881)
Interest received		46,311	47,358
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(2,154,592)**	**(1,020,443)**

	Note	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		987,125	215,015
Repayment of loans and borrowings		(1,171,623)	(949,368)
Repayment of obligations under finance leases		(1,477)	(600)
Payments on settlement of derivative financial instruments, net		(10,052)	–
Finance expenses paid		(449,145)	(458,377)
Increase in ownership in subsidiary	18	(56,000)	–
(Repayment of) / proceeds from reimbursed VAT		(50,445)	466,374
Dividends paid to the owners of the Company	11	(785,807)	(300,329)
Dividends paid to non-controlling interests		(199,472)	(134,628)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(1,736,896)**	**(1,161,913)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(30,658)**	**635,862**
Cash and cash equivalents at the beginning of the year		1,774,312	890,551
Effect of exchange rate changes on cash and cash equivalents		(100,710)	247,899
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**16**	**1,642,944**	**1,774,312**

↗ The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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. In August 2012, following the special resolution passed by the shareholder, the Company was converted into a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its Registered Office is at Dimitriou Karatasou 15, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus.

The consolidated financial statements for the year ended 31 December 2016 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 reporting period.

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. Please refer to note 4 for more detailed information about the services provided by the Group's medical centres.

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

Name	Country of incorporation	Activities	31 December 2016 Effective Holding %	31 December 2015 Effective Holding %
CJSC MD PROJECT 2000	Russian Federation	Medical services	95	95
LLC Khaven	Russian Federation	Medical services	100	100
LLC Velum	Russian Federation	Medical services	64	54
LLC Capital Group	Russian Federation	Pharmaceutics retail	80	80
LLC FimedLab	Russian Federation	Medical services	60	60
LLC Clinic Mother and Child	Russian Federation	Holding of trademarks	100	100
LLC Clinica Zdorovia	Russian Federation	Medical services	60	60
LLC Ivamed	Russian Federation	Medical services	100	100
LLC Dilamed	Russian Federation	Medical services	100	100
CJSC Listom	Russian Federation	Service company	100	100
LLC Ustic-ECO	Russian Federation	Medical services	70	70
LLC Mother and Child Perm	Russian Federation	Medical services	80	80
LLC Mother and Child Ufa	Russian Federation	Medical services	80	80
LLC Mother and Child Saint-Petersburg	Russian Federation	Medical services	60	60
LLC MD PROJECT 2010	Russian Federation	Medical services	100	100
LLC Mother and Child Ugo-Zapad	Russian Federation	Medical services	60	60
LLC MD Service	Russian Federation	Pharmaceutics retail	95	95
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	100	100
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services	100	100
LLC TechMedCom	Russian Federation	Service company	–	–
LLC Service Hospital Company	Russian Federation	Service company	–	–
LLC Mother and Child Tyumen	Russian Federation	Medical services	100	–
Vitanostra Ltd	Cyprus	Holding of investments	100	100
LLC NPC MIR	Russian Federation	Holding of investments	–	100
CJSC MK IDK	Russian Federation	Medical services	100	100
LLC Apteka IDK	Russian Federation	Pharmaceutics retail	100	100
LLC CSR	Russian Federation	Medical services	100	100
LLC Elleprof	Russian Federation	Service company	–	–
LLC Medtechnoservice	Russian Federation	Service company	–	–
LLC MD Assistance	Russian Federation	Assistance services	100	100
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	80	80
LLC Mother and Child Kostroma	Russian Federation	Medical services	100	–
LLC Mother and Child Vladimir	Russian Federation	Medical services	100	–
LLC MD Management	Russian Federation	Management company	100	100
LLC Mother and Child Ryazan	Russian Federation	Medical services	100	100
Shelly Management ltd	BVI	Holding of investments	–	100
Ivicend Holding Ltd	Cyprus	Holding of investments	100	100
CJSC MC Avicenna	Russian Federation	Medical services	100	100
LLC H&C Medical Group	Russian Federation	Medical services	100	100
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	85	85
LLC Medica-2	Russian Federation	Medical services	100	100
LLC Mother and Child Siberia (*)	Russian Federation	Medical services	100	–
LLC Siberia service company	Russian Federation	Service company	–	–
LLC Krasnoyarskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	–
LLC Novosibirskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	–
LLC Omskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	–
LLC Barnaulskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	–

(*) The entities were acquired in January 2016 (see note 14).

As at 31 December 2016, 67.9% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr Mark Kurtser. The 31.8% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders. The remaining 0.3% of the Company's share capital is owned by the Company (note 18).

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 17 March 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

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

As from 1 January 2016, 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 financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. The Company does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 ''Revenue from contracts with customers'' including amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018).

(ii) Standards and Interpretations not adopted by the EU

Amendments to IAS 7: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 12: Recognition of Deferred Tax Assets on Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 40: Transfers of Investmenty Property (effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 2: Clarification and Measurement of Share-based Payments Transactions (effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018).

IFRS 14 ''Regulatory Deferral Accounts'' (effective for annual periods beginning on or after 1 January 2016).

Clarifications to IFRS 15 ''Revenue from contracts with customers'' (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 ''Leases'' (effective for annual periods beginning on or after 1 January 2019)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (indefinitely deferred).

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 and 1 January 2018).

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

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

(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 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:

- Impairment of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are initially recorded at acquisition cost and are amortised on a straight line basis over their useful economic life. Intangible assets and property, plant and equipment 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 and property, plant and equipment, using a discount rate that reflects the current market estimations and the risks associated with the asset. 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 to which the goodwill has been allocated.

- Equity-settled share-based arrangements

For the calculation of the fair value of equity-settled share-based program, the market price of shares (Level 1 input) as at the grant date is being used.

(e) Functional and presentation currency

All of the operational Group entities are located in the Russian Federation. The Company and its major operating subsidiaries have RUB as their functional currency.

The consolidated financial statements of the Company are presented in RUB, rounded to the nearest thousand.

3. Significant accounting policies

The accounting policies applied in these consolidated financial statements are consistent with those followed in the Group's consolidated financial statements as at 31 December 2015 and for the year then ended.

Several new standards and amendments apply for the first time in 2016. However, they do not impact these consolidated financial statements 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). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial statements of all the Group companies are prepared using uniform accounting policies.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established or, if later, at the date the Company was incorporated. The assets and liabilities acquired are recognised at their book values. Any difference between the consideration paid and the book values is recognised directly in equity.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 basis:

- Rendering of services

Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the actual service provided.

- 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.

Deferred income

Deferred income represents advances received from patients.

Finance income

Finance income include:
- interest income which is recognised as it accrues in profit or loss using the effective interest method;
- income from initial recognition of other payables to tax authorities at a market interest rate.

Finance expenses

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

Foreign currency translation

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 yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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 when the shareholders' right to receive the dividend is established, either through Board resolution (for interim dividends) or by the Group's shareholders in the Annual General Meeting (for final dividends).

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 straightline method over the useful lives of each part of an item of property, plant and equipment. The annual depreciation rates for the current and comparative periods are based on the following estimations of useful lives:

	Years
Freehold buildings	50
Leasehold improvements	10-20
Plant and equipment	5-10

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.

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''.

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. For the purpose of impairment testing goodwill is allocated to cashgenerating units that are expected to benefit from the synergies of the combinations.

(ii) Patents and trademarks

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

(iii) Web site costs

External 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 straightline 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 straightline 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.

Financial instruments

The Group classifies non-derivative financial assets into loans and receivables and financial liabilities into other financial liabilities.

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are classified as current assets unless the Group has an unconditional responsibility to accept deferral of receipt for at least twelve months after the balance sheet date, in which case they are classified as non-current assets. The Group's loans and receivables comprise of trade and other receivables and cash and cash equivalents.

Other financial liabilities are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as current liabilities unless there is an unconditional right to defer settlement for at least twelve months after the balance sheet date, in which case they are classified as long term liabilities. The Group's other financial liabilities comprise of trade and other payables and borrowings.

Recognition

The Group initially recognises loans and receivables when they are originated. Other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

Measurement

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business and are stated after deducting the appropriate allowances for any impairment.

For the purpose of the statement of cash flows, cash and cash equivalents include cash in hand, cash at bank and short term highly liquid investments with maturity of three 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.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Impairment of non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Derecognition of 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

Any interest in such derecognised financial assets that is created or retained by the Group, is recognised as a separate asset or liability.

Derecognition of 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 include medicines and medical material and 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 issue price of the shares and their nominal value 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.

Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital.

Equity-settled share-based payment arrangements

Fair value of equity-settled share-based payment arrangements with employees is measured at the grant date based on the market price of the shares. Service and non-market vesting conditions are not taken into account when estimating the fair value at the grant date. The grant date is the date on which the Group and its employees agree the terms and conditions of the share-based payment arrangement. Fair value is not remeasured subsequent to the grant date.

Annually the number of shares which are expected to vest is true-up for the differences between the number of shares initially expected to vest and the actual number of shares vested, based on the fulfilment of service and non-market conditions.

Within the vesting period, fair value of the equity-settled share-based payment arrangement with employees adjusted to reflect the true-up of the instruments which will not vest, is recognized as staff costs with the corresponding increase recognised in equity.

Earnings per share

The Group presents earnings per share ("EPS") data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

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.

4. Revenue (RUB'000)

	31 December 2016	31 December 2015
In-vitro fertilisation (IVF)	2,627,666	1,615,456
Deliveries	2,245,285	1,750,287
Obstetrics and gynaecology out-patient treatments	1,704,702	1,515,666
Paediatrics out-patient treatments	1,205,151	1,016,725
Other out-patient medical services	1,020,418	807,260
Other medical services	1,067,278	877,026
Obstetrics and gynaecology in-patient treatments	929,432	810,346
Other in-patient medical services	518,938	435,661
Paediatrics in-patient treatments	404,451	271,338
Sales of goods	315,682	279,672
Other income	140,079	127,364
	12,179,082	**9,506,801**

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

Revenue increased in 2016 mostly due to IVF cycles and deliveries.

The growth of revenue from deliveries was due primarily to the ramp-up of the operations of Lapino and Ufa hospitals.

Also the Group increased the quantity of IVF cycles, mainly due to the acquisition of Siberian entities in 2016, as well as the opening of a clinic on Khodynskoe pole by LLC Ivamed, the start of operations of IVF department in the clinic Mother and Child Yugo-Zapad and the volumes of compulsory health insurance services.

Lapino and Ufa continued to attract new patients and increased its utilization resulting in overall increase in revenue.

5. Cost of sales (RUB'000)

	31 December 2016	31 December 2015
Payroll and related social taxes	3,980,084	3,289,756
Materials and supplies used	2,020,849	1,423,571
Depreciation	728,751	683,132
Medical services	204,600	172,951
Energy and utilities	137,796	118,147
Repair and maintenance	101,089	70,714
Property tax	96,549	98,490
Other expenses	130,115	61,449
	7,399,833	**5,918,210**

6. Administrative expenses (RUB'000)

	31 December 2016	31 December 2015
Payroll and related social taxes	1,169,776	981,671
Utilities and materials	226,200	183,540
Other professional services	172,817	183,670
Advertising	149,739	121,580
Depreciation	121,511	104,055
Amortisation	96,126	93,493
Communication costs	29,361	24,892
Independent auditors' remuneration	23,510	21,795
Other expenses	78,304	78,091
	2,067,344	**1,792,787**

The audit company performing audit of the consolidated financial statements, did not render consulting services in 2016 and 2015.

7. Staff costs (RUB'000)

	31 December 2016	31 December 2015
Wages and salaries	4,098,759	3,397,948
Social insurance contributions and other taxes	1,051,101	873,479
TOTAL STAFF COSTS	**5,149,860**	**4,271,427**

The average number of employees of the Group during the year ended 31 December 2016 was 5,594 (31 December 2015: 5,128), which was calculated in proportion to the hours worked.

8. Net finance expenses (RUB'000)

	31 December 2016	31 December 2015
FINANCE INCOME		
INTEREST INCOME		
Bank interest received	45,923	46,768
Interest from loans to third parties	388	590
OTHER FINANCE INCOME		
Bad debts recovered	3,011	4,820
Income on discounting	–	178,134
	49,322	**230,312**
FINANCE EXPENSES		
INTEREST EXPENSE		
Interest on bank loans	(265,662)	(367,082)
Unwinding of discount on other payables to tax authorities	(32,799)	–
Interest on loans from third parties	(3,093)	(299)
Finance leases interest	(270)	(150)
OTHER FINANCE EXPENSE		
Bank charges	(123,934)	(90,292)
Impairment of trade and other receivables	(17,321)	(1,660)
	(443,079)	**(459,483)**
NET FOREIGN EXCHANGE TRANSACTION (LOSS) / GAIN	**(90,847)**	**259,068**
NET FINANCE (EXPENSE) / INCOME	**(484,604)**	**29,897**

9. Taxation

Majority of the Group companies, that are offering medical services and are operating in the Russian Federation, apply 0% corporate income tax rate. Other companies apply standard income tax rate of 20% or 15%.

Reconciliation of effective tax rate (RUB'000):

	31 December 2016	31 December 2015
Profit before taxation	2,239,113	1,804,941
Less profit before taxation of non-taxable subsidiaries	(2,768,532)	(1,950,440)
LOSS BEFORE TAXATION EXCLUDING NOT-TAXABLE SUBSIDIARIES	**(529,419)**	**(145,499)**
Tax using the Group's domestic tax rate	105,884	29,100
Effect of subsidiaries taxable at lower tax rates	344	300
(Non-deductible expenses) / non-taxable income	(1,637)	104
Current-year losses for which no deferred tax asset is recognised	(50,149)	–
Recognised temporary differences relating to property, plant and equipment on non-taxable medical subsidiaries expected to be utilized after 1 January 2020 at 20% corporate income tax rate	(16,129)	(63,976)
TOTAL INCOME TAX BENEFIT/(EXPENSE)	**38,313**	**(34,472)**

The Group recognized tax benefit of RUB 38,313 thousand in 2016 mostly due to the increase in the deferred tax assets for LLC MD Project 2010, whose profits are taxable at 20% and tax losses were incurred in 2016.

Deferred tax assets of RUB 175,751 thousand as at 31 December 2016 and RUB 99,282 thousand as at 31 December 2015 were mostly recognised on tax losses. According to Russian tax rules such tax losses will not expire.

Deferred tax liabilities of RUB 118,020 thousand as at 31 December 2016 and RUB 107,337 thousand as at 31 December 2015 were mostly recognized on temporary differences relating to property, plant and equipment. These temporary differences are expected to be utilised after 1 January 2020 at 20% corporate income tax rate when the currently enacted tax concession with 0% corporate income tax rate will expire.

As at 31 December 2016 deferred tax assets relating to tax losses carried forward in the amount of RUB 50,149 thousand (31 December 2015: nil) have not been recognized. The tax losses do not expire. Deferred tax assets have not been recognized in respect of these tax losses because it is not probable that future taxable tax profit will be available against which the Group can utilize the benefits therefrom.

At 31 December 2016, there were temporary differences (before calculating tax effect) of RUB 3,496,686 thousand (31 December 2015: RUB 2,670,405 thousand) related to investments in subsidiaries. Deferred tax liabilities related to these temporary differences were not recognised because the Group controls the dividend policy of its subsidiaries and, therefore, controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

10. Earnings per share (RUB'000)

	2016	2015
Basic and fully diluted earnings attributable to the owners of the Company (RUB'000)	2,065,848	1,603,530
Weighted average number of ordinary shares in issue during the year	74,895,010	74,895,010
Basic and fully diluted earnings per share (RUB)	27.58	21.41

11. Dividends

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to RUB 500,332 thousand (USD 7,298 thousand), which corresponds to RUB 6.66 (USD 0.1) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB 285,475 thousand (USD 4,375 thousand), which corresponds to RUB 3.8 (USD 0.06) per share. The dividend distribution was approved by the Board of Directors Meeting on 2 September 2016. The dividend was paid on 18 October 2016.

On 27 April 2015 the Board of Directors declared a final dividend for the year 2014 amounting to RUB 300,329 thousand (USD 5,461 thousand), which corresponds to RUB 4.01 (USD 0.07) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 05 June 2015. The dividend was paid on 03 July 2015.

According to agreements concluded for bank loans distribution of dividends in excess of 30% of the Group's IFRS profit for the year requires a written consent of the banks.

12. Property, plant and equipment (RUB'000)

	Freehold land and buildings	Property under construction	Plant and equipment	Total
INITIAL COST				
BALANCE AT 1 JANUARY 2015	**10,166,726**	**130,789**	**3,987,349**	**14,284,864**
Acquisitions through business combinations	38,180	–	67,203	105,383
Additions	111,921	161,709	257,563	531,193
Disposals	–	–	(17,902)	(17,902)
Impairment loss	–	(19,113)	–	(19,113)
Transfer from construction in progress	23,057	(110,268)	87,211	–
BALANCE AT 31 DECEMBER 2015	**10,339,884**	**163,117**	**4,381,424**	**14,884,425**
Acquisitions through business combinations	37,157	7,132	86,964	131,253
Additions	104,917	1,234,642	454,229	1,793,788
Disposals	(18,713)	–	(26,433)	(45,146)
Transfer from construction in progress	20,065	(37,661)	17,596	–
BALANCE AT 31 DECEMBER 2016	**10,483,310**	**1,367,230**	**4,913,780**	**16,764,320**
DEPRECIATION				
BALANCE AT 1 JANUARY 2015	**512,819**	**–**	**1,231,873**	**1,744,692**
Depreciation during the year	218,737	–	568,450	787,187
Depreciation on disposals	–	–	(11,903)	(11,903)
BALANCE AT 31 DECEMBER 2015	**731,556**	**–**	**1,788,420**	**2,519,976**
Depreciation during the year	219,929	–	630,333	850,262
Depreciation on disposals	(1,819)	–	(14,552)	(16,371)
BALANCE AT 31 DECEMBER 2016	**949,666**	**–**	**2,404,201**	**3,353,867**
CARRYING AMOUNTS				
BALANCE AT 1 JANUARY 2015	**9,653,907**	**130,789**	**2,755,476**	**12,540,172**
BALANCE AT 31 DECEMBER 2015	**9,608,328**	**163,117**	**2,593,004**	**12,364,449**
BALANCE AT 31 DECEMBER 2016	**9,533,644**	**1,367,230**	**2,509,579**	**13,410,453**

As at 31 December 2016 construction in progress mainly includes construction costs of a hospital in the Russian city Novosibirsk of RUB 1,061,823 thousand and a hospital in the Russian city Samara of RUB 228,672 thousand.

The total net book value of property, plant and equipment which is held as collateral for the loans and borrowings is RUB 5,430,699 thousand as at 31 December 2016 (31 December 2015: RUB 5,560,245 thousand).

13. Intangible assets (RUB'000)

	Goodwill	Patents and trademarks	Software and web site	Total
INITIAL COST				
BALANCE AT 1 JANUARY 2015	**1,438,268**	**564,698**	**24,967**	**2,027,933**
Acquisitions through business combinations	248,250	60	1,056	249,366
Additions	–	25	8,391	8,416
Disposals	–	–	(316)	(316)
BALANCE AT 31 DECEMBER 2015	**1,686,518**	**564,783**	**34,098**	**2,285,399**
Acquisitions through business combinations	360,154	–	1,381	361,535
Additions	–	–	31,359	31,359
BALANCE AT 31 DECEMBER 2016	**2,046,672**	**564,783**	**66,838**	**2,678,293**
AMORTISATION				
BALANCE AT 1 JANUARY 2015	**–**	**39,974**	**6,870**	**46,844**
Amortisation during the year	–	84,752	8,741	93,493
Amortisation on disposals	–	–	244	244
BALANCE AT 31 DECEMBER 2015	**–**	**124,726**	**15,855**	**140,581**
Amortisation during the year	–	84,767	11,359	96,126
BALANCE AT 31 DECEMBER 2016	**–**	**209,493**	**27,214**	**236,707**
CARRYING AMOUNTS				
BALANCE AT 1 JANUARY 2015	**1,438,268**	**524,724**	**18,097**	**1,981,089**
BALANCE AT 31 DECEMBER 2015	**1,686,518**	**440,057**	**18,243**	**2,144,818**
BALANCE AT 31 DECEMBER 2016	**2,046,672**	**355,290**	**39,624**	**2,441,586**

Goodwill is allocated to each cash-generating unit (CGU), which is defined a s each individual subsidiary or group of subsidiaries acquired operating as one business in one particular location.

In order to assess 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.

	31 December 2016 RUB'000	31 December 2015 RUB'000
CJSC MC Avicenna	1,055,593	1,055,593
A group of 4 cash generating units related to subsidiaries acquired in January 2016 (note 14)	360,154	–
LLC Medica-2	248,250	248,250
LLC MK IDK	211,303	211,303
LLC Centre of Reproductive Medicine	142,193	142,193
Subsidiaries acquired in 2011	29,179	29,179
	2,046,672	**1,686,518**

Goodwill has been allocated for impairment testing purposes to 6 groups of cash generating units.

The recoverable amount of each CGU group is based on the sum of the enterprise values of the subsidiaries included in each CGU measures as fair value less cost to sell. The calculation of the enterprise values of each subsidiary is based on the current and estimated future after-tax profitability. The management has projected cash flows for the period of the five years based on the approved financial forecasts. The growth rate in terminal period is estimated to be 2%. Discount after-tax rate applied to the cash flow projections is approximately 15%.

No impairment was recognised in 2016. 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 materially.

14. Acquisition of subsidiaries

In the end of January 2016 the Company acquired 100% shares in five entities from a third party. All these entities are registered under Russian laws and located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul. The acquisition was for a cash consideration of RUB 485,000 thousand. The acquisition is consistent with MDMG's strategy for regional expansion and the development of a high quality network of out-patient clinics focusing on IVF, obstetrics, gynecology and pediatrics.

Goodwill arising on consolidation is as follows:

	RUB'000
Consideration transferred – cash	485,000
Less: Fair value of the net assets acquired	(124,846)
GOODWILL ARISING ON CONSOLIDATION	**360,154**

The consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development, personnel qualification and local reputation. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The fair values of assets and liabilities acquired were as follows:

	RUB'000
Intangible assets	1,381
Property, plant and equipment	131,253
Inventories	44,486
Deferred tax assets	1,799
Trade, other receivables and deferred expenses	19,479
Current tax assets	2,716
Cash and cash equivalents	14,200
Current tax liabilities	(661)
Loans and borrowings	(32,923)
Deferred income	(11,949)
Trade and other payables	(44,935)
NET ASSETS	**124,846**

The fair value of property, plant and equipment recognized as a result of the business combinations was measured using the following valuation techniques:

- *the average between market and income approach for the buildings.* Fair values based on the market approach were calculated by using prices generated by market transactions involving comparable property, plant and equipment. Fair values based on income approach were calculated by discounting estimated future cash flows at market rental rates.
- *the average amount of the cost approach and the market approach for equipment.* Fair values based on the market approach were calculated by using prices generated by market transactions involving identical or comparable equipment. Fair values based on cost approach were calculated by using current replacement cost. Current replacement cost reflects an amount that is required to replace the service capacity of equipment.

The net cash outflow on acquisition of subsidiaries was as follows:

	RUB'000
Consideration paid in cash	485,000
Cash and cash equivalents acquired	(14,200)
	470,800

Contribution to the Group results

The amount of additional revenue that would have been contributed to the Group had the acquisition occurred at the beginning of the reporting period is approximately RUB 33,643 thousand. The disclosure of the amount of profit that would have been contributed to the Group is impracticable to be estimated accurately since the acquired company has not reported financial information under IFRS.

15. Trade, other receivables and deferred expenses (RUB'000)

	31 December 2016	31 December 2015
Trade receivables	241,166	152,230
CAPEX prepayments	180,659	184,344
Advances paid to suppliers	76,695	72,766
Deferred expenses	14,080	13,715
Other receivables	32,239	19,178
	544,839	**442,233**
Non-current portion	184,984	184,344
Current portion	359,855	257,889
	544,839	**442,233**

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

Ageing analysis of trade receivables (RUB'000):

Trade receivables:	Gross amount 31 December 2016	Impairment 31 December 2016	Gross amount 31 December 2015	Impairment 31 December 2015
Not past due	241,166	–	152,230	–
Past due	32,867	(32,867)	18,557	(18,557)
	274,033	**(32,867)**	**170,787**	**(18,557)**

The exposure of the Group to credit and currency risk and impairment losses in relation to trade, other receivables and deferred expenses is reported in note 23 of the consolidated financial statements.

16. Cash and cash equivalents

Cash balances are analysed as follows (RUB'000):

	31 December 2016	31 December 2015
Cash at bank and in hand	318,800	402,335
Bank deposits with maturity less than 3 months	1,324,144	1,371,977
	1,642,944	**1,774,312**

Currency:	31 December 2016	31 December 2015
RUB	819,272	639,499
EUR	1,094	2,366
USD	822,578	1,132,447
	1,642,944	**1,774,312**

The exposure of the Group to credit and currency risk and impairment losses in relation to cash and cash equivalents is reported in note 23 of the consolidated financial statements.

17. Share capital

	Number of shares	Nominal value	Share capital	Share capital
		US$	RUB'000	US$'000
Authorised	125,250,000	0.08	–	10,020
Issued and fully paid ordinary shares	75,125,010	0.08	180,585	6,010

18. 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.

Treasury shares

During the year ended 31 December 2014, the Company has acquired 230,000 own shares (0.3% of total shares issued) at total cost of RUB 73,086 thousand.

In 2015 the Group established an equity-settled share-based program that entitle key management, other management and key medical personnel to receive shares in the Company. Under this program, employees are entitled to receive shares subject to work in the Group for three years starting from 1 January 2015, earnings per share targets and future development projects' targets. Shares will be transferred to employees in 2018.

At the grant date being 31 December 2015 the fair value of shares was measured as a market share price multiplied by number of the shares of the program (230,000 shares) and amounted to RUB 88,005 thousand.

It was assumed that the target conditions will be met in 2018, therefore during 2016 the shares amounted to RUB 25,014 thousand were credited to equity account and debited to expense account as employee remuneration (in 2015: RUB 29,335 thousand).

Retained earnings

Retained earnings include accumulated profits and losses incurred by the Group. In 2016 the Company acquired 10% share in a subsidiary, which it controls, for RUB 56,000 thousand. As a result non-controlling interest in this subsidiary decreased by RUB 11,550 thousand. The difference of RUB 44,450 thousand between consideration paid to a minority shareholder and the amount of non-controlling interest acquired was accounted as an equity transaction.

Other reserves

Other reserves include common control transactions reserve and capital contribution reserve.

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.

There were no changes during 2016 year.

19. Loans and borrowings (RUB'000)

	31 December 2016	31 December 2015
LONG TERM LIABILITIES		
Bank loans	2,199,768	2,292,567
SHORT TERM LIABILITIES		
Bank loans	1,083,647	1,092,516
Other loans	–	68,823
	1,083,647	1,161,339
TOTAL LOANS AND BORROWINGS	**3,283,415**	**3,453,906**
Maturity of loans and borrowings:		
Within one year	1,083,647	1,161,339
Between one and five years	1,949,869	2,217,710
More than 5 years	249,899	74,857
	3,283,415	**3,453,906**

The total net book value of property, plant and equipment which is held as collateral for the bank loans is disclosed in note 12.

As additional collateral the Company has pledged the shares of CJSC MD PROJECT 2000 and LLC Khaven.

As at 31 December 2016, the terms and debt repayment schedule of loans is as follows (RUB'000) :

	Currency	Nominal interest rate	Year of last payment	31 December 2016		31 December 2015	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	RUB	9%	2018-2019	1,099,550	1,099,550	1,873,080	1,873,080
Secured bank loan	RUB	10.9%	2022	1,103,604	1,103,604	213,875	213,875
Secured bank loan	RUB	10.8%	2019	947,338	947,338	1,254,010	1,254,010
Unsecured bank loan	RUB	10.75%	2023	100,558	100,558	–	–
Unsecured bank loan	RUB	14.2%	2019	32,365	32,365	44,118	44,118
Unsecured other loan	RUB	16%	2016	–	–	68,823	68,823
				3,283,415	**3,283,415**	**3,453,906**	**3,453,906**

The exposure of the Group to interest rate and liquidity risk in relation to loans and borrowings is reported in note 23 of the consolidated financial statements.

20. Trade and other payables (RUB'000)

	31 December 2016	31 December 2015
Trade payables	323,369	214,831
Accruals	308,512	246,207
Other payables to tax authorities	270,593	288,239
Payables to employees	260,997	182,443
Taxes payable	143,593	138,617
CAPEX payables	60,305	14,695
Other payables	16,894	31,456
	1,384,263	**1,116,488**
Non-current portion	232,498	243,045
Current portion	1,151,765	873,443
	1,384,263	**1,116,488**

21. Deferred income

	31 December 2016	31 December 2015
Patient advances	1,131,785	991,917
including:		
Deferred income after more than one year	129,936	106,295
Deferred income within one year	1,001,849	885,622

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 1 to 9 months, and children care contracts valid for a specified period of time.

22. Related party transactions

The following transactions were carried out with related parties:

22.1 Operations with key management personnel

The remuneration of the members of the key management personnel and non-executive directors for the year ended 31 December 2016 was RUB 51,277 thousand (31 December 2015: RUB 40,542 thousand). The key management personnel participated in the equity-settled share-based arrangements with total 24,000 shares to be granted in 2018 if target conditions are met (31 December 2015: 27,600 shares).

The company received legal services from the key management personnel for the year ended 31 December 2016 amounted to RUB 730 thousand (for the year ended 31 December 2015: RUB 868 thousand).

22.2 Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2016, 31 December 2015 and as at the date of signing these consolidated financial statements are as follows:

Name	Type of interest	Effective interest %
Mark Kurtser	Indirect ownership of shares	67.90
Kirill Dmitriev	Indirect interest in shares	5.55
Simon Rowlands	Direct ownership of shares	0.33

Indirect interest in shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

The calculation of effective interest is based on the total amount of issued and fully paid shares, including treasury shares acquired by the Company.

23. Financial risk management

Financial 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.

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 (RUB'000):

	31 December 2016	31 December 2015
Investments	–	2,403
Trade and other receivables	269,047	171,234
Cash and cash equivalents excluding cash in hand	1,633,206	1,766,372
	1,902,253	**1,940,009**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no significant concentration of credit risk regarding trade and other receivables. 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, clients usually pay in advance except for some particular cases.

Cash and cash equivalents

The Group held cash and cash equivalents excluding cash in hand of RUB 1,633,206 thousand at 31 December 2016 (31 December 2015: RUB 1,766,372 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are mostly held with bank and financial institution counterparties, which are rated Baa2-Ba1, based on rating agency Moody's Investors Service ratings.

(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 objective of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets. The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2016	Carrying amounts RUB'000	Contractual cash flows RUB'000	2 months or less RUB'000	Between 2-12 months RUB'000	Between 1-2 years RUB'000	Between 2-5 years RUB'000	More than 5 years RUB'000
Bank loans	3,283,415	3,967,413	223,714	1,118,458	1,114,249	1,244,922	266,070
Obligations under finance leases	7,346	8,072	245	1,223	1,468	4,403	734
CAPEX payables	60,305	60,305	47,091	12,817	397	–	–
Trade payables	323,369	323,369	323,369	–	–	–	–
Other payables and accrued expenses	1,000,589	1,139,288	518,604	249,645	63,605	153,717	153,717
	4,675,024	**5,498,447**	**1,113,023**	**1,382,143**	**1,179,719**	**1,403,042**	**420,521**

31 December 2015	Carrying amounts RUB'000	Contractual cash flows RUB'000	2 months or less RUB'000	Between 2-12 months RUB'000	Between 1-2 years RUB'000	Between 2-5 years RUB'000	More than 5 years RUB'000
Bank loans	3,453,906	4,049,244	301,588	1,140,955	1,280,536	1,243,249	82,916
Obligations under finance leases	8,555	9,540	245	1,223	1,468	4,403	2,201
CAPEX payables	14,695	14,695	7,381	3,094	4,220	–	–
Trade payables	214,831	214,831	214,831	–	–	–	–
Other payables and accrued expenses	886,962	1,051,775	452,919	234,705	51,188	159,246	153,717
	4,578,949	**5,340,085**	**976,964**	**1,379,977**	**1,337,412**	**1,406,898**	**238,834**

The Group has 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 (RUB'000):

	31 December 2016	31 December 2015
FIXED RATE INSTRUMENTS		
Financial assets	1,324,144	1,374,380
Financial liabilities	(3,290,761)	(3,462,461)
	(1,966,617)	**(2,088,081)**

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 functional 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 2016 USD'000	EUR'000	GBP'000	31 December 2015 USD'000	EUR'000	GBP'000
ASSETS						
Cash at bank	822,578	1,094	–	1,132,447	2,366	–
LIABILITIES						
CAPEX payables	(10,178)	(1,037)	–	(73)	(2,391)	–
Trade and other payables and accruals	(2,939)	(1,023)	(7,306)	(73)	(2,072)	(10,366)
NET EXPOSURE	**809,461**	**(966)**	**(7,306)**	**1,132,301**	**(2,097)**	**(10,366)**

The following significant exchange rates applied during the year:

	Average rate 2016	2015	Reporting date spot rate 2016	2015
USD	67.0349	60.9579	60.6569	72.8827
EURO	74.2310	67.7767	63.8111	79.6972
GBP	91.2578	93.2634	74.5595	107.9830

Sensitivity analysis

A 10% weakening of the Russian Rubles against the above currencies will result in the increase in profit and equity of RUB 80,119 thousand as at 31 December 2016 (31 December 2015: RUB 111,987 thousand). A 10% strengthening of the Russian Rubles would have an opposite impact on the profit and other equity.

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 net debt to equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total loans and borrowings and obligations under finance lease less cash and cash equivalents. Total equity is calculated as "equity" shown in the consolidated statement of financial position.

	31 December 2016 RUB'000	31 December 2015 RUB'000
Financial liabilities	3,290,761	3,462,461
Less: cash and cash equivalents	(1,642,944)	(1,774,312)
Net debt	1,647,817	1,688,149
Net equity	12,770,137	11,509,414
NET DEBT TO EQUITY RATIO	**12.90%**	**14.67%**

24. Fair values

As at 31 December 2016 and 31 December 2015 the Group had no significant financial assets or liabilities measured at fair value.

The financial assets of the Group include cash and cash equivalents, loans receivable, trade and other receivables. The financial liabilities of the Group include loans and borrowings, obligations under financial leases, trade and other payables. The fair value of these financial instruments is classified as Level 3 of fair value class hierarchy and is estimated only for disclosure purposes using discounted cash flows taking interest rates adequate to the relevant risk. The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

25. Contingent liabilities

(a) Insurance

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 some property, plant and equipment. 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 primarily 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, but 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.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The 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 characterised 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 generally 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 pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Currently, the Russian Government focuses on the ways to combat offshore structures which historically were widely used by Russian businesses and tighten the tax anti-avoidance regulations. Recent new Russian legislation is aimed at regulating transactions with offshore companies and their activities, which may potentially impact the Group's tax position.

26. Non-controlling interests

The only material non-controlling interests in the Group is related to CJSC MD PROJECT 2000. The condensed information about the subsidiary before any intra-group eliminations is presented below (RUB'000):

	2016	2015
Revenue	3,202,222	2,748,895
Profit and total comprehensive income	1,414,652	1,163,322
Profit and total comprehensive income allocated to non-controlling interests	70,733	58,166
Dividends paid to non-controlling interests	70,000	60,000
NON-CONTROLLING INTERESTS PERCENTAGE	5%	5%
Non-current assets	3,456,869	3,078,286
Current assets	486,772	805,268
Non-current liabilities	(129,936)	(106,295)
Current liabilities	(629,324)	(607,529)
NET ASSETS	3,184,381	3,169,730
Carrying amount of non-controlling interests	159,219	158,487
Other non-controlling interests	263,631	264,245
	422,850	422,732

27. Operating leases

Historically, the Group has developed business in own premises. However, in 2016 and 2015 the Group has acquired and incorporated some new entities that lease their premises.

The future minimum lease payments under non-cancellable leases are payable as follows (RUB'000).

	2016	2015
Within one year	85,565	51,526
Between one and five years	172,347	72,216
More than five years	34,811	44,989
	292,723	168,731

28. Capital commitments

Capital expenditure contracted for at the reporting date but not yet incurred is as follows (RUB'000):

	31 December 2016	31 December 2015
Property, plant and equipment	49,044	77,862
Construction in progress	1,745,804	703,045
	1,794,848	780,907

29. Segment reporting

The Group has one primary reporting segment: provision of medical services. The Group evaluates the performance and makes investments and strategic decisions based upon a review of profitability for the Group as a whole.

30. Events after the reporting period

In January 2017 the Group has pledged a hospital building in Ufa with net book value RUB 3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

In February 2017 the Group opened a new hospital in Novosibirsk. The total cost of the project is approximately RUB 1.3 billion. The opening of a new building delivered a significant capacity increase, with the total floor space more than tripling to 10,260 sq m. The hospital will be able to offer a range of new services, including those not currently available in the city or the region.

MD Medical Group
Investments Plc

Parent company financial statements

For the year ended 31 December 2016

Officers, professional advisors and registered office

BOARD OF DIRECTORS	▪ Vladimir Mekler – Chairman (since 14 June 2016) ▪ Mark Kurtser (Chairman until 14 June 2016) ▪ Vitaly Ustimenko ▪ Kirill Dmitriev ▪ Nikolay Ishmetov (appointed as an alternate director to Kirill Dmitriev) ▪ Simon Rowlands ▪ Alsu Nazyrova (appointed in June 2016) ▪ Elena Mladova (until 14 June 2016) ▪ Liubov Malyarevskaya
SECRETARY	Menustrust Limited
SECRETARY ASSISTANT	Mikhail Melnikov
INDEPENDENT AUDITORS	KPMG Limited
REGISTERED OFFICE	Dimitriou Karatasou 15, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus

Management report

The Board of Directors of MD Medical Group Investments Plc (the ''Company'') presents to the members its Annual Report together with the audited financial statements of the Company for the year ended 31 December 2016.

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.

Financial results

The Company's financial results for the year ended 31 December 2016 and its financial position as at that date are set out in the Statement of Comprehensive Income on page 13 and in the Statement of Financial Position on page 14 of the financial statements.

The profit for the year ended 31 December 2016 amounted to RUB 1,187,555 thousand (2015: RUB 1,254,351 thousand). The total assets of the Company as at 31 December 2016 were RUB 9,784,119 thousand (2015: RUB 9,307,59 thousand) and the net assets were RUB 9,684,257 thousand (2015: RUB 9,257,495 thousand).

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.

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to RUB 500,332 thousand (USD 7,298 thousand), which corresponds to RUB 6.66 (USD 0.1) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB 285,475 thousand (USD 4,375 thousand), which corresponds to RUB 3.8 (USD 0.06) per share. The dividend distribution was approved by the Board of Directors Meeting on 2 September 2016. The dividend was paid on 18 October 2016.

The Board of Directors recommends the payment of RUB 338,063 thousand as final dividend for the year 2016 which correspond to RUB 4.5 per share.

Examination of the development, position and performance of the activities of the company

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

During 2016 the Company indirectly has acquired through its subsidiary Ivicend Holding Limited 100% share in five entities located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul and directly has acquired additional 10% share in LLC Velum. The details for these acquisitions are given in note 8.

The Company through its subsidiaries has one of the largest nationwide private healthcare regional networks for its core services and is expanding into new services. It has significant experience in the provision of full-service private maternity healthcare services. The Company has secured leading positions in the Russian private healthcare market across a range of services including obstetrics and gynaecology, fertility and IVF treatment, and paediatrics.

Principal risks and uncertainties

Details in relation to principal risks and uncertainties and steps taken to manage these risks and uncertainties are given in notes 15 and 17 of the financial statements.

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

DIRECTORS' INTEREST

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2016 and 31 December 2015 are as at the date of signing these financial statements are as follows:

Name	Type of interest	Effective interest %
Mark Kurtser	Indirect ownership of shares	67.90
Kirill Dmitriev	Indirect interest in shares	5.55
Simon Rowlands	Direct ownership of shares	0.33

Indirect interest in shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

The calculation of effective interest is based on the total amount of issued and fully paid shares, including treasury shares acquired by the Company.

Share capital

There were no changes in the share capital of the Company during the year.

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 appointment or approval of appointment by the shareholders at the first Annual General Meeting after their appointment, and to reappointment at intervals of no more than three years. Any term beyond six years (e.g. two threeyear 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.

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

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 three non-executive directors, two of whom are independent. The Audit Committee is chaired by independent non-executive director Liubov Malyarevskaya since 19 February 2015. Mr Kirill Dmitriev and Mr Simon Rowlands are the other members.

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.

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.

Internal audit

The Audit Committee is responsible to monitor and review the effectiveness of the Company's internal audit service. In this respect, the Audit Committee may require investigations by, or under the authority of, the head of Internal Audit Service into any activities of the Group which may be of interest or concern to the Audit Committee.

The Company`s internal auditor is responsible for the recommendation of an audit plan to the Audit Committee. The internal auditor carries out auditing assignments in accordance with such plan and oversees the Company`s compliance with the plan`s recommendations. The internal auditor files a quarterly report with his findings to the Audit Commitee.

Nomination Committee

The Nomination Committee comprises of one executive and two non-executive directors, one of whom is independent. The Nomination Committee is chaired by non-executive director Mr Vladimir Mekler (since June 2016), and Mr Simon Rowlands and executive director Dr Mark Kurtser are other members since September 2015.

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. 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 two non-executive directors and one executive director. The Remuneration Committee is chaired by an independent non-executive director Mr Simon Rowlands. The two other members are Dr Mark Kurtser and Mr Vladimir Mekler.

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 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:
- Appointment policy for the Board of Directors and Committees;
- Terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee;
- Code of Ethics and Conduct;
- Business Continuity Policy;
- Disclosure Policy;
- Risk Management Policy; and
- Anti-Fraud Policy.

Internal control in relation to the financial reporting process

The Company has set formal policies and written term of reference in relation to the financial reporting process that include:
- Corporate Accounting policy Guidelines;
- Methodology for the Transformation of Financial Statements from RAS to IFRS;
- Methodology for the Consolidation of IFRS Financial Statements;
- Financial Reporting Preparation Procedure; and
- The Group's structure.

The objective of this policies is to establish uniform procedures and to implement requirements for the preparation of the financial statements of the Company. The procedure should be reviewed for compliance with International Financial Reporting Standards as well as current conditions and planned changes in the Company's business activities at least once a year. When necessary, amendments and additions to this Procedure should be adopted.

Meetings of shareholders

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. An annual general meeting and any other shareholders' meeting called to pass a special resolution can be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued at least 21 days before the meeting. Any other meetings shall be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued at least 14 days before the meeting. If the notice period is less than 21 days or 14 days as applicable, the meeting will be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent in nominal value of the shares giving that right.

A notice convening a general meeting must be sent to each of the shareholders.

All shareholders are entitled to attend the general meeting or be represented by a proxy authorized in writing. In the general meeting, on a poll, every share gives the holder the right to cast one vote, whereas, on a show of hands, each member has one vote. A corporate member may, by resolution of its directors or other governing body, authorize a person as the corporate member could exercise if it were an individual member of the Company.

Branches

MD Medical Group Investments Plc has a branch in Moscow.

Treasury shares

During the year ended 31 December 2016, the Company did not acquire any treasury shares.

The remaining GDRs that are held in treasury are expected to be used in satisfying awards made under the Long-Term Management Incentive Plan back in 2014. As at 31 December 2016, the Company holds 230,000 GDRs. Each GDR represents an interest in one ordinary share with a nominal value of US$0.08

Events after the reporting period

In January 2017 LLC MD PROJECT 2010, 100% subsidiary of the Company has pledged a hospital building in Ufa with net book value RUB 3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

In February 2017 CJSC MC Avicenna, 100% subsidiary of the Company, opened a new hospital in Novosibirsk. The total amount of the project is approximately RUB1.3 billion. The opening of a new building delivered a significant capacity increase, with the total floor area more than tripling to 10,260 sq m. The hospital will be able to offer a range of new services, including those not currently available in the city or the region.

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
Managing Director,
Member of the Board of Directors
Moscow, 17 March 2017

Directors’ responsibility statement

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

- the financial statements, prepared in accordance with IFRS as adopted by the 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 the 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 Company; and
- the Management report includes 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 responsible for reporting as at the date of this announcement are set out below:

Vladimir Mekler	Chairman, non-executive director
Mark Kurtser	Executive director
Vitaly Ustimenko	Non-executive director
Alsu Nazyrova	Executive director
Kirill Dmitriev	Non-executive director
Simon Rowlands	Non-executive independent director
Liubov Malyarevskaya	Non-executive independent director

Independent auditors’ report

To the members of MD Medical Group Investments PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the parent company MD Medical Group Investments Plc (the “Company”) which are presented on pages 13 to 34 and comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the parent company give a true and fair view of the financial position of the Company as at 31 December 2016, 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 (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the “Companies Law, Cap. 113”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements in Cyprus that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investments in subsidiaries

Please refer to Notes 2(d) and 8 of the financial statements (RUB 9,020,429 thousand).

The key audit matter	How the matter was addressed in our audit
The carrying value of the investments in subsidiaries amounted to RUB’000 9,020,429, and accounts for more than 92% of the Company’s total assets as at 31 December 2016. Significant judgement is required by the management of the Company in determining whether there are any indications of impairment and, where such indications exist, in assessing the recoverable amount of the investments. We focused on this area because of the significance of the carrying amount and because of the judgement required by the Management in determining the recoverable amount of the investments and the complexity of the valuation methods and the underlying factors used (forecasted revenues, growth rates, profit margins, tax rates and discount rates) in assessing the recoverable amount of the investments.	We evaluated the assessment of the management with regards to indications of impairment by: ▪ assessing the industry in which the subsidiaries are operating to obtain an understanding of growth rates and outlook. ▪ examining the subsidiaries’ historical and current performance. This examination was made with reference to the most recent audited financial information and/or management accounts at the reporting date. We also held discussions with management to understand future expectations. Where indications of impairment were present, we examined the management estimates for the recoverable amounts of the relevant investments based on our understanding of the nature of the Company’s business and the economic environment in which they operate. We challenged management’s assumptions on the forecasted revenues, growth rates, profit margins, tax rates and discount rates by: ▪ comparing them to our expectations based on our knowledge of the subsidiaries operations, historical trends and the results of the operations of other group entities that operate in the same industry. ▪ using our internal valuation specialists to assess the discount rates, the assumptions used and the appropriateness of the valuation models used.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2016, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. Please also refer to the “Report on other legal requirements” section where we are reporting on other legal requirements with respect to the Management Report and the corporate governance statement included as a specific section of the Management Report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal controls as the Board of Directors determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to either liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company’s financial reporting process.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009, L42(I)/2009 as amended from time to time ("Law 42(I)/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, so far as it appears from our examination of these books.
- The Company's 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 financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 2 to 6, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.

In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Zakis E. Hadjizacharias.

Zakis E. Hadjizacharias, CA
Certified Public Accountant and Registered Auditor
for and on behalf of
KPMG Limited
Certified Public Accountants and Registered Auditors
No. 11, June 16th 1943 Street,
3022 Limassol,
Cyprus.

17 March 2016

Statements

Comprehensive income

For the year ended 31 December 2016 (RUB'000)

	Note	2016	2015
Dividend income		1,540,001	1,220,979
Revenue from branch operations		86,300	
		1,626,301	**1,220,979**
Other income		330	2,533
Other expenses	8	(55,257)	
Administrative expenses	4	(303,362)	(109,438)
OPERATING PROFIT		**1,268,012**	**1,114,074**
Finance income		3,012	1,229
Finance expenses		(1,730)	(1,907)
Net foreign exchange (loss)/ gain		(102,303)	153,548
NET FINANCE (EXPENSE)/INCOME	**5**	**(101,021)**	**152,870**
PROFIT BEFORE TAX		**1,166,991**	**1,266,944**
Taxation	6	20,564	(12,593)
PROFIT FOR THE YEAR		**1,187,555**	**1,254,351**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,187,555**	**1,254,351**

The notes on pages 125 to 138 are an integral part of these consolidated financial statements.

Financial position

As at 31 December 2016 (RUB'000)

	Note	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment		1,344	1,505
Intangible assets		5,523	–
Deferred tax assets		27,720	6,743
Investments in subsidiaries	8	9,020,429	8,809,686
TOTAL NON-CURRENT ASSETS		**9,055,016**	**8,817,934**
Inventories		359	397
Trade and other receivables	10	25,401	57,856
Cash and cash equivalents	9	703,343	431,407
TOTAL CURRENT ASSETS		**729,103**	**489,660**
TOTAL ASSETS		**9,784,119**	**9,307,594**
EQUITY			
Share capital	11	180,585	180,585
Share premium		5,243,319	5,243,319
Reserves		4,260,353	3,833,591
TOTAL EQUITY		**9,684,257**	**9,257,495**
LIABILITIES			
Trade and other payables	13	80,508	30,745
Current income tax liability		19,354	19,354
TOTAL CURRENT LIABILITIES		**99,862**	**50,099**
TOTAL EQUITY AND LIABILITIES		**9,784,119**	**9,307,594**

On 17 March 2017 the Board of Directors of MD Medical Group Investments Plc authorised these financial statements for issue.

Vladimir Mekler
Director

Mark Kurtser
Managing Director

Andrey Khopersky
Finance Director

↗ The notes on pages 125 to 138 are an integral part of these consolidated financial statements.

Changes in equity

For the year ended 31 December 2016 (RUB'000)

	Note	Share capital	Treasury shares	Share premium	Retained earnings	Other reserves	Total
BALANCE AT 1 JANUARY 2015		**180,585**	**(73,086)**	**5,243,319**	**2,615,369**	**307,951**	**8,274,138**
COMPREHENSIVE INCOME							
Profit for the year		–	–	–	1,254,351	–	1,254,351
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Dividends	7	–	–	–	(300,329)	–	(300,329)
Equity-settled share-based payment	12	–	29,335	–	–	–	29,335
TOTAL TRANSACTIONS WITH OWNERS		**–**	**29,335**	**–**	**(300,329)**	**–**	**(270,994)**
BALANCE AT 31 DECEMBER 2015		**180,585**	**(43,751)**	**5,243,319**	**3,569,391**	**307,951**	**9,257,495**
BALANCE AT 1 JANUARY 2016		**180,585**	**(43,751)**	**5,243,319**	**3,569,391**	**307,951**	**9,257,495**
COMPREHENSIVE INCOME							
Profit for the year		–	–	–	1,187,555	–	1,187,555
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Equity-settled share-based payment		–	25,014	–	–	–	25,014
Dividends	7	–	–	–	(785,807)	–	(785,807)
TOTAL TRANSACTIONS WITH OWNERS		**–**	**25,014**	**–**	**(785,807)**	**–**	**(760,793)**
BALANCE AT 31 DECEMBER 2016		**180,585**	**(18,737)**	**5,243,319**	**3,971,139**	**307,951**	**9,684,257**

Share premium and other reserves are not available for distribution.

↗ The notes on pages 125 to 138 are an integral part of these consolidated financial statements.

Cash flows

For the year ended 31 December 2016 (RUB'000)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	**1,187,555**	**1,254,351**
Adjustments for:		
Equity-settled share-based payment transaction	25,014	29,335
Dividend income	(1,540,001)	(1,220,979)
Interest income	(3,012)	(1,229)
Other expense	55,257	
Finance expense	1,730	1,907
Net exchange loss/(gain)	102,303	(153,548)
Taxation	(20,564)	12,593
CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES	**(191,718)**	**(77,570)**
Increase in trade and other receivables	(17,153)	(5,162)
Decrease / (Increase) in inventories	38	(397)
Increase / (Decrease) in trade and other payables	62,834	(17,296)
CASH FLOWS USED IN OPERATIONS	**(145,999)**	**(100,425)**
Dividends received	1,590,001	1,170,979
Tax paid	(499)	(324)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1,443,503**	**1,070,230**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contributions to subsidiaries	(210,000)	(978,374)
Acquisition of non-controlling interest	(56,000)	–
Payment for acquisition of intangible assets	(5,523)	–
Payment for acquisition/construction of property, plant and equipment	(162)	(1,505)
Interest received	3,030	1,702
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(268,655)**	**(978,177)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance expenses paid	(1,730)	(1,921)
Dividends paid	(785,807)	(300,329)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(787,537)**	**(302,250)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**387,311**	**(210,197)**
Cash and cash equivalents at the beginning of the year	431,407	484,906
Effect of exchange rate changes on cash and cash equivalent	(115,375)	156,698
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**703,343**	**431,407**

↗ The notes on pages 125 to 138 are an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2016

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. In August 2012, following the special resolution passed by the shareholder, the Company was converted into a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its Registered Office is at Dimitriou Karatasou 15, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus.

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.

2. Basis of preparation

(a) Statement of compliance

The 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.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention.

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

As from 1 January 2016, 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 financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. The Company does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 ''Revenue from contracts with customers'' including amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018).

(ii) Standards and Interpretations not adopted by the EU

Amendments to IAS 7: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 12: Recognition of Deferred Tax Assets on Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 40: Transfers of Investmenty Property (effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 2: Clarification and Measurement of Share-based Payments Transactions (effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018).

IFRS 14 ''Regulatory Deferral Accounts'' (effective for annual periods beginning on or after 1 January 2016).

Clarifications to IFRS 15 ''Revenue from contracts with customers'' (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 ''Leases'' (effective for annual periods beginning on or after 1 January 2019).

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (indefinitely deferred).

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 and 1 January 2018).

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

The Company has not yet analysed the likely impact of new standards on its financial position and performance.

d) Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires management to exercise their judgment, to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 deviate from such 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 financial statements are described below:

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 Company 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 investments in subsidiaries

The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a writedown to fair value is necessary.

Equity-settled share-based arrangements

For the calculation of the fair value of equity-settled share-based program, the market price of shares (Level 1 input) as at the grant date is being used.

(e) Functional and presentation currency

The financial statements are presented in Russian Rubles (RUB'000) which is the functional currency of the Company. Financial information presented in Russian Rubles has been rounded to the nearest thousand except when otherwise indicated.

3. Significant accounting policies

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

Consolidated financial statements

The Company has subsidiary undertakings for which section 142(1) (b) of the Cyprus Companies Law Cap. 113 requires consolidated financial statements to be prepared and laid before the Company at the Annual General Meeting. Consolidated financial statements are presented separately. These are the Company's stand alone financial statements.

Subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive payment is established.

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 bank charges which are recognized in profit or loss in the period in which they incurred.

Foreign currency translation

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 yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss under the category finance income or finance expenses.

Taxation

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 Company'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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Intangible assets include rights to use computer softwares that are acquired by the Company and have finite useful lives. Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognized in profit or loss.

Amortization is calculated to write off the cost of the intangible assets using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. The estimated useful life of the intangible assets is 5 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Dividends paid

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

Financial instruments

The Company classifies non-derivative financial assets into loans and receivables and financial liabilities into other financial liabilities.

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are classified as current assets unless the Company has an unconditional responsibility to accept deferral of receipt for at least twelve months after the balance sheet date, in which case they are classified as non-current assets. The Company's loans and receivables comprise of trade and other receivables and cash and cash equivalents.

Other financial liabilities are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as current liabilities unless there is an unconditional right to defer settlement for at least twelve months after the balance sheet date, in which case they are classified as long term liabilities. The Company's other financial liabilities comprise of trade and other payables.

Recognition

The Company initially recognises loans and receivables when they are originated. Other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

Measurement

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business and are stated after deducting the appropriate allowances for any impairment.

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank and short term highly liquid investments with maturity of three 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.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Impairment of non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Derecognition of 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 Company 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 Company 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.

Any interest in such derecognised financial assets that is created or retained by the Company, is recognised as a separate asset or liability.

Derecognition of 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.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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 statement of financial position.

Impairment of non-financial 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).

Share capital

Proceeds from the issue of ordinary shares are classified as equity. The difference between the issue price of the shares 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.

Treasury shares

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in additional paid-in capital.

Equity-settled share-based payment arrangements

Fair value of equity-settled share-based payment arrangements with employees is measured at the grant date based on the market price of the shares. Service and non-market vesting conditions are not taken into account when estimating the fair value at the grant date. The grant date is the date on which the Group and its employees agree the terms and conditions of the share-based payment arrangement. Fair value is not remeasured subsequent to the grant date.

Annually the number of shares which are expected to vest is true-up for the differences between the number of shares initially expected to vest and the actual number of shares vested, based on the fulfilment of service and non-market conditions.

Within the vesting period fair value of the equity-settled share-based payment arrangement with employees adjusted to reflect the true-up of the instruments, which will not vest, is recognized as staff costs with the corresponding increase recognised in equity.

Provisions

Provisions are recognised when the Company 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 Company 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.

Comparatives

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

4. Administrative expenses (RUB'000)

	2016	2015
Payroll and related social taxes	151,567	38,891
Advertising	36,291	–
Legal and professional expenses	39,025	39,453
IT support	23,750	–
Independent auditors' remuneration	20,017	18,020
Call center services	14,622	–
Other expenses	18,090	13,074
	303,362	**109,438**

In 2016, the Company incurred advertising, IT support and call center expenses that relate to the opeations of the Company's subsidiaries. These expenses were subsequently recharged to the respective subsidiaries.

5. Net finance income and expenses (RUB'000)

	2016	2015
FINANCE INCOME		
Bank interest received	3,012	1,229
FINANCE EXPENSES		
Bank charges	(1,730)	(1,907)
NET FOREIGN EXCHANGE TRANSACTION (LOSS)/GAIN	**(102,303)**	**153,548**
NET FINANCE (EXPENSE)/INCOME	**(101,021)**	**152,870**

6. Taxation (RUB'000)

	2016	2015
Income tax	413	12,593
Deferred taxation	(20,977)	–
CHARGE FOR THE YEAR	**(20,564)**	**12,593**

Reconciliation of tax based on the taxable income and tax based on accounting profits (RUB'000):

	2016	2015
ACCOUNTING PROFIT BEFORE TAX	**1,166,991**	**1,266,944**
Tax calculated at the applicable tax rates	233,398	253,389
Recognition of tax effect of previously unrecognized deferred tax assets	(8,540)	(3,343)
Tax effect of allowances and income not subject to tax	(306,623)	(244,196)
Temporary difference on accruals	–	6,743
Current-year losses for which no deferred tax asset is recognised	61,201	–
TAX AS PER STATEMENT OF COMPREHENSIVE INCOME CHARGE	**(20,564)**	**12,593**

The corporation tax rate is 20% (2015: 20%).

The company in 2015 change its tax residency from Cyprus to Russian and opened a branch in Moscow. As a result the Company is taxable under Russian Tax Code which impose corporation tax at the rate of 20%.

7. Dividends

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to USD 7,298 thousand (RUB 500,332 thousand), which corresponds to USD 0,1 (RUB 6.66) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB 285,475 thousand, which corresponds to USD 0,07 (RUB 3.8) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 2 September 2016. The dividend was paid on 18 October 2016.

On 27 April 2015 the Board of Directors declared a final dividend for the year 2014 amounting to RUB 300,329 thousand (USD 5,461 thousand), which corresponds to RUB 4.01 (USD 0.07) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 05 June 2015. The dividend was paid on 03 July 2015.

8. Investments in subsidiaries (RUB'000)

	2016	2015
BALANCE AT 1 JANUARY	**8,809,686**	**7,831,312**
Additions	266,000	978,374
Impairment of investments in subsidiaries	(55,257)	–
BALANCE AT 31 DECEMBER	**9,020,429**	**8,809,686**

The details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	31 December 2016 Effective Holding %	31 December 2015 Effective Holding %
CJSC MD PROJECT 2000	Russian Federation	Medical services	95	95
LLC Khaven	Russian Federation	Medical services	100	100
LLC Velum	Russian Federation	Medical services	64	54
LLC Capital Group	Russian Federation	Renting of property, retail	80	80
LLC FimedLab	Russian Federation	Medical services	60	60
LLC Clinic Mother and Child	Russian Federation	Holding of trademarks	100	100
LLC Clinica Zdorovia	Russian Federation	Medical services	60	60
LLC Ivamed	Russian Federation	Medical services	100	100
LLC Dilamed	Russian Federation	Dormant	100	100
CJSC Listom	Russian Federation	Service Company	100	100
LLC UsticECO	Russian Federation	Medical services	70	70
LLC Mother and Child Perm	Russian Federation	Medical services	80	80
LLC Mother and Child Ufa	Russian Federation	Medical services	80	80
LLC Mother and Child Saint Petersburg	Russian Federation	Medical services	60	60
LLC MD PROJECT 2010	Russian Federation	Medical services	100	100
LLC Mother and Child Ugo-Zapad	Russian Federation	Medical services	60	60
LLC MD Service	Russian Federation	Pharmaceutics retail	95	95
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	100	100
LLC Mother and Child Yekaterinburg[1]	Russian Federation	Dormant	100	100
LLC Mother and Child Tyumen	Russian Federation	Medical services	100	–
Vitanostra Ltd	Cyprus	Holding of investments	100	100
LLC NPC MIR	Russian Federation	Holding of investments	–	100
LLC MK IDK	Russian Federation	Medical services	100	100
LLC Apteka IDK	Russian Federation	Pharmaeutics retail	100	100
LLC CSR	Russian Federation	Medical services	100	100
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	85	85

Name	Country of incorporation	Principal activities	31 December 2016 Effective Holding %	31 December 2015 Effective Holding %
LLC MD Assistance	Russian Federation	Assistance services	100	100
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	80	80
LLC Mother and Child Kostroma	Russian Federation	Medical services	100	–
LLC Mother and Child Vladimir	Russian Federation	Medical services	100	–
LLC MD Management	Russian Federation	Management company	100	100
LLC Mother and Child Ryazan	Russian Federation	Medical services	100	100
Shelly Management ltd	BVI	Holding of investments	–	100
Ivicend Holding Ltd	Cyprus	Holding of investments	100	100
CJSC MC Avicenna	Russian Federation	Medical services	100	100
LLC H&C Medical Group	Russian Federation	Medical services	100	100
LLC Medica 2	Russian Federation	Medical services	100	100
LLC KCRM (*)	Russian Federation	Medical services	100	–
LLC OCRM (*)	Russian Federation	Medical services	100	–
LLC NCRM (*)	Russian Federation	Medical services	100	–
LLC BCRM (*)	Russian Federation	Medical services	100	–
LLC Mother and Child Siberia (*)	Russian Federation	Medical services	100	–
LLC Siberia service company	Russian Federation	Service Company	100	–

(*) In the end of January 2016, the Company indirectly acquired through its subsidiary Ivicend Holding Limited five entities from an unrelated third party. All these entities registered under Russian laws and located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul. The acquisition was for a cash consideration of RUB485,000 thousands and contingent remuneration related with targeted net debt in amount of RUB15,000 thousands, for 100% of the outstanding share capital of each entity.

In 2016 the Company acquired 10% share in a subsidiary. LLC "Velum", which it controls, for RUB56,000 thousand.
The Company established new subsidiaries, as: LLC Mother and Child Tyumen, LLC Mother and Child Kostroma, LLC Mother and Child Vladimir, LLC Siberia service company.

(1) Following a small re-organization of the MDMG group that took place in 2016, the investment in these subsidiaries was impaired because their carrying amount exceeded their recoverable amount. An impairment loss of RUB 55,257 thousand was charged to the statement of comprehensive income under "Other expenses".

9. Cash and cash equivalents (RUB'000)

	31 December 2016	31 December 2015
Cash at bank and in hand	44,746	45,129
Bank deposits with maturity less than 3 months	658,597	386,278
	703,343	**431,407**

Currency:	31 December 2016	31 December 2015
RUB	46,138	31,087
EUR	133	557
USD	657,072	399,763
	703,343	**431,407**

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 15 of the financial statements.

10. Trade, other receivables and deferred expenses (RUB'000)

	31 December 2016	31 December 2015
Other receivables	25,401	7,856
Dividends receivable	–	50,000
	25,401	**57,856**

11. Share capital

	Number of shares	Nominal value USD	Share capital RUB'000	Share capital USD'000
Authorised	125,250,000	0.08	–	10,020
Issued and fully paid	75,125,010	0.08	180,585	6,010

12. 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.

Treasury shares

During the year ended 31 December 2014, the Company has acquired 230,000 own shares (0.3% of total shares issued) at total cost of RUB 73,086 thousand.

In 2015 the Company established an equity-settled share-based program that entitle key management, other management and key medical personnel to receive shares in the Company. Under this program, employees are entitled to receive shares subject to work in the Company for three years starting from 1 January 2015, earnings per share targets and future development projects' targets. Shares will be transferred to employees in 2018.

At the grant date being 31 December 2015 the fair value of shares was measured as a market share price multiplied by number of the shares of the program (230,000 shares) and amounted to RUB 88,005 thousand.

It was assumed that the target conditions will be met in 2018, therefore during 2016 the shares amounted to RUB 25,014 thousand were credited to equity account and debited to expense account as employee remuneration (in 2015: RUB 29,335 thousand).

Retained earnings

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

Other reserves

Exchange differences relating to the translation of the net assets of the Company from its functional currency to the presentation currency before changing the functional currency from US Dollars to Russian Rubles were recognised directly in other comprehensive income and accumulated in the other reserves.

13. Trade and other payables (RUB'000)

	31 December 2016	31 December 2015
Accruals	34,897	14,369
Other payables	45,611	16,376
	80,508	**30,745**

The exposure of the Company to liquidity risk in relation to trade and other payables is reported in note 14 of the financial statements.

14. Related party transactions

As at 31 December 2016, 67.9% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr Mark Kurtser. The 31.8% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders. The remaining 0.3% of the Company's share capital is owned by the Company (note 12).

The transactions and balances with related parties are as follows:

14.1 Directors' remuneration

The remuneration of the members of the key management personnel and non-executive directors for the year ended 31 December 2016 was RUB 13,503 thousand (31 December 2015: RUB 14,166 thousand). The key management personnel involved in the equity-settled share-based arrangements with total 24,000 shares to be granted in 2018 if target conditions are met (31 December 2015: 27,600 shares).

14.2 Transactions with subsidiary companies (RUB'000)

	2016	2015
Dividends received	1,540,001	1,220,979
	1,540,001	**1,220,979**

14.3 Revenue from branch operations

During the year, the Company received other income amounted to RUB 86,300 (2015: Nil) which relates to advertising, IT support and call center expenses recharged to its subsidiaries (Note 4).

14.4 Outstanding balances with subsidiary companies (RUB'000)

	2016	2015
Dividend receivable	–	50,000
	–	**50,000**

14.5 Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2016 and 31 December 2015 and as at the date of signing these financial statements are as follows:

Name	Type of interest	Effective interest, %
Mark Kurtser	**Indirect ownership of shares**	67.90
Kirill Dmitriev	**Indirect interest in shares**	5.55
Simon Rowlands	**Direct ownership of shares**	0.33

Indirect interest in shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

The calculation of effective interest is based on the total amount of issued and fully paid shares, including treasury shares acquired by the Company (note 12).

15. Financial instruments and risk management

Financial risk factors

The Company 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company'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. Cash balances are held with various financial institutions.

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 (RUB'000):

	31 December 2016	31 December 2015
Trade and other receivables	25,384	57,856
Cash and cash equivalents	703,343	431,407
	728,727	**489,263**

Cash and cash equivalents

The Group held cash at bank of RUB 703,343 thousand at 31 December 2016 (31 December 2015: RUB 431,407 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are mostly held with bank and financial institution counterparties, which are rated Baa2-Ba1, based on rating agency Moody's Investors Service ratings.

(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 Company has procedures with the object of minimising 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 following are the contractual maturities of financial liabilities, including estimated interest payments (RUB'000):

31 December 2016	Carrying amounts	Contractual cash flows	2 months or less	Between 2-12 months	Between 1-5 years	Over than 5 years
Trade and other payables	80,508	80,508	80,508	–	–	–

31 December 2015	Carrying amounts	Contractual cash flows	2 months or less	Between 2-12 months	Between 1-5 years	More than 5 years
Trade and other payables	30,745	30,745	30,745	–	–	–

(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 Company'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 Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company'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 (RUB'000):

	2016	2015
Fixed rate instruments		
Financial assets	658,597	386,278

The Company 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 Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

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

31 December 2016	USD'000	EUR'000	GBP'000
ASSETS			
Cash at bank	657,072	133	–
Other receivables	–	–	–
	657,072	**133**	**–**
LIABILITIES			
Other payables and accruals	(2,275)	(228)	(7,306)
NET EXPOSURE	**654,797**	**(95)**	**(7,306)**

31 December 2015	USD'000	EUR'000	GBP'000
ASSETS			
Cash at bank	399,763	638	–
Other receivables	–	–	–
	399,763	**638**	**–**
LIABILITIES			
Other payables and accruals	–	(797)	(15,334)
NET EXPOSURE	**399,763**	**(159)**	**(15,334)**

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD	67.0349	60.9579	60.6569	72.8827
EURO	74.2310	67.7767	63.8111	79.6972
GBP	91.2578	93.2634	74.5595	107.9830

Sensitivity analysis

A 10% weakening of the Russian Rubles against the above currencies will result in the increase in profit and equity of RUB 64,740 thousand as at 31 December 2016 (31 December 2015: RUB 38,427 thousand). A 10% strengthening of the Russian Rubles would have an opposite impact on the profit and other equity.

Capital management

The Company's objectives in managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to owners or issue new shares.

16. Fair values

As at 31 December 2016 and 31 December 2015 the Company had no financial assets or liabilities measured at fair value.

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date except the investments in subsidiaries which are presented at cost.

17. Contingent liabilities

(a) Insurance

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 Company does not insure its operational activities, but has obtained insurance cover for some property, plant and equipment. Until the Company obtains adequate insurance coverage, there is a risk of material adverse effect on operations and statement of financial position.

(b) Russian business environment

The operations of the Companys's subsidiaries are primarily located in the Russian Federation. Consequently, the Company 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, but 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.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit.In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

(c) Russian tax environment

The taxation system in the Russian Federation continues to evolve and is characterised 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 generally 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 pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Currently, the Russian Government focuses on the ways to combat offshore structures which historically were widely used by Russian businesses and tighten the tax anti-avoidance regulations. Recent new Russian legislation is aimed at regulating transactions with offshore companies and their activities, which may potentially impact the Company's tax position.

18. Events after the reporting period

In January 2017 LLC MD PROJECT 2010 . 100% subsidiary of the Company, has pledged a hospital building in Ufa with net book value RUB 3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

In February 2017 CJSC MC Avicenna, 100% subsidiary of the Company, opened a new hospital in Novosibirsk. The total amount of the project is approximately RUB 1.3 billion. The opening of a new building delivered a significant capacity increase, with the total floor area more than tripling to 10,260 sq m. The hospital will be able to offer a range of new services, including those not currently available in the city or the region.

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