MD Medical Group Investments Plc

Annual Report and Accounts 2013

Leading the way

Mother and child
Where the future is born

Delivering high-quality, patient-centred healthcare

MD Medical Group is Russia's leading provider of private women's and children's healthcare.

We remain wholly committed to providing a world-class level of care by dedicated staff to an increasing number of women and children across Russia as we continue on our journey of growth.

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Where the future is born

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Delivering results

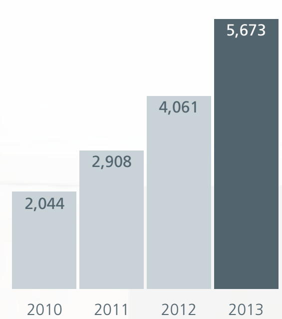
MD Medical Group continues to deliver on its strategy to grow its existing operations and to expand its business through the disciplined construction of new state-of-the-art medical facilities and through selective acquisitions of the best performing medical companies in the regions.

Financial KPIs

Revenue (RUB mln)

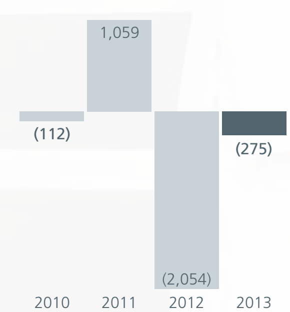
5,673

+40%



Net debt/(cash) (RUB mln)

275

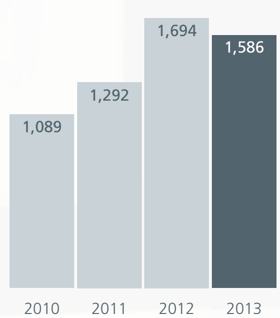


EBITDA (RUB mln)*

1,586

EBITDA Margin

28%

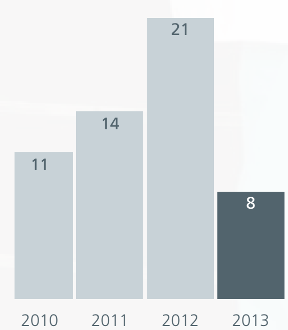


EPS (RUB/GDR)**

8

payout ratio

30%



* EBITDA calculated as operating profit before depreciation and amortisation

** 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

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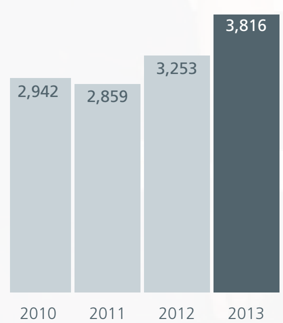
Operational KPIs

Number of deliveries

3,816

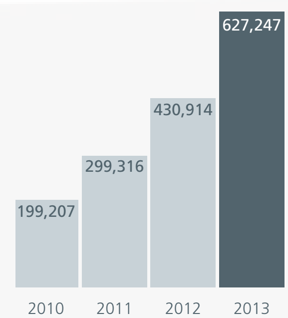
+17%



Number of out-patient admissions

627,247

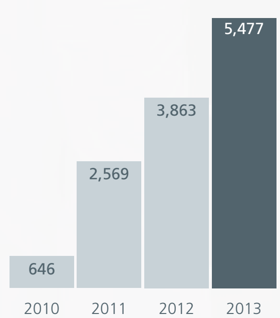
+47%



Number of IVF cycles

5,477

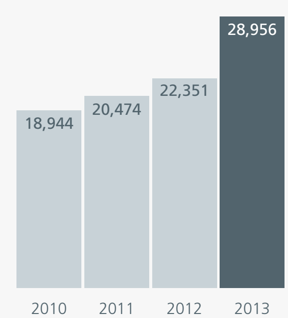
+42%



Number of in-patient days

28,956

+30%



Unparalleled quality

Delivering quality healthcare across an unparalleled network:

- MD Medical Group delivers the highest quality of care to women and children throughout Russia
- We invest in best-in-class facilities and equipment to continually raise the bar on quality
- World-renowned, highly-qualified medical experts deliver an unrivalled breadth of clinical services throughout our network of modern and high-quality healthcare facilities
- By investing in and using new and pioneering medical technology, we are at the forefront of medical care in Russia, providing a truly distinct level of patient-centric care
- It is our commitment to our patients and stakeholders to provide the highest quality healthcare services of any player in the Russian market

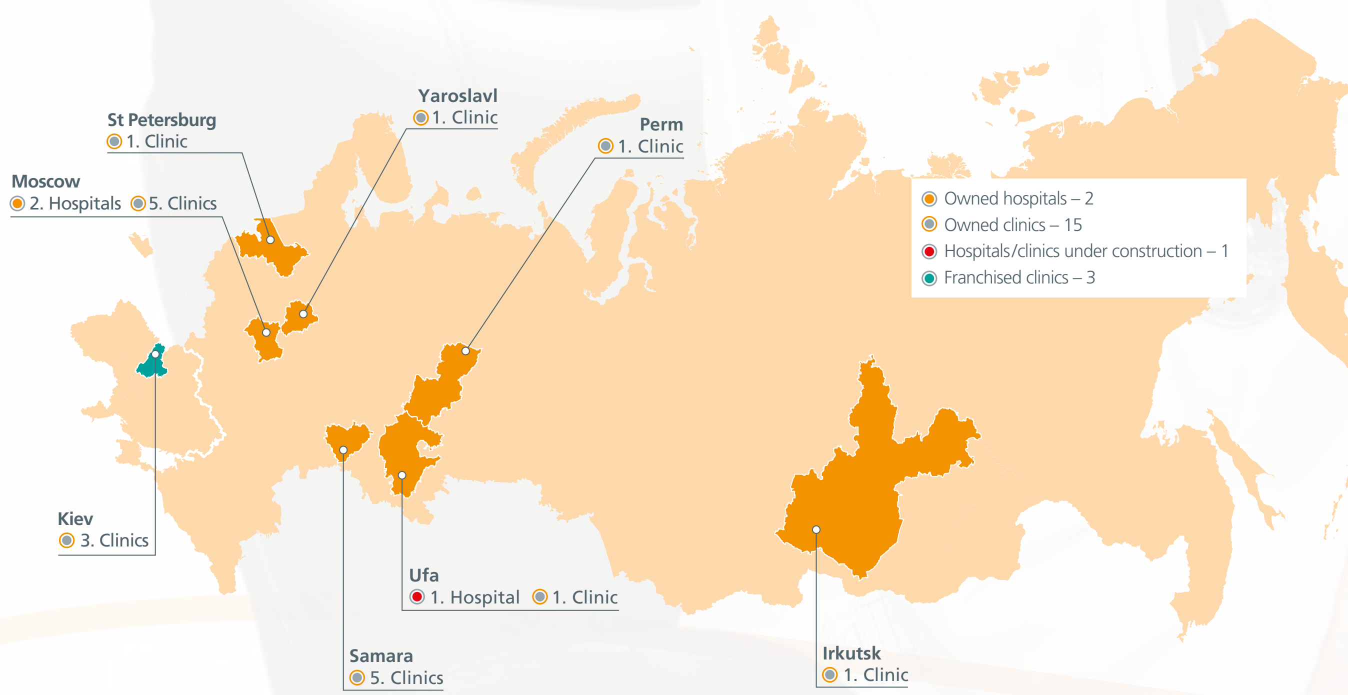
Moscow

Following the successful opening of Moscow's first private maternity centre – the Perinatal Medical Centre (PMC) – in 2006, MD Medical Group has expanded rapidly in Russia's most populated regions. PMC and Lapino deliver new in-patient experiences alongside a full scope of services. Five dedicated Mother & Child clinics enable a continuity of care that is unique to MD Medical Group.

The rest of Russia

Leveraging our strong track record in growing our network of hospitals and out-patient clinics, we acquired IDK Medical Company in April 2013, incorporating five out-patient clinics and two pharmacies and increasing the out-patient capacity of the Group by 30%. In addition, we completed the acquisition of Mother & Child Irkutsk, a specialist out-patient clinic providing a range of women's health services specialising in IVF and gynaecology.

In December 2013, we opened our eleventh out-patient clinic in Yaroslavl, which became the first healthcare facility in the region to provide IVF services. Work also began on our third hospital, in Ufa, as we aim to capitalise on the positive reception to our existing out-patient clinic in that region.



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Breadth of service offering

Obstetrics and gynaecology

- Pregnancy management
- Delivery services
- Gynaecology

Paediatrics

- Treatment of paediatric diseases
- Immunization shots
- Home visits

Fertility and IVF treatment

- Surgical management of fertility related problems
- Reproductive technologies

Other services

- Laboratory services
- Stem cell storage
- Dental care
- Trauma
- Rehabilitation
- Surgery

World-class facilities

We invest in best-in-class facilities and equipment to continually raise the bar on quality.

We operate a growing network of 17 modern healthcare facilities. Our unique combination of hospital and out-patient services allows patients to benefit from a full scope of services in women's and children's healthcare.

Moscow

2 hospitals and 5 out-patient clinics.

Across our offering in Moscow we invest in the latest state-of-the-art equipment from around the world in order to make sure that our patients receive the highest quality care available. Our facilities have technology that can assist both mothers and children through the whole continuum of care and for all eventualities both planned and in the case of emergencies.

Hospitals

Perinatal Medical Centre
- 250 beds
- 3,500 deliveries
- 27,600 sq m

Lapino Hospital
- 182 beds
- 3,000 deliveries
- 42,000 sq m

Clinics

Mother & Child Kuntsevo
- 800 sq m

Mother & Child Yugo-Zapad
- 250 sq m

Mother & Child Clinic of Health
- 2,048 sq m

Mother & Child Sokol
- 150 sq m

Mother & Child Novogereevo
- 410 sq m




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Regions

We currently operate 10 clinics across the regions of Russia.

In the regions we endeavour to replicate our all-encompassing services available in our hospitals and clinics in Moscow meaning that all our patients are treated with the MD Medical Group highest standard of care. A key differentiator from us to other providers is that we are able to reach regions others do not and we also bring treatments and technologies that only we can deliver, for example our IVF clinics.

Franchises in Kiev, Ukraine

We have three clinics in Kiev operating via franchise agreements, with the third of these clinics having opened on 18 October 2013. These clinics specialise in reproductive technologies, obstetrics and gynaecology. The results of these franchise clinics are not consolidated into the Group's accounts.

Hospitals

Ufa Hospital (expected to open early 2015)

- 181 beds
- 3,000 deliveries
- 32,000 sq m

Clinics

Mother & Child St Petersburg

- 700 sq m

Mother & Child Perm

- 800 sq m

Mother & Child Ufa

- 800 sq m

Mother & Child IDK Samara

- 4,093 sq m across 5 clinics

Mother & Child Irkutsk

- 600 sq m

Mother & Child Yaroslavl

- 800 sq m

International

Mother & Child Kiev (right bank)

- 670 sq m

Mother & Child Kiev (left bank)

- 750 sq m

Mother & Child Kiev (Obolon)

- 225 sq m

Key strengths

At MD Medical Group we are focused on the provision of the highest quality clinical care for women and children, attending to their healthcare needs from pre-pregnancy, through birth and childhood. We believe that our continued focus on these key strengths will enable us to capitalise on our leading position to deliver returns to shareholders.

Leading position in women's and children's health

- Pioneers of full-service private maternity healthcare in Russia
- Largest private provider of women's healthcare in Russia with 3,816 deliveries in 2013
- Largest provider of assisted reproductive technology in Russia with 5,477 IVF cycles performed in 2013, a 42% increase on 2012
- Second largest private healthcare provider in Russia by revenue

Operating in a highly attractive growth market

- Favourable macroeconomic and demographic trends including an emerging middle-class with growing disposable income, a growing awareness of the importance of high-quality healthcare among the Russian population and a rising birth rate
- Strong demand for private healthcare with expected growth of legal payments to private healthcare providers by approximately two-times by the end of 2017[1]
- Supportive government policies including tax benefits for qualifying healthcare providers, increased scope of mandatory health insurance system and direct incentives for users of private healthcare including income tax deductions
- The Russian healthcare market still has significant growth potential with private healthcare growing faster than other segments
- Substantial barriers for new entrants including significant capital expenditure requirements, a limited number of highly qualified medical personnel, strict licensing requirements and industry regulation as well as the considerable importance of brand recognition and reputation

Growing network of healthcare facilities in attractive regions of Russia

- Operating a growing network of high-quality healthcare facilities across several of the most economically developed regions of Russia
- The only private healthcare provider in Russia delivering 'full-cycle' healthcare services for women and children, well positioned to both attract new patients and promote long-term loyalty amongst existing patients
- On track to open third purpose-built, high-quality hospital in Ufa
- Selective project pipeline targeting the 12 largest Russian regions in terms of gross regional product

1 According to BusinesStat, 2013

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Strong emphasis on outstanding clinical outcomes and quality of care with a full-cycle service offering

- Focus on patient-centred, outstanding clinical outcomes and high-quality customer service from the calibre of our physicians to the quality of the equipment, level of patient comfort, utilisation of latest techniques and technologies and the regular introduction of new services
- Focused on recruiting and retaining the best and most highly-qualified physicians and medical professionals
- Large talent pool of over 1,088 FTE physicians and 838 other medical professionals who are fully certified (ca. 23% of physicians have advanced qualifications including PhD and post-doctoral degrees)
- Average turnover rate of medical professional staff is less than 10% owing to competitive compensation packages, excellent professional development opportunities and favourable working conditions
- Management team led by qualified, practising physicians with deep understanding of the business and operations

Track record of strong operational and financial performance

- Sustained revenue and earnings growth and significant cash flow generation
- Successful track record of acquisition and integration of out-patient clinics, expansion of existing healthcare facilities, addition of new services and construction of new healthcare centres
- Strong organic and acquisitive growth with attractive returns on investments
- Rapid ramp-up in utilisation rates to achieve optimal long-term targets
- Financing capacity and low leverage provide significant flexibility for new investments

Chairman's statement

2013 was a strong year for MD Medical Group, our first full year as a public company. We continued to demonstrate impressive revenue growth, reaching 5,673 mln RUB for the year, our second consecutive year-on-year increase of 40%. Our EBITDA margin for the year was at 28%, with the second half of the year up 5 p.p. from the first half to 30%, driven largely by the continued ramp-up at Lapino and new services coming on stream.

Dr Mark Kurtser
Chairman

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Continued organic growth and acquisitions

We made significant progress on our new projects during the year. The ramp-up at Lapino accelerated as the year progressed, which supported the increase in our margins in the second half of the year, and contributed more than 1 bln RUB to our full-year revenue. We are on track with the construction of our state-of-the-art hospital in Ufa expecting to open and to have launched all services by early 2015 and, in December 2013, we also opened a new dedicated IVF clinic in Yaroslavl – the first of its kind in the region.

We supplemented our organic growth with the successful acquisition of the IDK Medical Company, the largest network of women's and children's health clinics in the Russian region of Samara. In addition, we acquired a high-quality specialist out-patient clinic in Irkutsk, which we had previously operated through a franchise agreement.

Favourable operating and regulatory environment

There is often discussion about overall economic and GDP growth in Russia. While this is of course something we pay close attention to, the reality is that we operate in a sector where there is a structural shortage in supply of high-quality healthcare services. Despite our fast rate of growth, the supply and demand dynamics are likely to remain in our favour for years to come. This is particularly true in our core segment of women's and children's health, where we are the undisputed leaders.

The regulatory environment is also very favourable in our sector. There is broad recognition of the need to develop private healthcare, and recognition of the critically important role that players such as MD Medical Group can play in delivering high-quality medical services to people throughout Russia. For example, in an effort to stimulate investment in the private healthcare market, the Russian Government introduced a number of supportive regulatory measures such as zero income tax.

Entering 2014 with momentum

Of course 2013 was not without its challenges. We took some time to adapt to and fully recognise the new challenges of being a public company. We have also learned some important lessons along the way, but I am pleased to say that we finished the year on a strong note, and have carried this momentum into 2014.

Looking ahead

In 2014, we will continue to execute on our key strategic priorities, which is to continue the strong ramp-up of Lapino; to ensure that we open our new hospital in Ufa on time and on budget; to integrate further our newly acquired regional assets and to achieve maximum synergies across the Group; and to continue to identify new growth opportunities in Russia's most attractive regions.

We have achieved a lot in our first full year as a public company. But at the same time, we realise that we are still only just getting started and that there remains substantial scope for further profitable growth, as a leading player in Russia's dynamic private healthcare market. As Chairman, I am confident that we have the right team of people, the experience, the quality of service and the business model to capitalise on that growth opportunity.

None of our significant achievements would have been possible without all our people across all service lines and regions. On behalf of the Board, I would like to thank all of our colleagues at MD Medical Group for the hard work and effort they have all put in to the business, helping to keep it growing and retaining our position as the leader in women's and children's health.

Chief Executive Officer's statement

2013 was a year in which we strengthened further our leading position in Russia's fast-growing private healthcare market, while continuing to execute on the strategy we presented to investors back at the time of our IPO. We posted solid results for the year, both on the operating and financial side, particularly supported by our strong performance in the second half of the year.

Dr Elena Mladova
Chief Executive Officer

Strong operating results
Overall, we saw impressive growth across almost all key operational indicators during the year.

Deliveries increased by 17% year-on-year, up from 3,253 to 3,816, as a result of the successful ramp-up at Lapino which saw 1,220 deliveries in its first full year of operations. By comparison, the total number of new-borns in Moscow as a whole grew by only 2% during the year compared to a 17% increase in the Group – a demonstration of our leading position in the market.

We continue to see growing demand for IVF treatment, with the total number of treatments increasing to 5,477 in 2013, representing year-on-year growth of 42%. IVF is an area close to my heart as it was my first field of specialisation when I joined MD Medical Group. I believe that demand for IVF services will continue to grow, and we are increasingly well placed to meet that demand as we expand our capacity and capabilities both in Moscow and in the regions.

The number of out-patient treatments in 2013 increased by 46% to 627,247, thanks in significant part to the ramp-up at Lapino and the successful integration of our newly acquired Samara and Irkutsk clinics. At the same time, in-patient admissions grew by 30% to 28,956 treatments during the year, also benefiting from the opening of Lapino.

Perhaps most importantly, we have continued to successfully implement our regional development strategy. While we believe the market in Moscow will continue to grow and that we will continue to increase our share of the market, longer-term growth will be driven more by Russia's regions. We are actively building our competencies to capture this growth potential.

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We believe we are the only sizeable player in Russia's private healthcare market with a clear strategy to develop in the regions. In 2013, we acquired a first-rate healthcare network in Samara, IDK Medical Company. We acquired the specialist out-patient clinic in Irkutsk which had previously operated under a franchising arrangement. We opened a new, dedicated IVF clinic in Yaroslavl whilst making excellent progress with the construction of our world-class hospital in Ufa, both regions where MD Medical Group is the pioneer in the provision of private healthcare for women and children.

Solid financial performance

We saw very strong top-line growth, with our revenue increasing by 40% during the year, amounting to 5,673 mln RUB. Key drivers for this growth included the successful ramp-up at Lapino, which boosted revenue by over 1 bln RUB, or by 19%, after only the first full year of operations at the new hospital, with further expected growth in the years to come. In addition, our new clinics in Samara, Irkutsk and full year of operations in the city of Perm contributed over 600 mln RUB to our total revenue.

Our EBITDA reached a total of 1,586 mln RUB for the year, representing an EBITDA margin of 28%. It is worth noting that EBITDA increased by 46% from the first half to the second half of 2013, as the ramp-up at Lapino picked up pace, and as we saw greater economic benefit from our new regional clinics. The increase is also testament to the ability of our teams to integrate new businesses and expansion opportunities successfully and quickly.

Our capex amounted to 3,080 mln RUB for the year. This was predominantly driven by the construction of our hospital in Ufa, and just under 650 mln RUB was spent on M&A opportunities.

We are well funded to continue to finance our growth, with a net cash position at the end of the year of 275 mln RUB.

Our people remain central to our success

Our success and reputation in the market would not be possible if it were not for the unrivalled quality of our people. As such, ensuring that we are able to attract and retain the best talent in the market is a key strategic priority for us.

We place considerable emphasis on training and development for our people, which we believe is one of our key differentiators. We have a very competitive compensation scheme in place. In addition, after the reporting period we announced a share buyback, which was used to create a share incentive plan for senior management and our top doctors. In addition to serving as a motivating factor for our key people, this will also help to further align the interests of management and shareholders.

We see the results of our efforts in the loyalty which our people express to us as a company. Over the past 5 years, we have had an employee retention rate of more than 90% which we believe is one of the highest retention rates in our market.

Looking ahead

We will continue to search for new and attractive locations both in Moscow and St Petersburg, Russia's largest markets, as well as in other dynamic and fast growing regions throughout the country.

We are very pleased with the success we have enjoyed from our major greenfield projects in Moscow and look forward to the same success in Ufa. Ultimately we will look to rollout our business model further in other regions where we see sufficient demand.

In addition to our investment in new purpose-built hospitals, we will continue to invest into the latest state-of-the-art technologies and the most skilled people so that we can provide the highest standard of care to all of our patients and maintain our position as leader in the market.

And lastly, while we will certainly pursue new opportunities and expansion over the medium term, a key focus for 2014 will be the continued ramp-up of Lapino and enhancing operations and performance within our existing network.

The growing healthcare market in Russia

- Russia's leading private healthcare provider in women's health and paediatrics
- Wide range of medical services including obstetrics and gynaecology, fertility and IVF treatment, paediatrics and other services (family medical services, dental care, stem cell storage, laboratory testing and radiology diagnostics)
- Network of modern and high-quality healthcare facilities across Russia
- Equipment provided by leading international and domestic suppliers
- Highly qualified medical personnel supervised by recognised medical experts

Public healthcare system overview
Public healthcare facilities may provide free (with Mandatory Health Insurance "MHI"), and paid-for (voluntary medical insurance or out-of-pocket payments) services. According to the legislation which came into force in January 2012, the public healthcare sector can be divided into three categories of medical institutions:

- Autonomous organisations (ANOs) provide mainly paid services. These organisations do not have any financial support from the state, except for the provision of services within the MHI where the state reimburses the costs. ANOs have the right to provide paid services and to use the revenue for their own purposes.
- State-owned institutions continue to provide a broad spectrum of medical care. They have access to state funding and may also provide paid services but do not have the right to use the revenue for their own purposes. All income is transferred to the federal budget.
- Budget – mostly special treatment services like oncology or tuberculosis – continues to provide only free services via MHI. Funding of these organisations is provided from the federal budget.

Most of Russian citizens are not satisfied with the provision of healthcare services. The satisfaction level varies across the regions ranging from 52% down to 20%; even in Moscow only a third of respondents were satisfied with the level of medical care they receive.

Private healthcare system overview
Before 1990, public healthcare was the only legal system that existed in Russia. Private healthcare practitioners were not legally allowed to provide services and their numbers were relatively small. Legal private medicine began in the early nineties with the creation of private branches of government health facilities. It developed very slowly until 2000 and was dominated by dental surgeries and pharmacies. The sector for private healthcare in Russia experienced its first boom in the early noughties when separate multi-disciplinary clinics and network projects were created. Fee-for-service medical aid can be provided by private as well as public healthcare institutions and is paid for either by individuals (out-of-pocket), insurance companies or commercial enterprises.

The market is characterised by high barriers to entry, namely: high capital investment requirements, a limited supply of a skilled workforce – both managerial and medical – the importance of brand awareness, and reputation in the market – both of the establishment and the doctor's personal reputation. No new major players are expected to emerge in the near-to-medium term however an increase in activity from strategic and financial investors supporting existing projects is increasing.

In view of the current state of the public healthcare infrastructure, widespread social dissatisfaction with quality of service levels and limited budget resources, the Russian government is taking steps to support the development of the private healthcare sector in the country in order to relieve the strain on the public system. Among recent developments, a number of support measures were introduced at the regulatory level:

- ***Abolition of income tax*** for private organisations involved in the provision of healthcare services, including all licensed medical care services.
- ***Extension of mandatory healthcare insurance*** to all of the private medical care providers from 2015. This means that Russian citizens will be free to choose whether to go to a public or private clinic or hospital with the latter reimbursed for services provided by the state.
- ***Tax deduction*** – Russian citizens are entitled to a tax deduction from their and their family's healthcare expenditure up to expenditure of RUB 120,000.

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Funding sources
The Russian fee-for-service market is split into voluntary health insurance (VHI) which represents 10%, legal payments to public healthcare providers which make up 60%, legal payments to private healthcare providers which make up 21% and the grey market which makes up 9%.

Currently about 10% of the Russian population has a VHI policy and it is anticipated that this will increase over time.

The ability to self-pay is linked to the economy, however the self-pay market constitutes some 94% of MD Medical Group's revenue, with voluntary health insurance making up the remaining 6%. It is expected that legal payments to both private and public healthcare providers will grow faster than the average market rate, due to an increase in consumer incomes and consumption habits.

Voluntary Healthcare Insurance
VHI is a limited aspect of health financing in the Russian Federation as, from coverage and financial perspectives, it remains largely confined to big cities and still only covers a small fraction of the population. VHI has however developed far beyond this boundary and has acted as a supplementary insurance, granting the population access to better equipped and staffed private and public healthcare establishments whose services may be too expensive to be covered by the state within MHI.

Growth in private healthcare expenditure
The Russian healthcare environment is characterised by a heavy reliance on the immense but poorly functioning public healthcare infrastructure (a third of all facilities are in need of major refurbishment), lack of qualified medical personnel, and growing demand for quality medical services from the population amid growing disposable incomes and health awareness.

Total healthcare expenditure in Russia, measured as a percentage of GDP, is around half of the OECD average indicator. The difference is even greater when measured in USD per capita terms.

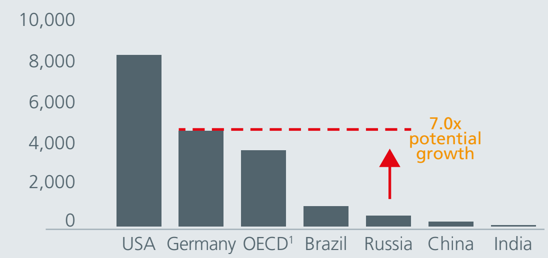
Growing demand for healthcare services, increasing costs of medical technologies and an ageing population are all factors that are expected to contribute to global healthcare expenditure growth. Russia's situation is almost unique compared to other countries in the world. While virtually every government is looking to reduce healthcare costs, the Russian government is investing large amounts of money into the public healthcare system amidst negative demographic trends. Consequently, according to recent research, both total and private expenditure on health in Russia are expected to grow at double digits until 2017.

It is important to recognise that private healthcare in Russia is in its infancy and there is still considerable scope for growth. To date current volumes of patients are low as a percentage comparator to other countries and prices are also relatively low. According to recent market research it is estimated that the value of the medical market will almost double by the end of 2017. This is based on increasing volumes, greater disposable incomes and the potential increase in prices. At present legal payments to private healthcare providers are currently above 16% and this is forecast to grow.

Total healthcare expenditure in Russia is expected to grow at one of the highest rates in the world, reflecting the Russian government's high priority on healthcare and demographics.

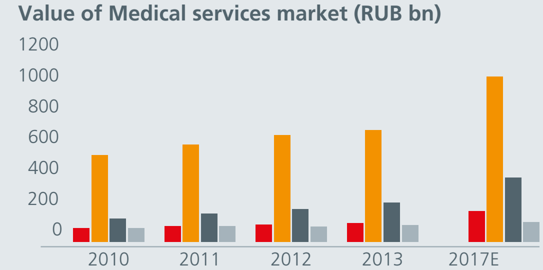
Back in April 2012, the Russian Ministry of Economic Development presented its forecast of the country's economic development, predicting that total healthcare expenditure of both public and private sectors will constitute between 6%-7% by 2030.

Per capita healthcare expenditures (per annum), 2012



[1] Average indicators for OECD member countries as calculatedbased on WHO and UN data

Value of Medical services market (RUB bn)



CAGR 2010 - 2017:

VHI	+12%
Legal payment public healthcare provider	+10%
Legal payments to private healthcare provider	+16%
The grey market	+5%

Source: BusinesStat, 2013

Building our market share

The VHI market operates in a simpler way than MHI. Individuals or commercial enterprises sign a contract with a pre-selected insurance company which provides healthcare insurance. Different insurance companies provide a number of health insurance packages at different prices. Packages are provided to cover a selected range of providers where a patient can be treated.

In most cases VHI is a set of medical services focused on a particular category of the insured. Packages can vary in terms of service range, offered service volume, policy territory, age of insured, etc.

Healthcare market drivers

The Russian healthcare services market is poised for stable double-digit growth to 2017 due to a number of key driving forces:

- Rising disposable incomes, including in the regions beyond Moscow.
- Improving demographic trends (eg increase in fertility rates).
- Higher disease incidence increasing demand for medical care.
- Growing health awareness among the Russian population and healthier lifestyles.
- Strong governmental support, as healthcare becomes a matter of national security doctrine:
  - Increase in government healthcare expenditure
  - National healthcare programmes aimed at reversal of overall population decline (National priority project Health, maternity capital, etc)
  - Stimulation of private healthcare market development by way of supportive regulatory measures such as zero income tax and mandatory health insurance extension
- Specifically, private healthcare will continue emerging as a viable alternative to the troubled public healthcare system, addressing unsatisfied demand for quality healthcare among the Russian population.
- Under penetration of quality healthcare in the regions of Russia.
- Further expansion of voluntary health insurance.
- Inflow of investments from strategic financial investors into the market given its high growth potential and attractive ROI.
- Gradual eradication of the grey market of healthcare services, re-direction of cash flow into legitimate channels (private and public).

Put differently, the market will be largely demand-driven. Private healthcare providers will continue their expansion to address the ever-growing demand for quality medical care from the Russian population.

MD Medical Group positioning

MD Medical Group is one of the largest private healthcare service providers in Russia. We stand out because of our focused business model, concentrating on our core strengths in women's and children's health, and we are unique in this regard.

Our Moscow hospitals are the largest specialised private maternity hospitals in Russia and account for over one third of total deliveries in the private healthcare sector. Our world-class full-cycle service generates clinical outcomes comparable to the developed countries. Our model is structured to be easily replicated in new regions where there is significant unmet demand and to enable the addition of adjacent, complementary services that are relevant to our existing client base to provide a continuity of care and encourage client loyalty.

MD Medical's core segment drivers

We focus on the four key healthcare segments of obstetrics (maternity care), gynaecology, paediatrics and IVF. These are areas of healthcare which we believe offer significant market potential and where our ability to satisfy demand is limited only by our existing capacity.

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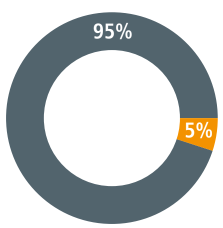
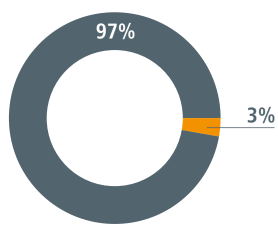
Moscow



- MDMG capacity
- Total market

Moscow & the Moscow Region

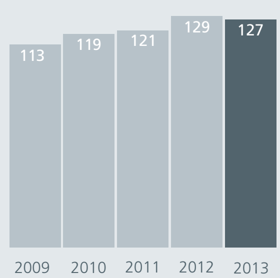


- MDMG capacity
- Total market

Numbers of deliveries registered in Moscow ('000)*

126,825

-2%

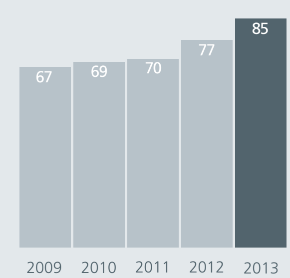


Source
* Department of Health in Moscow

Numbers of deliveries registered in the Moscow region ('000)**

85,386

+10%



Source
** Department of Health in Moscow region

Market drivers of MD Medical's core segments

Obstetrics

- Greater choice of maternity care is driving demand for comfort, quality and a 'smooth, stress-free' birth experience
- Notorious and deeply-embedded image of poor quality in the public sector
- Healthcare development programme and state policy to reverse demographics

Gynaecology

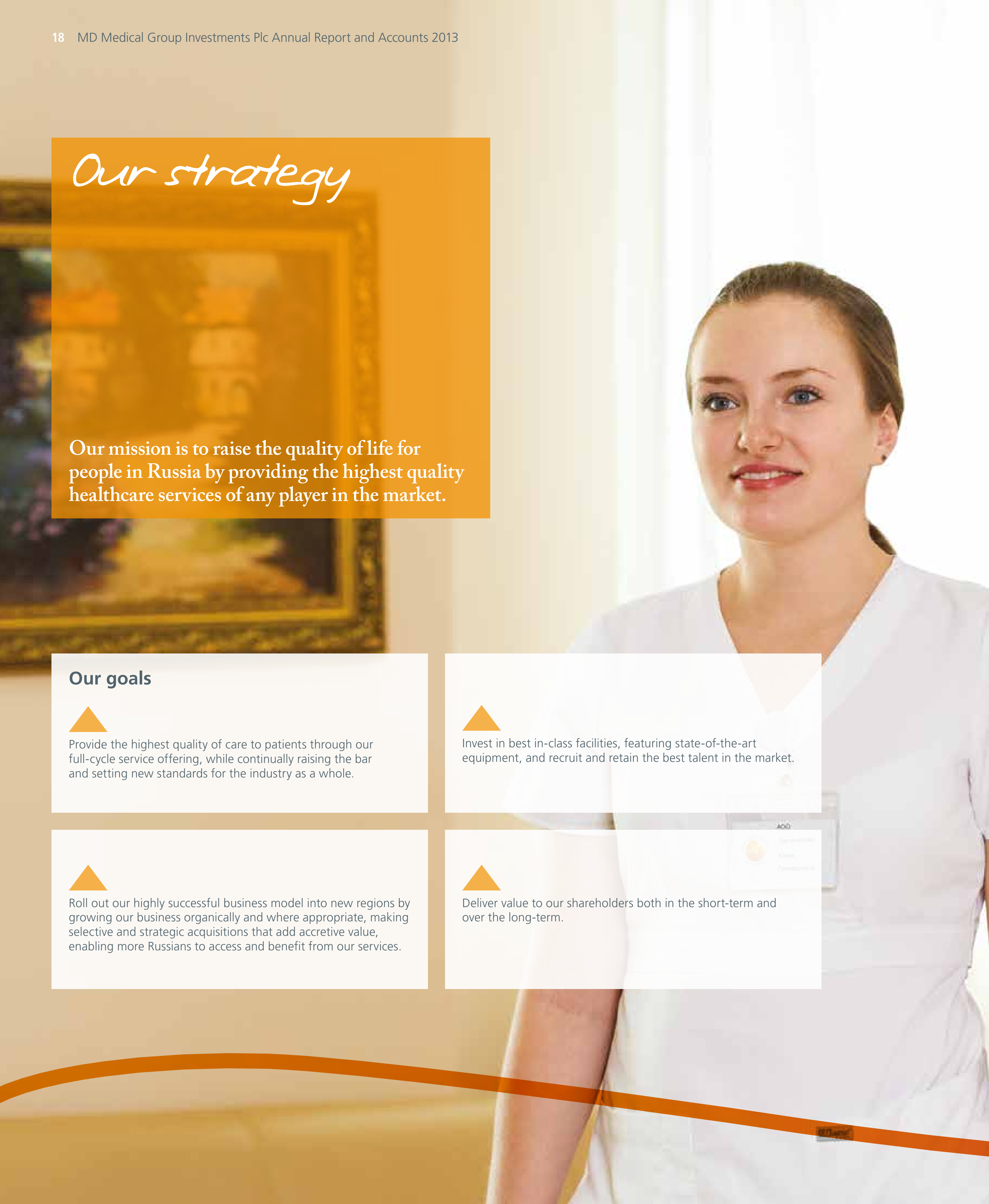
- Underdeveloped service offering of sufficient quality and complexity, particularly in the Russian regions
- Growing incidence of women's diseases
- Social behaviour – according to a study by the Higher School of Economics, women visit the doctor on average 1.3 times more often than men

Paediatrics

- Growth in loyalty among current patients giving birth in private maternity hospitals seeking continuity of care for their infants
- Growing incidence of diseases among children
- Lack of regional infrastructure where private paediatric centres are virtually non-existent
- An underdeveloped VHI sector, where only a small share of corporate agreements include a provision for paediatric healthcare

IVF

- Lack of qualified medical personnel
- Prohibitive bureaucratic barriers to obtain governmental quota for IVF to be provided by the public sector
- Lack of service availability in the regions outside Moscow and St Petersburg



Our strategy

Our mission is to raise the quality of life for people in Russia by providing the highest quality healthcare services of any player in the market.

Our goals

Provide the highest quality of care to patients through our full-cycle service offering, while continually raising the bar and setting new standards for the industry as a whole.

Invest in best in-class facilities, featuring state-of-the-art equipment, and recruit and retain the best talent in the market.

Roll out our highly successful business model into new regions by growing our business organically and where appropriate, making selective and strategic acquisitions that add accretive value, enabling more Russians to access and benefit from our services.

Deliver value to our shareholders both in the short-term and over the long-term.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Patients

The health and wellbeing of all of our patients is at the core of what the Company is delivering. Our aim is to make sure that every patient feels that they have received outstanding care in the highest quality facilities.

MD Medical Group is the leading private healthcare provider in Russia to both mothers and children and we have a commitment to providing the highest clinical standard of care to every patient.

Progress against our strategy

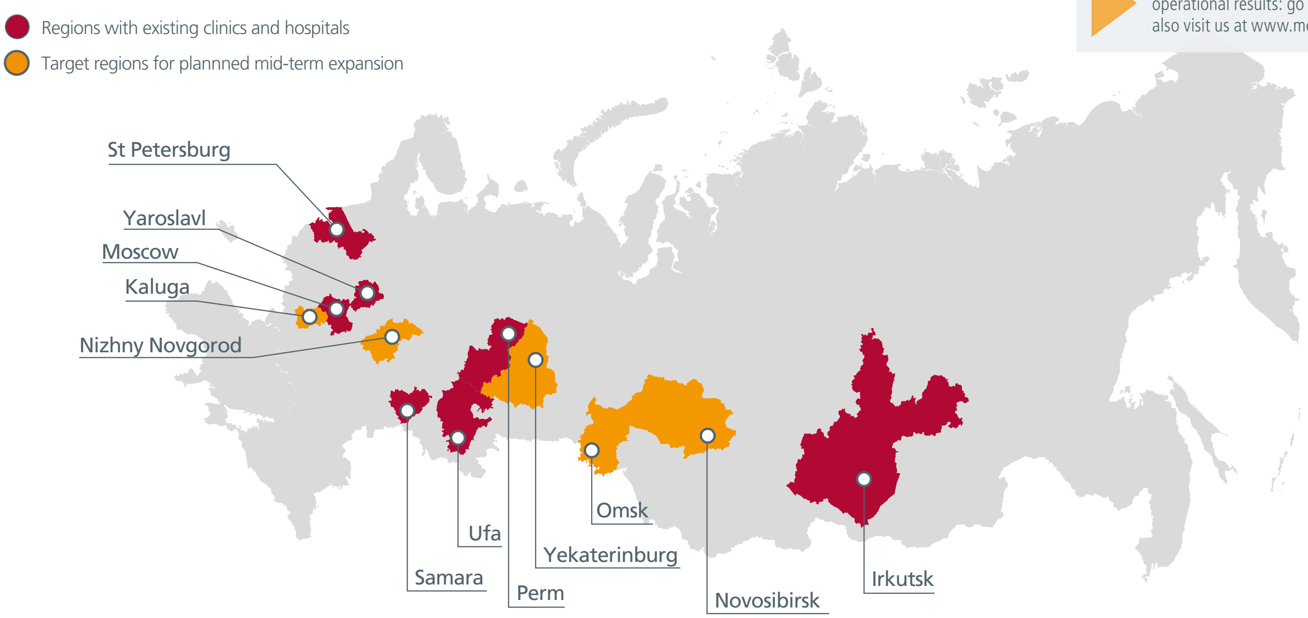
We continue to deliver on our strategic priorities.

Strategic priorities

Provide the highest quality of care to patients through our full-cycle service offering	■ Across our clinics we provide the most up-to-date treatment procedures and medical technology across the "full cycle" of healthcare needs. ■ Following the opening of Lapino, we have seen a ramp-up of the facilities in line with expectations and the hospital is now in a position to provide substantial profitable growth for the Group. ■ We now provide services including pregnancy management, delivery, IVF, women's and children's health and other associated healthcare services.	We will continue to provide the highest quality of care across all of our services and where possible we will invest in the latest technologies to make sure we retain our leading position in the market.
Grow our business organically and where appropriate, make selective and strategic acquisitions	■ We acquired facilities in the Samara region and specialist out-patient clinics in Irkutsk. ■ We completed the vertical construction of the new Ufa hospital and expect this to fully open in 2015. ■ We opened new IVF facilities in Yaroslavl and our state-of-the-art hospital facility in Lapino.	We continue to evaluate opportunities to grow our presence organically and through acquisitions identifying the regions of Kaluga, Omsk and Novosibirsk as priorities.
Invest in our facilities, equipment and people	■ We have developed our facilities across all regions making sure we retain our leading position in the market. ■ New in-patient and out-patient services through openings of surgeries, trauma and rehabilitation departments. ■ We are always looking to attract the highest quality staff across all practice areas as well as retain our current cohort of the high quality people currently working with us.	We will open the hospital in Ufa, begin the construction of a hospital in Yekaterinburg and target other smaller-scale projects like an IVF clinic in Ryazan.
Deliver value to shareholders	■ Following our IPO in 2012 we have used the proceeds that we raised at the time of listing to invest in our facilities and expand our geographic footprint. ■ We have delivered on our promises to maintain our position as the leading provider of healthcare services to women and children whilst growing our presence and offering our care to more patients in Russia. ■ We are well placed to realise the value of our investments in the short and long-term.	Our plan is to continue making investments in our facilities and expand in to new regions whilst realising the value of our project we have invested in throughout 2013.

Developing our potential in the regions

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com



Developing our potential in the regions
MD Medical Group's success is based on being focused on women's and children's healthcare and delivering the highest quality healthcare in Moscow and across regions in Russia. Based on this model MD Medical Group has targeted expansion in to more regions across the country both by organic growth but also by making selective strategic acquisitions. By growing our offering and providing the highest quality healthcare to more people we do not only expect top and bottom line growth but we also see this as key to creating long-term shareholder value.

In addition to our first leading healthcare facility, the Perinatal Medical Centre (PMC), in the last year we have grown our offering at the state-of-the-art Lapino hospital meaning we have been able to see more patients across the Moscow region. This year has seen a ramp-up of the Lapino facility which has led to a steady increase in patients and treatments month by month over the course of the year and we expect this trend to continue into the next year. Through our PMC and Lapino hospitals, we can now provide an unrivalled offering across the spectrum of healthcare services for women and children in Moscow.

At the time of our IPO we outlined our strategy for the use of proceeds. Our priorities were to improve the quality of our offering throughout our facilities and to make selective acquisitions that would mean MD Medical Group was able to offer its services to more people and in more regions. In the last year we have progressed the building of Ufa and are confident it will open at the start of 2015. We also look forward to the commencement of construction of another hospital in Yekaterinburg. In addition to this, we have opened a number of in-patient and out-patient clinics in new regions and are often the first healthcare provider to offer pioneering services in certain regions, for example our new IVF clinic in Yaroslavl is the only clinic to offer IVF in the region. New services in our different facilities include reproductive technology, foetal surgery, magnetic resonance imaging and endovascular surgery.

We are committed to making sure we retain the highest standards of medical care for as many patients as possible. To this effect, we will continue to make investments in our hospitals as well as acquire new facilities that grow our capabilities. By doing this we are not only available to help more patients but we are also growing the business, differentiating ourselves from competitors and increasing our attractiveness as a hospital services group, ultimately creating shareholder value for our investors. MD Medical Group is targeting the 12 largest regions in Russia to expand in to and to date we have identified new expansion opportunities in Nizhny Novgorod, St Petersburg, Ryazan, Kaluga, Novosibirsk and Omsk.

Through scale and growing the number of facilities and number of patients that we treat, we are able to integrate our offering across the Group allowing us to drive down costs creating a positive effect on margins and bottom line growth. In 2014, we plan to continue on the same trajectory of growth and believe we are on course to deliver on our strategy and create shareholder value.

Lapino – our strategy in action

Our Lapino Hospital is a new medical centre where patients are treated in the most comfortable and friendly environment; where women can deliver in the best conditions; and where doctors can work with the most sophisticated equipment. Opened at the end of 2012, the potential annual capacity of the 182-bed hospital is 414,000 out-patient treatments and 3,000 deliveries.

State-of-the-art facilities

MD Medical Group has invested RUB 5.5 bn into the Lapino Hospital, representing the largest privately-backed investment in healthcare ever to be made in Russia. The hospital totals 42,000 square meters and offers a range of services including obstetrics and gynaecology, paediatrics, diagnostics, trauma and rehabilitation.

A new in-patient experience

The new state-of-the-art medical centre is located in an affluent Moscow suburban area and is run by dedicated management focused on ensuring the dynamic ramp-up of the clinic. The hospital houses pristine wards and recovery suits, exercise gyms including a dedicated pregnancy unit, a sauna built from a special kind of sweet-smelling Siberian timber, a salt cave for people with breathing problems, and a swimming pool. There are art exhibitions in the corridors and a discreet VIP wing which can be completely screened off from the rest of the hospital. Visitors can stock up on essential gifts with the latest baby fashions on sale at the on-site boutique located next to reception.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

The new state-of-the-art, medical centre was opened on schedule on 26 November 2012. Annual capacity of the hospital:

Beds
182

Medical personnel (FTE)*
441

Deliveries
3,000

IVF**
1,000

Out-patient treatments
414,000

In-patient days
19,295

* FTE – full-time equivalent
** Opened on Jan 21, 2014

Ufa – our strategy in action

MD Medical Group's dedication to provide excellent healthcare facilities in Russia will be enhanced with the opening of our new hospital in Ufa.

Regional demand and market opportunity

MD Medical Group began a ground breaking construction of a state-of-the-art, purpose-built hospital in the Bashkortostan capital of Ufa in March 2013 that will occupy 32,000 square meters. The facilities will become MD Medical Group's third purpose-built hospital in Russia and further complement its portfolio in IVF treatment in the region. MD Medical Group envisions the hospital will provide 240,000 out-patient treatments and to handle 3,000 deliveries and 1,100 IVF cycles per year.

It is expected that the "Mother & Child Ufa" hospital will include gynaecology departments, an advisory clinic for women, a laboratory and diagnostics unit, and a unit for the second phase of care of premature children. The clinic will provide a range of diagnostic procedures including magnetic resonance therapy and endoscopic diagnostics.

In addition to its current construction commitments, MD Medical Group has operated an out-patient clinic in Ufa since 2009. The specialist out-patient clinic provides a range of women's health services including care into gynaecology, obstetrics and fertility treatments. In 2013, 100 laparoscopic surgeries were completed, with more than 27,990 patients receiving out-patient treatment and 564 IVF cycles carried out.

MD Medical Group believes that the new hospital in Ufa will provide a substantial source of future growth.

Recent developments

Construction is currently ahead of schedule. In February 2014, MD Medical Group completed the vertical construction stage for work at Ufa. The group has already committed more than 1.7 billion RUB to the operation within a budget of 4.3 billion RUB. Like its other hospitals, Ufa will also be known for its luxurious and pristine facilities as well as its dedicated management team.

We envisage the implementation of MD Medical Group's growth strategy in the region will account for the creation of 800 jobs once the hospital is fully opened in 2015. Patients can expect to gain access to a wide range of services in women's and children's healthcare, some of which will be unique for the region.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Construction started on schedule. A ground breaking ceremony was held on 11 March 2013. Planned annual capacity of the hospital:

Beds
181

Deliveries
3,000

IVF Cycles
1,100

Out-patient treatments
240,000

In-patient days
31,000

All parameters stated are for the new hospital

Samara – our strategy in action

2013 saw the continued integration of IDK Medical as MD Medical Group strengthened its presence in the Samara region. The Group retained the expert physicians and strong local management team, enhancing its network of highly skilled medical specialists across Russia.

Samara out-patient clinics

MD Medical Group completed its acquisition of a network of women's and children's health clinics from Vitanostra in the Russian region of Samara (IDK Medical Company) in April 2013. The acquisition of a 100% stake cost 504 mln RUB in cash, and has gained approval from the Russian Federal Antimonopoly Service.

The Samara region has a total population of 3.2 million people and is one of the leading industrial centres in Russia. It is projected that there are around 37,000 baby deliveries each year in the region with an estimated 2,300 IVF cycles per annum.

IDK Medical

The Samara out-patient clinics operate from a premises encompassing 4,093 square meters and is serviced by 199 doctors and 190 medical staff in full-time equivalent. MD Medical Group has been able to leverage IDK's similar business model and strong reputation to enhance the Group's positioning in the region. The acquisition was consistent with MDMG's strategy of developing a high quality regional network of out-patient clinics (in addition to the construction of large hospitals).

IDK was founded in 1992 and currently specialises in obstetrics, gynaecology, fertility treatment, paediatrics and clinical diagnostics. Its 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. These additions provide the Group with one of the strongest franchises in the region and will lead to further growth opportunities in the future.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Capacity of five clinics in the region:

Beds
20

Medical personnel (FTE)
389

IVF cycles
2,200

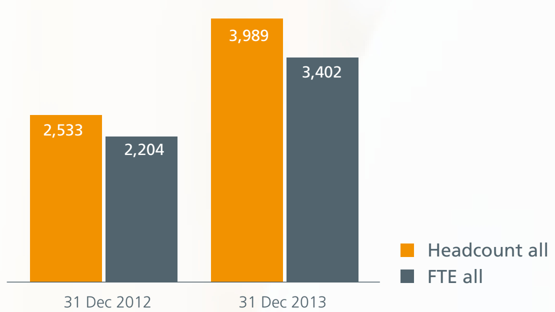
Out-patient treatments
346,086

In-patient days
7,300

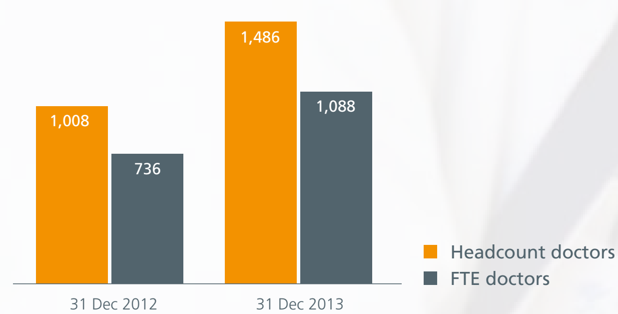
Human resources

MD Medical Group strives to hire as well as retain the most talented doctors in order to ensure we can provide the best professional and personal treatments to patients. By hiring the best qualified and most experienced staff in all clinical areas, the Company maintains its leading position in the market.

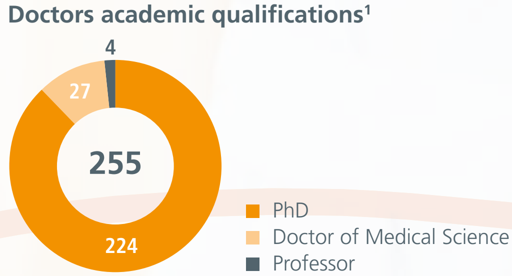
Total number of employees



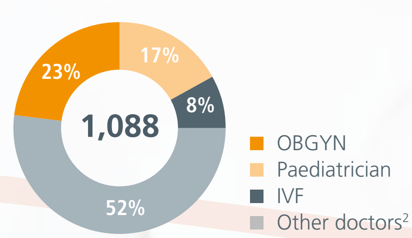
Number of doctors



Doctors academic qualifications[1]



Doctors by speciality[1]



1 Based on headcount
2 Other doctors include anesthesiologists, intensivists, surgeons, emergency physicians etc.

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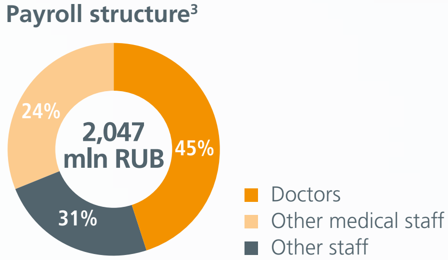
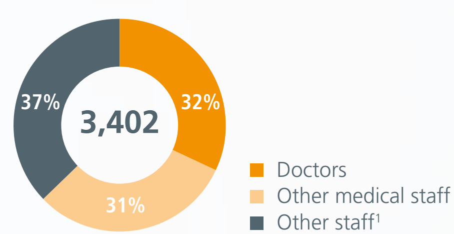
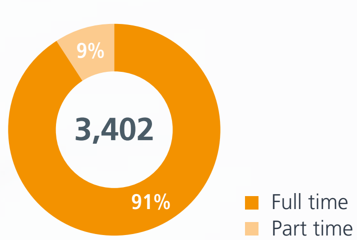
Payroll structure[3]



Personnel structure[3]



Employees[3]



1 Based on headcount
3 based on FTE

Our network

MD Medical Group offers state-of-the-art facilities across the entire continuum of care for mothers and children across our network of hospitals and clinics.

Perinatal Medical Centre

1. OBGYN Service
Maternity ward
Obstetric physiology
Pregnancy obstetric pathology
Obstetric observation
Admissions
Anaesthesiology and intensive care
Surgery
Gynaecology
Endocrinous gynaecology
X-Ray
Endovascular diagnostics and treatment
Visiting obstetric service

2. IVF Centre
Infertility treatment and IVF

3. Children's Health
New-born physiology
New-born observation
New-born pathology
Special care for premature children
New-born intensive care
Paediatrics
Ambulance
Children's clinical and diagnostic centre

4. Clinical and Diagnostic Centre
Obstetrics
Ultrasound diagnostics
Remote cardiotocography
Pre-natal diagnostics
X-Ray
Extragenital pathology

5. Medical and Diagnostic Centre
Computer tomography and magnetic resonance tomography
Otorhinolaryngologic pathology
Urology
General therapy
Neurology
Surgery
Endoscopy
Cardiology

6. Physiotherapy Department

7. Laboratory
Pathohistological laboratory
Molecular genetic laboratory
Clinical and diagnostic laboratory

8. Department of Isolation and Cryogenic Storage of Stem Cells

9. Central Sterilisation Department

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Lapino Hospital

1. Children's Centre
Polyclinic
Department for children from 3 months old (mother and child hospitalisation in one room available)
Surgery
Trauma and orthopaedics

2. Women's Centre
Maternity care
Ultrasound diagnostics
Clinic for uterine myoma treatment

3. IVF Centre
Infertility treatment and IVF

4. Perinatal Centre
Pathologic pregnancy
Maternity ward
Surgery
Post-natal department
Anaesthesiology and intensive care
Breast-feeding support service
Physiologic new-born department
New-born intensive care unit
Neonatal pathology and premature children department
Photo and video services

5. Diagnostic Centre
X-Ray
Ultrasound diagnostics
Functional diagnostics
Endoscopic examination of GIT
Computer tomography and magnetic resonance tomography
Proctology
Otorhinolaryngologic pathology
Urology
Breast care
Cardiology
General therapy
Ophthalmology
Neurology
Oncology

6. Surgery Centre
General surgery
Cardio surgery
Otorhinolaryngologic surgery
Children's surgery
Urology
Oncology
Proctology
Gynaecological surgery
Embolisation and balloon vascular occlusion

7. Trauma and Orthopaedics Department
Scheduled surgery
Emergency aid
Children's trauma and orthopaedics

8. Rehabilitation Centre
Cosmetology
Rehabilitation programmes
Mothers' school
Relaxation areas
Warm water therapy and massage
Halotherapy
Cryosauna
Swimming pool
Biofeedback therapy
Physiotherapy and kinesiotherapy
Traction therapy
Osteopathy
Hirudotherapy

9. Somatic Department
Cardiology
Neurology
Pulmonology
Urology
Gastroenterology

Elena Fomicheva – Chief Doctor of Perinatal Medical Centre

Obstetric Gynaecologist, PhD (Med), Highest Category Board Certified

Experience

2005 – Present – Chief Doctor of Perinatal Medical Centre

1998 – 2005 – Head of Gynaecology Department at Central Clinic Hospital with Polyclinic

1989 – 1998 – Obstetric Gynaecologist at Central Clinic Hospital with Polyclinic

Education

1997 – PhD thesis on "Chlamydial infection, characteristics of deliveries course and post-delivery period" at Research Center of Obstetrics, Gynecology and Perinatology

1988 – Completed speciality training in "Obstetrics and Gynaecology" at the 2nd Pirogov's Moscow State Medical Institute

1986 – Graduated from the 2nd Pirogov's Moscow State Medical Institute

Interview

I participated in the launch and development of the Perinatal Medical Centre (PMC), a brand-new hospital, which became the first private maternity hospital in Moscow, I was subsequently appointed as its Chief Doctor.

PMC provides a full range of in-patient and out-patient services for mothers and children. Among the key treatment areas are obstetrics, gynaecology, infertility including IVF, as well as paediatrics. This also includes a wide range of laboratory research, diagnostics and assistance, stem cell bank and other facilities.

PMC is incredibly popular not only among Moscow residents but also attracts patients from other regions. Relying on the expertise of our physicians and advanced high quality equipment, patients from other regions come to us, primarily, to receive assistance in difficult cases, such as multiple pregnancies and placenta acreta.

My specialisation is within obstetrics and gynaecology – our department's task is to ensure a safe transition into motherhood. The main reasons for our success is not only because we use the most advanced and safest equipment but the care delivered by highly-qualified professionals, who are continuously learning and taking courses both in Russia and abroad. Moreover, the structure of our departments is designed to minimise the possibility of an infection spreading within the institute.

PMC has implemented a unique method of collecting a mother's blood during the caesarean sections and transfusing it after processing with special medical equipment. This minimises the blood loss and allows us to reduce reliance on donor's blood.

We also use advanced MRT equipment that allows us to diagnose placenta acreta. In order to treat such a diagnosis we use the latest technologies to perform surgeries, which allows us to preserve the reproductive function. Apart from MRT, we also use other diagnostic techniques like computerised tomography and X-ray equipment. The Laboratory of Molecular Genetics, which operates in PMC, conducts various DNA diagnostics, including examination of a couple's genetic status in case of infertility or recurrent miscarriage, as well as studying the genetic status of an embryo before its insertion to uterine cavity. At PMC we have pioneered a new diagnostics method – remote cardiotocography – which helps to determine the condition of a foetus and to control and monitor the pregnant patients at home in another city or country. This method minimises the risk of antenatal foetal loss and helps to achieve successful pregnancies for high-risk patients.

PMC plays a huge role in our society as we try to help each and every family to give birth to healthy children, thereby contributing to birth-rate increases and our nation's overall well-being. We strive to stay ahead and are constantly updating and improving our equipment and medical products, caring above all for the safety of our patients.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Biography

Dr Fomicheva is an expert in all contemporary diagnostic methods, conservative and surgical treatment of maternity patients, infertility treatment and gynaecologic diseases during the reproductive period.

She participated in the launch and development of Perinatal Medical Centre. Dr Fomicheva supervised more than 11,000 deliveries, including more than 3,000 of high-risk, and carried out more than 1,200 surgeries.

She took part in the development and implementation of numerous innovative and unique methods at PMC including remote cardiotocography, collection and transfusion of autologous blood, etc.

Previously, Dr Fomicheva was a professor at the multidisciplinary clinical education department of the Moscow State University for six years.

Dr Fomicheva was recognised for her contribution in medicine with Russia's Best Doctors National Awards (2013).

Elena Spiridonova – Chief Doctor of Lapino Hospital

Obstetric Gynaecologist, PhD (Med), Highest Category Board Certified

Experience

2012 – Present – Chief Doctor of Lapino Hospital

2006 – 2012 – Deputy Chief Doctor for Medical Operations at Perinatal Medical Centre

1997 – 2006 – Obstetric Gynaecologist at Centre of Family Planning and Reproduction

Education

2013 – Refresher course at Public Health department of Pirogov Russian National Research Medical University

2006 – PhD thesis on “Antenatal and intranatal factors of forecast for the efficiency of stem cells collection for gratuitous donation”

2003, 2008, 2013 – Refresher courses at the base of Center of Family Planning and Reproduction

1997 – Speciality training in “Obstetrics and Gynaecology”, Centre of Family Planning and Reproduction

1995 – Graduated from the 2nd Pirogov’s Moscow State Medical Institute

Interview

I had been working as a doctor for 16 years when I began working for MD Medical Group. I started at the Perinatal Medical Centre as a Deputy Head Physician when it opened in 2006. In late 2012 I was Chief Doctor and part of the opening team of the brand-new Lapino Hospital, a multi-disciplinary 42,000 square metre medical centre.

The staff at the Lapino Hospital are a team of highly qualified professionals, who are ready to help day or night. The Hospital employs around 186 doctors of various specialties, 250 other medical staff and just over 209 non-medical staff.

The hospital has departments including a maternity hospital, children’s centre (out-patient and in-patient), women’s health centre (out-patient and in-patient), IVF, Gynaecology, surgery, intensive care, trauma, urology, somatic pathology, neurology, Medical and Diagnostic Centre (CN, MRI, X-ray, ultrasound 3D/4D, gastroscopy, colonoscopy, echocardiogram), rehabilitation and twenty-four-hour medical care.

Lapino is unique compared to other MD Medical Group clinics due to its ability to provide treatment to families for a range of ailments and provide surgical and rehabilitation therapy courses at the same time.

In the first reporting period since opening there were 1,220 deliveries in the maternity wing of the hospital, including complex cases like caesarean section in case of placenta acreta. Four operations were performed to put in laparoscopic stitches on the cervix of patients. As a result, three pregnant women gave birth to healthy and full-term children and one patient is planning to deliver.

The list of available screening tests during pregnancy has been widened during 2013 with the introduction of new modern methods of determining chromosomal abnormalities. For example, a non-invasive prenatal aneuploidy diagnosis (genetic analysis) through the blood of the patient. As a result, we have been able to reveal severe chromosomal abnormality in two of the 53 examined foetuses and provide counselling to the families.

I love my job because it gives me an opportunity to do what I enjoy for the benefit of people. The work at the Hospital takes up almost all of my time and I often have to work the night shifts. I try to spend my free time with my family and I love to travel.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Biography

Dr Spiridonova is an expert in all obstetric surgeries and key gynaecologic surgeries, as well as modern diagnostics and therapy methods used in obstetrics and gynaecology.

She specialises in individual maternity care including care for high risk patients, (placental presentation, pelvic presentation, and multiple pregnancies).

Evgeniya Cergert – Head of Infertility Treatment and IVF Department at Perinatal Medical Centre

Obstetric gynaecologist, reproductive gynaecologist

Experience

2008 – Present – Head of Infertility Treatment and IVF Department at Perinatal Medical Centre

1997 – 2008 – Doctor at the IVF Department in Centre of Family Planning and Reproduction

Education

1997 – Speciality training in "Midwifery and gynaecology", Centre of Family Planning and Reproduction and City Clinical Hospital No.31

1995 – Graduated with Honours from Russian State Medical University, Faculty of Medicine

Interview

In vitro fertilisation (IVF) is an assisted reproductive technology which stimulates the ability to conceive a child in cases of infertility. In simple terms, the essence of the process is removing egg cells from the female body, followed by the artificial fertilisation of the egg ex vivo and then replacing the embryo (the fertilised egg) into the womb. If successful implantation occurs, the woman will become pregnant. As a pioneer of IVF in Russia, MD Medical Group has the ability to help thousands of couples to start a family.

IVF was discovered as a revolutionary technology in medicine in the 1970's and the first IVF baby was born in the UK in 1978. Since then, technology has been continuously developing with significant improvement of its efficacy and safety. MD Medical Group rigorously monitors innovation in the international practice of IVF and pursues the implementation of these new findings in our clinics. Most recently, we have been actively implementing one of the most innovative advancements in this field – oncofertility. The treatment is designed to maintain reproductive function for patients with cancer.

MD Medical Group is the recognised leader in Russia in IVF with the most cycles completed in 2013. But as doctors we do not pay attention on the quantitative indicators but rather on the quality of the service we provide. While completing IVF cycles we focus on two key targets: the most prompt and efficient result, which in the case of IVF case is pregnancy, and, the safety and well-being of the mothers we treat.

To achieve this, our highly-qualified doctors apply the most advanced equipment and techniques across all our services.

In addition to IVF, my colleagues in other departments at MD Medical Group offer mothers and children a full range of services including maternity care, birth and child care, all in our state-of-the-art facilities across our extensive network of hospitals and clinics.

During 2013 the total volume of IVF cycles carried out in the MD Medical Group network increased by 42% year on year. Such significant results were due to organic growth, in particular in St-Petersburg and PMC, as well as the successful implementation of our regional expansion strategy. We are committed to enabling women throughout Russia to access IVF and other fertility treatments easily and quickly and were delighted to open our newest clinic in Yaroslavl during 2013. This was the eleventh centre to open within our network and the first IVF clinic to open in the Yaroslavl region.

We see significant prospects for the further development of IVF services here, as this is newer to the Russian market and there are significant opportunities for growth. MD Medical Group is well-positioned to help treat the regions of Russia that currently do not provide IVF services, as the Company has invested in clinics, hospitals and the latest technologies in order to provide our latest services to more patients across regions.

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Biography

Dr Gergert is an expert in the full range of assistive reproductive technologies and manages post-fertility treatment pregnancies for MD Medical Group.

During her tenure, she has specialised in in vitro embryo development, which resulted in the first Russian in-vitro pregnancy and birth. Dr Gergert also took part in the research on fertility preservation through oocytes, semen and ovarian tissue vitrification. Under her guidance, the first pregnancies and successful births occurred in patients who had undergone treatment for reproductive system cancers.

Dr Gergert's leadership has guided the annual increase of IVF cycles in the Perinatal Medical Centre. The department specialists regularly receive training in leading international medical centres, attend conferences including medical congresses in Europe and the US. This is currently enabling the introduction of the latest ART methods and maintaining the IVF success rate at an internationally recognised level.

Dr Gergert is a full member of Russian Human Reproduction Association, European Human Reproduction and Embryology Association and Gynaecologists-Endocrinologists Association. She is also the author of numerous research papers in the field of IVF, oncofertility and gynaecology.

Olga Polyakova – Head of Children's Consultation and Diagnostics Centre at Lapino Hospital

Chief expert for paediatrics Lapino Hospital

Paediatrist, Neonatologist, PhD (Med), Highest Category Board Certified

Experience

2012 – Present – Head of Children's Consultation and Diagnostics Centre at Lapino Hospital

2005 – 2012 – Deputy Medical Director for Medical Operations at Mother and Child Kuntsevo clinic

2001 – 2005 – Paediatrist at Mother and Child Kuntsevo clinic

2001 – 2005 – Head of Admission Department of Neonatal Site of City Hospital No.8

Education:

2006 – PhD thesis on "Role of pro- and anti-inflammatory cytokine, receptor antagonist IL-1α in the development of ischemic kidney injury for children in critical state"

1998 – Speciality training at paediatrics department of Russian State Medical University and a completed neonatology course

1996 – Graduated from Russian State Medical University

Interview

I began my career as a doctor at the Mother and Child clinics in June 2001 when the first Mother and Child out-patient clinic opened in Kuntsevo. Looking back, I realise that my first patients are already finishing secondary school, and I am happy that I am still treating many of them. In 2005, I became the Deputy Medical Director for Medical Operations at Mother and Child Kuntsevo clinic, where I had started working as a doctor. My career in medicine began in neonatal departments for premature babies, and when their survival and treatment became high-tech, there arose a pressing need to treat them on an out-patient basis. It was at this very time, in fact, that we developed standards for looking after these children. Today, when our company now has six out-patient clinics for children, I realise just how much we did to establish and constantly improve our programmes for out-patient observation of patients of various ages. These standards have been applied successfully in all of the MD Medical Group clinics.

After being asked by the directors at the Lapino Hospital, I headed up the Consultation and Diagnostics Centre there. Today, this is a large and unique department where our patients can receive an entire range of out-patient treatment not just at the clinic but also at home. These patients are not only children born at the Lapino Hospital or in our network's other clinics, but also children from other cities and regions of Russia, as well as from other countries. World class equipment and diagnostic tests help us prevent illnesses or detect them at the earliest-possible stage.

Our patients have the choice of receiving in or out-patient treatment and our whole team of specialists are on call to give treatment to children at home. Our little ones don't have to visit the hospital which makes things easier by minimising the stress of visiting new places and saves the parents a lot of time. In addition, we provide 24 hour emergency paediatric care at home.

Our team includes 40 doctors with a variety of specialisations – paediatricians, neurologists, cardiologists, psychologists, otolaryngologists, ophthalmologists, surgeons – who take patients 24 hours a day.

It is important to note that doctors from every specialisation are available to receive patients every day, which means that, in one day, a patient can see several doctors, which ensures comprehensive monitoring of the patient's health. We have at our disposal, around the clock, all the necessary diagnostic equipment (CT, MRI, video endoscopy, X-ray, EEG), which allows us to conduct diagnostic testing quickly in the case of patients with a history of serious health problems.

Our specialist doctors supervise children year on year as a single team. This ensures the proper health management for a patient who moves from one age category to another. We actively co-operate with doctors from other departments based on our collective work principle which is fundamental to MD Medical Group.

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2013 was the first full year of our department's operations. Within this period we have concluded more than 500 contracts for regular treatment in our centre. Taking into account patients who visit our centre on a walk-in basis, we have looked after more than 2,000 children in 2013.

At the beginning of 2014, we saw that 74% of our contracts were being extended for another year. This is evidence of the high degree of trust that people have in us, and this could not make us happier. Our team plays an important role in the lives of our patients since the foundation for a human being's healthy development is laid.

As a paediatrician, I can say with confidence that, when children are born, they seem entirely helpless, but, with time, from month to month, they grow, get stronger, at around a year they can confidently stand on their feet, they begin to walk, and then run, and at around two years, you can no longer stop them. We have been around for a year and a half, and we are already strong, confidently on our feet and constantly moving forward.

My work takes up a large amount of my time, as well as my emotional and physical strength, but when I do get a free moment, I like to spend it by being active in some sort of sport, swimming, or improving my French.

Biography

Dr Polyakova is an expert in out-patient treatment of premature children of gestational age. She also specialises in treating patients within the perinatal period and the immunisation of children suffering from a variety of health-related complications.

Valentina Gnetetskaya – Head of MDMC Medical and Genetics Centre

Geneticist, PhD (Med)

Experience

2013 – Present – Head of MDMG Medical and Genetics Centre

2004 – 2013 – Geneticist at Mother and Child clinics and Perinatal Medical Centre

1995 – 2013 – Head of Prenatal Diagnostics at Centre of Family Planning and Reproduction, geneticist

Education

2000 – PhD thesis on "Prenatal Diagnostics and its Indications"

1995 – Speciality training in clinical genetics

1993–1995 – Speciality training in midwifery and gynaecology at Centre of Family Planning and Reproduction

1993 – Graduated from Moscow State Medical and Dental Institute in Medicine

Interview

My primarily speciality area is obstetric gynaecology. My personal interest in genetics and the general demand for subject specialists led me to specialise in this area. I have worked at the Perinatal Medical Centre since it first opened in 2006.

I have enjoyed a number of roles, from working as a geneticist to my current role as Head of the Medical Genetics Centre, which opened in May 2013. In addition, I am also a consultant to all MD Medical Group clinics in Moscow and the Moscow area, including our hospital in Lapino.

Our centre offers counselling for infertility, first-time miscarriage, and genetic abnormalities. Gestational problems' diagnostics, as well as treatment and infection monitoring, are offered for pregnant mothers and we offer diagnostics for children with birth defects and developmental delays.

My team consists of 18 people, including eight clinical specialists and 10 genetic testing lab specialists, six of whom are medical doctors. Modern equipment is used in the laboratory, where we prioritise cytogenetic testing.

A "Special Child" centre has also been established under our umbrella, which offers comprehensive medical, psychological and developmental support for children with autism and other speech and cognitive developmental delays.

Our Medical and Genetics Centre is unique in its combination of highly skilled professionals and modern equipment. In all of our clinics, patients have access to the latest unique genetic testing, including prenatal procedures, such as amniocentesis, chorionic villus sampling and cordocentesis (PUBS).

Our genetic testing laboratory is the only one in Moscow to offer prenatal foetal karyotyping using amniotic fluid cells culture which can identify chromosomal abnormalities and genetic irregularities before a baby is born. It serves as a central testing centre for all of our clinics so that we can offer this service to all MD Medical Group patients.

Currently, we already perform a number of unique molecular genetic analyses which we plan to increase in 2014, enabling us to significantly broaden the range of genetic diseases we diagnose.

We are also planning to open a kindergarten for children with developmental delays which will be used as a day care facility in which the children will be able to receive comprehensive support.

I believe that our centre makes an enormous social contribution as we endeavour to support those families where there is a risk of transmitting genetic abnormalities, and to give them the chance of having a healthy child.

Personally, I try to stay active and find time to do sports: in winter I like to ski and in the summer I enjoy diving.

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Biography

Dr Gnetetskaya has over 19 years' experience in the field of medical genetics and now specialises in medical genetic counselling.

She is fully qualified to perform all types of pre-natal diagnostics, including invasive methods, and was instrumental in organising the genetic laboratory of MDMG's Medical and Genetics Centre where new methods of diagnostics are being implemented.

She has authored over 20 research papers on medical genetics and prenatal diagnostics.

Elena Litvina – Head of Trauma and Orthopaedics Department at Lapino Hospital

PhD (Med), Professor of Russian Federal Medical Biology Agency

Experience

2013 – Present – Head of Trauma and Orthopaedics Department of Lapino Hospital

2010 – Present – Professor of Trauma and Orthopaedics Department at Russian Federal Medical Biology Agency

2012 – 2013 – Head of Surgery of the Trauma Complex of Vorohobov State Clinical Hospital No.67

1997 – 2012 – Head of Combined Trauma Department in Pirogov's State Clinical Hospital No.1

2000 – 2012 – Assistant at the Department of Trauma, Orthopaedics and Military Surgery at Russian State Medical University

1992 – 1997 – Trauma and orthopaedics specialist department 8 of Trauma Department at Pirogov's State Clinical Hospital No.1

Education

2010 – Received DSc (Med) title

1995 – PhD at the Department for Trauma, Orthopaedics and Military Surgery

1992 – Completed speciality training

1990 – Graduated from the 2nd Pirogov's Moscow State Medical Institute

Completed a number of training courses in the US, Germany, Austria and Switzerland

Interview

I had already been in the medical profession for 30 years when I was invited by Mark Kurtser to work for MD Medical Group to open the Trauma and Orthopaedics Department in Lapino, the first such department in our group.

The Department received its first patient in January 2013, and it was, in my view, symbolic, that I performed the first surgery on a pregnant woman with a fractured shoulder.

We support all patients who arrive at Lapino Hospital with various traumas and orthopaedic problems. It is especially important for young mothers and babies as they have husbands, parents and grandparents. Our youngest patients may only be a couple of days old while our oldest patient was a 101 year old lady who had hip osteosynthesis.

On the ward, there are trauma and orthopaedics specialists who treat adults as well as paediatric trauma surgeons. Such close collaboration provides round the clock support to patients of all ages.

All doctors at the department have International Association of Osteosynthesis Diplomas. The Diploma provides the guidelines for the work of trauma specialists all over the world. Moreover, our specialists undergo continuous professional development, participate in research and attend local and international conferences and symposia. There are six PhD graduates in the department, and two are preparing to graduate.

Our Lapino ward provides 24 hour out-patient care as a trauma unit, as well as an in-patient Trauma and Othopaedics service. Our specialists offer consultative support to the patients of all hospital wards, especially to surgical and therapy units.

For prompt and timely diagnostics, various up-to-date methods are used: X-Ray, MMR and CT scans, ultrasound and angiography. All types of diagnostics are complementary, and decisions on the best use of diagnostics are taken on an individual, case by case basis.

To treat trauma consequences and chronic problems, we use a wide range of modern treatment methods, such as extracorporeal shock wave therapy and fitted AFOs, and, in the near future, we are planning to offer kinesiotherapy and taping.

We believe in using as minimally invasive osteosynthesis methods on fractures of various localisations as is advisable in each case.

As our specialists are fully trained in performing all arthroscopic methods of surgery on major joints, it allows them to promptly resolve acute traumas and perform complicated post-traumatic reconstructive surgery. Hip, knee and shoulder endoprosthesis replacements are performed with the best quality brand implants.

Rehabilitation specialists start to work with the patient and their trauma and orthopaedic specialist on the day of surgery. Such a team approach is extremely important as only a

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timely, persistent, correct and well-planned rehabilitation programme can deliver a successful outcome for the treatment of patients with musculoskeletal diseases and traumas.

Scientific research and clinical practice are constantly evolving, that is why we follow closely new treatment practices, new tools and anchors which will allow us to provide our patients with speedy and non-invasive treatments and make sure they return to their normal life routines as quickly as possible.

When I get some time free from work, research and household chores, I prefer to be fairly active. During the summer, I go to the woods and go fishing, in winter, my friends and I take part in car races across the country from the Sea of Barents to the Pacific, from the White Sea to the Black Sea.

Biography

Dr Litvina is an expert in all mini-invasive osteosynthesis techniques and she is one of the leading specialists in hip and pelvis reconstructive surgery. She performs primary endoprosthesis replacements of major joints and post-traumatic and orthopaedic surgeries.

Dr Litvina led the opening of the first Trauma and Orthopaedic Ward at Lapino under the aegis of MD Medical Group.

Dr Litvina is the author of more than 50 research papers. She is a full member of the International Society of Trauma Specialists -AO, Russian Society "AO Trauma Russia", a member of Russian and Moscow Trauma and Orthopaedics Specialists Society. International lecturer and instructor for AO Trauma group.

Finance review

2013 was a year in which we strengthened further our leading position in Russia's fast-growing private healthcare market, while continuing to execute on the strategy we presented to investors at the time of our IPO.

Revenue (RUB mln)
5,673

EBITDA (RUB mln)
1,586

EBITDA margin
28%

Debt (RUB mln)
3,000

CAPEX (RUB mln)
3,080

Net debt/(cash) (RUB mln)
(275)

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▲ **Revenue** increased 40% for the second consecutive year to 5,673 mln RUB (2H'13 increased 20% to 3,095 mln RUB vs. 1H'13) on the back of:
- Ramp-up at Lapino which boosted revenue by 1,093 mln RUB or 27% during the first year of operations with targeted capacity utilisation still to be reached
- 622 mln RUB of additional revenue contributed by:
  - Acquisition of successful chain of clinics in Samara and one clinic in Irkutsk
  - Full year of operations of M&C Perm
- Annual price indexation by 6% in line with CPI

▲ **EBITDA** for the year amounted to 1,586 mln RUB. Group EBITDA increased 46% from 1H 2013 to 2H 2013, however there was a slight decrease of 6% y-o-y owing to:
- Opening of Lapino hospital. Despite ramp-up period Lapino was able to achieve a 19% EBITDA margin in 2H'13
- Lower share of revenue from PMC
- New clinics consolidated in 2Q'13 contributed 114 mln RUB to EBITDA
- Management company costs increased, driven by transition from a "single hospital" model to a fast growing, national hospital chain. Growth rates in operating costs at the holding company level will significantly decrease in 2014.

▲ **EBITDA margin** for the year was 28%, representing healthy growth in 2H'13 up by 5 p.p. h-o-h on the back of Lapino's accelerating growth

▲ **CAPEX** amounted to 3,080 mln RUB as MD Medical continues to invest in the construction and development of its facilities in addition to strengthening its market positions through M&A opportunities. Particularly in 2013 there were two M&A deals that amounted to 648 mln RUB: successful chain of clinics in Samara and one clinic in Irkutsk that previously worked under a "Mother and Child" franchise agreement. Investments were also made into the construction of a new hospital in Ufa, as well as in the repayment of payables for Lapino and the refurbishment of additional premises at "Clinic of Health Moscow", which was successfully re-opened in May 2013

▲ **Debt** remained flat year-on-year accounting for 3,000 mln RUB despite sound CAPEX programme. The Group finished the year with a strong liquidity position of 3,275 mln RUB in cash, cash equivalents and investments remaining net cash positive

Operations review

MD Medical Group expanded its footprint by acquiring and opening new hospitals and clinics at the same time as improving on volumes and services offered.

Deliveries	IVF cycles	Number of in-patient days	Number of out-patient admissions
3,816	**5,477**	**28,956**	**627,247**
+17%	+42%	+30%	+46%

- **Deliveries** increased 17% y-o-y from 3,253 to 3,816 as a result of the successful ramp-up at Lapino with 1,220 deliveries in the hospital's first full year of operations. PMC is performing well and the number of deliveries at the hospital increased by 4% in the second half of the year to 1,325, in line with seasonal trends. The strong growth in deliveries was achieved at a time when the birth rate in Moscow and the Moscow region declined by 1%.

- **IVF cycles** grew up by 42% y-o-y and the number of treatments boosted up to 5,477. The Company managed to achieve these results owing to:
  - Consolidating Samara and Irkutsk clinics starting from April and May respectively, contributing to improved performance in 2H 2013
  - Growth in number of IVF treatments at PMC
  - Full year of operations of clinic in Perm

- **Out-patient treatments** increased by 46% to 627,247, benefitting from:
  - the ramp-up at Lapino
  - successful integration of the Samara and Irkutsk clinics
  - moderate growth in number of treatments at the Group's Moscow clinics

- **In-patient admissions** grew by 30% to 28,956 treatments during 2013, also due to the impact of Lapino and integration of newly acquired clinics.

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CSR and sustainability

The foundations of our business are built upon our wish to provide the highest level of care to the patients we treat. We achieve this through an awareness that the underlying performance of our business, the general welfare of our people and communities in which we operate, and the quality and professionalism of our industry as a whole are all inextricably linked.

We therefore take very seriously our commitment to supporting our people, our communities and the healthcare profession in Russia. Not simply because we should, as part of our corporate social responsibility efforts, but because we understand that this is critical to the longer-term sustainable growth of MD Medical Group.

In practice, sustainability at MD Medical Group is focused on three core areas.

Our people
We invest heavily in training, and in fostering an environment that allows our people to grow, and to be exposed to and learn from the best medical practices and practitioners from around the world. We recognise and reward the commitment of our dedicated staff, many of whom have worked with MD Medical since its inception, by providing opportunities for continuous professional growth and development in an environment created to nurture the personal best of every member of our staff.

Our communities
First of all, we understand that we provide a socially important service to our clients in all of the communities in which we operate. But our commitment to these communities goes beyond providing high-quality medical services. Every individual within our organisation is encouraged to help the community which they serve and we are committed to seeking ways in which we can make a positive contribution to the lives of people around us, for example by supporting local charities.

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 and the latest innovations in women's and children's health, helping to raise the quality of medical services provided to patients, country-wide.

Our commitment to being a sustainable company is continuously evolving. We are focused on changes we can make and ways to enhance our efforts in this area.

Our commitment as a company is to ensure that we take the necessary steps to create value for our shareholders in the short-term, while at the same time doing what is needed to ensure sustainable returns and value creation over the long-term.

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Risks and mitigation

We have comprehensive risk management systems in place to ensure that we are able to identify and mitigate against potential risks to our business.

Risk	Potential impact	Mitigation
Medical Service Risk	By its nature, the medical sector will always carry 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.	To minimise this risk, we place a significant emphasis on ensuring that we hire medical staff of the highest professional standard, while also providing ongoing oversight of key medical processes, by 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.
Recruitment Risk	Our strategy, which is based in large part on building new hospitals and clinics in the regions, involves the risk of finding a sufficient number of 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 can often fall short of the standards set by private clinics whose reputation depends heavily on the quality of services they provide.	We are very focused on and invest in programmes to raise the level of qualifications of medical personnel in Russia. We focus particularly on students at the leading medical universities, helping to develop their skills further from the outset. We place a considerable emphasis on our recruitment process, and liaise actively with the heads of departments at the top universities, as we endeavour to hire the best available talent. We also provide significant on-the-job training, including specialist training programmes which we conduct in Moscow for new regional hires. Ongoing enhancement of our HR function and practices is one of our key strategic priorities.
Political and Regulatory Risk	The current political and regulatory environment is relatively favourable with respect to the development of private medicine in Russia. But there is always a risk that the governmental strategy with respect to private medicine can change. This 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 work continually to strengthen these relations further. We participate in a variety of public committees on relevant health issues including the development of the Russian medical sector as a whole. We also actively support the authorities and provide expert advice on relevant laws, and at times we actively advocate for laws aimed at supporting the continued development of the medical sector.
Macroeconomic Risk	The risk of a deterioration in the macroeconomic environment in Russia cannot be ruled out. This, in turn, can lead to a significant increase in capital expenditure budgets, as well as to our cost of funding. Accordingly, this can impact our ability to achieve our strategic goals.	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 it as needed in order to be responsive to changes in the general economic environment.

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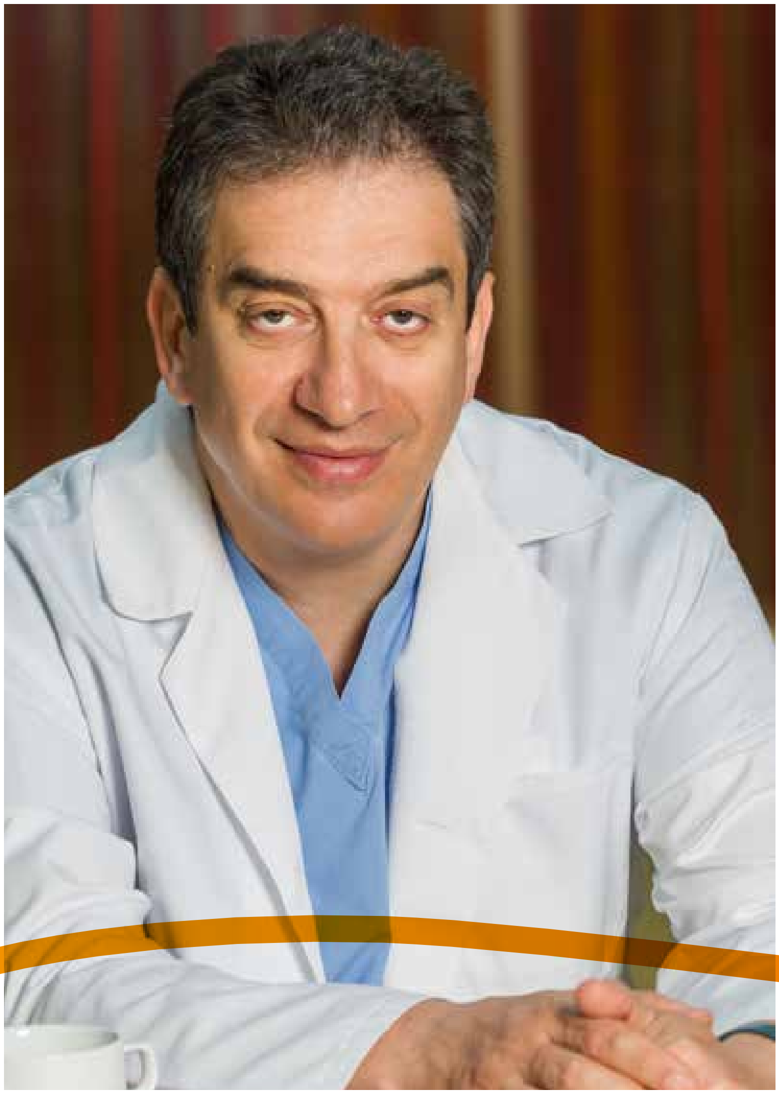
Risk	Potential impact	Mitigation
Investment Project Execution Risk	Our growth depends on acquisitions of existing healthcare facilities, as well as the construction of new hospitals and clinics. Continued regional expansion is at the heart of our strategy. We are pioneers in the field of regional expansion, and the effectiveness of expansion of private medicine into the regions is still to be fully measured and proven. It can be challenging to forecast the exact return on investment that can be achieved, and the likely pay-back periods due to a lack of reliable information on the potential number of patients in any given region. If expansion projects are not implemented effectively, projects can either have an extremely long pay-back period or may in fact not deliver a profit.	We have a number of small clinics in regions across Russia. This gives 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. We prioritise 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, as we are practically the only sizeable provider of high-quality private medical services in the regions.
Control and Efficiency Risk	Due to the rapid development of our business, the integration of new legal entities, and an increase in the number of employees, this makes more challenging the effective monitoring of 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 ways to enhance our efficiency, in terms of monitoring business processes and internal controls. The most significant business functions have been successfully centralised, 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. And we have created special committees which report into the CEO, covering key areas of our activity, including investment, operations and medical services.
Government Relations Risk	The current government environment is comparatively open and friendly to the development of the private medical sector of the Russian economy. But there is always a risk that the direction of governmental strategy can be changed. This could potentially lead to substantial difficulties in implementing the strategic objectives of the Group, including implementation of its investment programs.	Management of the Company is constantly engaged in building relationships with government authorities at different levels, including regional government representatives. Management always participates in the various public committees and commissions concerning the development of the medical sector of the Russian economy. Additionally, management is actively involved in various stages of the development of applicable law, in some cases acting as an initiator of changes.

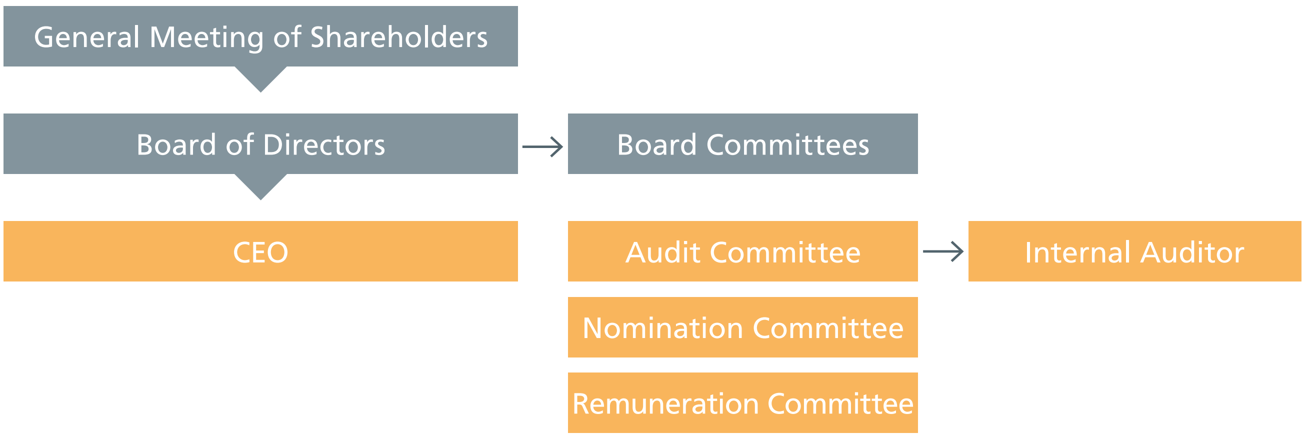
Chairman's introduction to governance



One of our immediate priorities as we prepared to take our business public was to put in place a high-quality system of corporate governance. We have an excellent Board of Directors in place who bring a blend of industry and market experience. For me personally, and for the entire Board, ensuring that we maintain the highest standards of corporate governance is a key priority and a commitment we undertake before all our shareholders.

Dr Mark Kurtser
Chairman of the Board of Directors

Corporate governance and control structure



MD Medical Group understands the importance of corporate governance as a means of facilitating effective, entrepreneurial and prudent management that can deliver the long-term success of the Company. The Board of Directors recognises that good governance is a strategic asset and is committed to high standards of corporate governance and transparency to help it deliver long-term value to shareholders.

In advance of the London listing, the Board of Directors implemented a number of changes to its governance arrangements. From the date of admission, the Company has applied the principles and complied with the provisions of 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, co-opting and fixing the terms of service for the committee members.

Audit committee
The audit committee comprises of three Non-Executive Directors. Independent Non-Executive Director Mr Simon Rowlands chairs the committee and Mr Kirill Dmitriev and Andreas Petrides are the members of the committee. 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
The nomination committee comprises two Non-Executive Directors, one of whom is independent. It is chaired by Dr Mark Kurtser and the other member is Mr 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 in respect of 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 three Directors, one of whom is independent. The remuneration committee is chaired by Mr Simon Rowlands. Dr Mark Kurtser and Dr Elena Mladova are members.

The remuneration committee meets at least once a 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, inter alia:

- 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

Senior management

Dr Elena Mladova
Chief Executive Officer
Dr Elena Mladova leads the Group and consequently also sits on the Board of Directors. For her full biography, see 'Board of Directors' on page 56.

Mr Vitaly Ustimenko
Chief Financial Officer
Mr Vitaly Ustimenko joined the Group as Chief Financial Officer in 2012. Mr Ustimenko has more than ten years experience in finance. Previously, he was the Head of Strategic and Business Planning of OAO 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.

Dr Yulia Kutakova
Medical Director
Dr Yulia Kutakova joined the Group in 2012. She has over ten years of practice 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.

Mrs Ekaterina Larina
Head of Legal
Mrs Ekaterina Larina joined MD Medical Group in April 2003. With more than 15 years' experience in the legal field, Mrs Larina is responsible for running the Group's legal function. Prior to joining the Group, Mrs Larina was employed as a leading lawyer at investment and construction firm, SCM Group, and as a lawyer at the Moscow Regional Bar Association. Mrs Larina holds a degree in civil law from the Moscow State Law Academy.

Mrs Ekaterina Arkhipova
HR Director
Mrs Ekaterina Arkhipova joined the Group in 2012 as HR Director and is responsible for all issues related to human resources Group. Prior to joining MD Medical, Mrs Arkhipova worked as Head of Learning and Development for advertising agency ADV Group and as HR Manager for Yukos. Mrs Arkhipova has more than ten years' experience in human resources, with solid expertise in HR strategy, performance management, recruitment, compensation and benefits, learning and development and HR operations. She graduated from the Lomonosov Moscow State University.

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Mr Vadim Lyakh
Managing Director of Lapino Hospital

Mr Vadim Lyakh joined the Group in 2012. Previously, he served as CFO at several companies of N-Trans Group, and before that, he held the position of Deputy Head of Branches and Subsidiaries at All-Russia State Television and Radio Broadcasting Company (VGTRK). Earlier, he served as Deputy Chairman of the Management Board of Soyuzny Bank. Mr Lyakh holds a degree in Engineering and Physics from Moscow Institute of Physics and Technology, a degree in Banking from the Finance Academy under the Government of the Russian Federation, and a MBA in Corporate Finance from the Russian Presidential Academy of National Economy and Public Administration.

Mrs Nina Ivanova
Managing Director of Perinatal Medical Centre

Mrs Nina Ivanova has been with MD Medical Group since 2008 and has over ten years' management experience. Prior to joining the Group, Mrs Ivanova worked as chief accountant at LLC Velum and prior to that, she was the chief engineer at the Federal state unitary enterprise 'Giprougleautomatizaziya' for 22 years. Mrs Ivanova graduated from Orkehovo-Zuevo Pedagogical University with a degree in mathematics education.

Mr Valery Mironov
Construction Director

Mr Valery Mironov has been with MD Medical since its foundation. He has been instrumental in the construction of Lapino Medical Hospital, having previously overseen the construction of Perinatal Medical Centre. Prior to joining the Group, Mr Mironov was Director of General Affairs at MK Arsenal NEF. He holds a degree in engineering from the Moscow State University of Instrument Engineering and Computer Science.

Mr Boris Ivakhnenko
Procurement Director

Mr Boris Ivakhnenko has been with MD Medical Group since 2011. Prior to joining the Group, he served as Deputy Medical Director for Economy at Centre of Family Planning and Reproduction. Mr Ivakhnenko earned a degree in Engineering from the Nakhimov Higher Naval Institute and a degree in Finance and Credit from the Russian Presidential Academy of National Economy and Public Administration.

Board of Directors

Dr Mark Kurtser, PhD
Founder and Chairman

Dr Mark Kurtser is the founder of MD Medical Group and became Chairman in August 2012. Dr Kurtser began his career as a Graduate Assistant to the Associate Professor at the obstetrics and gynaecology department of the Pirogov Medical University. From 1994 to 2012 he was Head of the Centre of Family Planning and Reproduction, 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 in addition to a postdoctoral degree in medicine. Dr Kurtser remains actively involved in the Group's healthcare practice and day-to-day operations.

Dr Elena Mladova
Chief Executive Officer

Dr Elena Mladova joined the Board of Directors in August 2012 having been appointed as Chief Executive Officer earlier in the year. She joined the Group in 2008 as the Head of the Infertility Treatment and IVF Department at PMC, where she was responsible for the introduction of various infertility and IVF treatments. Previously, Dr Mladova worked as an obstetrician and gynaecologist in the Center of Family Planning and Reproduction in Moscow. She graduated from the Lomonosov Moscow State University with a degree in primary care medicine.

Mr Simon Rowlands
Independent Non–Executive Director

Mr Simon Rowlands was appointed as an Independent Non-Executive Director in September 2012. His other current appointments include non-executive directorships at Spire Healthcare, Avio and Enserve. 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 General Healthcare Group, Spire Healthcare and Classic Hospitals in the UK, USP in Spain and Générale de Santé in France. In July 2012, Mr Rowlands became Senior Adviser at Cinven. 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
Non–Executive Director

Mr Kirill Dmitriev is CEO of the Russian Direct Investment Fund, a $10 billion fund established by the Russian government to make equity investments primarily in the Russian economy. Before being asked by the Russian government to run the fund, he was president of Icon Private Equity and co-managing partner and CEO of Delta Private Equity Partners. Previously Dmitriev was an investment banker at Goldman Sachs in New York and a consultant at McKinsey & Co. Mr Dmitriev holds a BA from Stanford University and an MBA from Harvard Business School.

For more information on our financial and operational results: go to page 44 and also visit us at www.mcclinics.com

Mr Apollon Athanasiades
Executive Director

Mr Athanasiades was appointed as an Executive Director in August 2012. He is currently a Director at Amicorp (Cyprus) Ltd mainly dealing with business structuring, a position he has held since April 2009. He previously held positions in the internal audit department of Louis PLC and worked in compliance and finance at PricewaterhouseCoopers Ltd (Cyprus), A.N. Athanasiades & Co. (Cyprus) and Messrs Auerbach Hope (UK). He holds a BA in Accounting, Finance and Economics from the University of Manchester and is a qualified accountant.

Ms Elia Nicolaou
Executive Director

Ms Nicolaou was appointed as an Executive Director in August 2012. She also acts as the company secretary. Ms Nicolaou is currently the Managing Director and Director of Legal and Corporate Services at Amicorp (Cyprus) Ltd. Previously, Ms Nicolaou worked as the head of the corporate legal department at Polakis Sarris LLC and as a lawyer at C. Patsalides LLC. She is a member of the board of directors and audit committees of Globaltrans Investment Plc and company secretary of Globaltrans Investment Plc. She also sits on various boards of the Cyprus Chamber of Commerce. She holds a master's degree in commercial and corporate law from University College London and an MBA from the Cyprus International Institute of Management.

Mr Marios Tofaros
Executive Director

Mr Tofaros was appointed as an Executive Director in August 2012. He is currently a director of the client accounting department of Amicorp (Cyprus) Ltd., a position he has held since 2008. Previously, Mr Tofaros held the positions of financial accountant at Depfa Investment Bank Ltd from 2004 until 2008 and financial officer at Louis Catering Ltd from 2003 to 2004. Prior to that, he held various positions in the audit department at KPMG Cyprus. Mr Tofaros holds a Master's degree in business studies from the University of Kent and is a chartered certified accountant.

Mr Andreas Petrides
Non-Executive Director

Mr Petrides was appointed as a Non-Executive Director in April 2013. He is the Managing Director of the ASG Premier Audit Services Limited. Prior to joining ASG, he was Senior Supervisor at KPMG. He has a Masters in Management - Concentration in Finance from the University of Arizona and is a member of the Institute of Chartered Accountants in England and Wales. He has experience in acting as the external auditor of public companies in various industries. In addition he specialises in local and international tax planning as well as in investment and corporate valuation.

Mr Angelos Paphitis
Non-Executive Director

Mr Paphitis was appointed as a Non-Executive Director in April 2013. He is an attorney at law, Founder and Managing Director of the Law Firm, A G Paphitis & Co LLC. Angelos holds a Master's degree on Commercial & Corporate Law (LLM) from University College London, of the University of London; he is qualified as a Barrister-at-Law in England and Wales (member of Gray's Inn), and he was admitted to the Cyprus Bar Association in 2004. Angelos specialises on Company law and Corporate advisory, Financial Services Advisory, International Tax Planning and Trusts, and has experience in corporate structuring, M&A, dispute resolution and litigation, Property law and IP, and Foreign Investment law in Cyprus and abroad.

Officers, professional advisors and registered office

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

Secretary
Menustrust Limited

Independent Auditors
KPMG Limited

Registered Office
84, Spyrou Kyprianou Avenue
2nd floor, office #7
4004 Limassol, Cyprus

Board of Directors' report

The Board of Directors of MD Medical Group Investments Plc (the "Company") submits to the members its Annual Report and presents 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 2013.

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

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

The Group's medical centres primarily offer a range of services in the following fields:
▲ Obstetrics and gynaecology;
▲ Paediatrics;
▲ Fertility and in-vitro fertilisation ("IVF") treatment;
▲ Other medical services.

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

Financial results
The Group's financial results for the year ended 31 December 2013 and its financial position at that date are set out in the consolidated Statement of Comprehensive Income on page 64 and in the consolidated Statement of Financial Position on page 65 of the consolidated financial statements.

The profit for the year ended 31 December 2013 amounted to RUB 763,547 thousand (2012: RUB 1,538,231 thousand). The total assets of the Group as at 31 December 2013 were RUB 13,648,648 thousand (2012: RUB 12,913,509 thousand) and the net assets were RUB 9,209,158 thousand (2012: RUB 8,623,417 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 5 April 2013 the Board of Directors declared a final dividend out of 2012 profits amounting to US$9,766 thousand (RUB 313,873 thousand), which corresponds to US$0.13 (RUB 4.18) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 7 June 2013. The dividend was paid on 11 June 2013.

The Board of Directors recommends the payment of US$5,259 thousand as final dividend for the year 2013 which corresponds US$0.07 per share.

Examination of the development, position and performance of the activities of the group
The current financial position and performance of the Group as presented in the financial statements is considered satisfactory.

During the 2013 year the Company has acquired 100% share in Vitanostra Ltd and 85% share in Centre of Reproductive Medicine. The details for these acquisitions are given in the note 14 of the consolidated financial statements. Also during the year 2013 the Company has incorporated three new entities, MD Assistance, Mother and Child Yaroslavl and MD Management. Additional brief details for all subsidiaries are given in note 1 to the consolidated financial statements.

In March 2013 the construction of a new medical centre of 32,000 square meters in the Russian city Ufa has started.

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 27 and 29 of the consolidated financial statements.

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

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

As the Group will be growing it intends to expand its portfolio of hospital and out-patient 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, optimising 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. Please see note 19 for details.

Board of Directors' report continued

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

The members of the Board of Directors who served as at the date of signing of these consolidated financial statements, are presented on page 56.

The members of the Board of Directors who served during the year 2013 and as at 31 December 2013 were are as follows:

- Mark Kurtser – Chairman
- Vitaly Ustimenko (appointed as an alternate Director to Mark Kurtser)
- Apollon Athanasiades
- Kirill Dmitriev
- Nikolay Ishmetov (appointed as an alternate Director to Kirill Dmitriev)
- Olga Mikhailova (resigned on 28 February 2013)
- Elena Mladova
- Elia Nicolaou
- Angelos Paphitis (appointed on 5 April 2013)
- Andreas Petrides (appointed on 5 April 2013)
- Simon Rowlands
- Marios Tofaros
- Gulnara Ziadetdinova (resigned on 28 February 2013)

The term of office of all Directors (other than Dr Mark Kurtser, Mr Kirill Dmitriev, Dr Elena Mladova and Mr Simon Rowlands who continued in office and Ms Olga Mikhailova and Ms Gulnara Ziadetdinova who resigned on 28 February 2013) expired at the conclusion of the Annual General Meeting held on 7 June 2013. Being eligible, they all offered themselves for re-election and were re-elected.

The Board committees
Since September 2012, the Board of Directors established operations 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, one of whom is independent. The Audit Committee is chaired by the independent Non-Executive Director Mr Simon Rowlands. Mr Kirill Dmitriev and Mr Andreas Petrides 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, re-appointment 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 a recommendation to the Board of Directors on actions needed to address the issues or to make improvements.

Nomination Committee
The Nomination Committee comprises of two Non-Executive Directors, one of whom is independent. The Nomination Committee is chaired by the Non-Executive Director Dr Mark Kurtser. Mr Simon Rowlands is the other member.

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

Remuneration Committee
The Remuneration Committee comprises of three Directors, two Non-Executive Directors and one Executive Director. The Remuneration Committee is chaired by the independent Non-Executive Director Mr Simon Rowlands. The two other members are Dr Mark Kurtser and Dr Elena Mladova.

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

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

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

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

- 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.

Branches
During the year ended 31 December 2013, the Company did not operate any branches.

Treasury shares
During the year ended 31 December 2013, the Company did not acquire either directly or through a person in that person's name but on the Company's behalf any of its own shares.

Events after the reporting period
On 5 February 2014 the Company proceeded with the incorporation of a new subsidiary in Russia, LLC Mother and Child Ryazan, of which the Company and the Group holds directly and indirectly 99% of its share capital.

On 11 March 2014 the Company acquired additional 20% share in LLC MD PROJECT 2010 for cash consideration of RUB 2 thousand. As a result of the transaction the effective ownership in LLC MD PROJECT 2010 increased from 80% to 100%.

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

By order of the Board of Directors

Mark Kurtser
Chairman of the Board of Directors
Larnaca, 14 March 2014

Directors' and persons' responsible for reporting responsibility statement

Each of the Directors and members responsible for reporting, whose names are listed below, confirms that, to the best of their knowledge:

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

The Directors of the Company and members responsible for reporting as at the date of this announcement are set out below:

Mark Kurtser	Chairman, Non-Executive Director
Apollon Athanasiades	Executive Director
Kirill Dmitriev	Non-Executive Director
Elena Mladova	Executive Director
Elia Nicolaou	Executive Director
Angelos Paphitis	Non-Executive Director
Andreas Petrides	Non-Executive Director
Simon Rowlands	Non-Executive Independent Director
Marios Tofaros	Executive Director
Vitaly Ustimenko	Chief Financial Officer

Independent auditors' report

to the members of MD Medical Group Investments Plc

Report on the financial statements

We have audited the accompanying consolidated financial statements of MD Medical Group Investments Plc (the ''Company'') and its subsidiaries ("the Group") on pages 64 to 68 which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of MD Medical Group Investments Plc as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal and regulatory requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Group's consolidated financial statements are in agreement with the books of account, so far as appears from our examination of the books.
- In our opinion and to the best of our information, and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on page 56 is consistent with the consolidated financial statements.

Other matter

This report, including the opinion expressed herein, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come.

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

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

14 March 2014

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	**2013 RUB'000**	2012 RUB'000
Revenue	4	**5,672,753**	4,061,092
Cost of sales	5	**(3,389,282)**	(2,013,135)
Gross profit		**2,283,471**	2,047,957
Other income		**4,384**	820
Administrative expenses	6	**(1,124,643)**	(484,401)
Other expenses		**(5,088)**	(4,038)
Profit from operations before net finance expenses		**1,158,124**	1,560,338
Finance income		**65,145**	13,135
Finance expenses		**(334,521)**	(68,719)
Net foreign exchange transactions gain/(loss)		**(53,331)**	14,297
Net finance expenses	8	**(322,707)**	(41,287)
Profit before tax		**835,417**	1,519,051
Taxation	9	**(71,870)**	19,180
Profit for the year		**763,547**	1,538,231
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences on foreign operations		**214,589**	(84,401)
Total comprehensive income for the year		**978,136**	1,453,830
Profit for the year attributable to:			
Owners of the Company		**636,146**	1,399,445
Non-controlling interests		**127,401**	138,786
		763,547	1,538,231
Total comprehensive income for the year attributable to:			
Owners of the Company		**850,735**	1,315,044
Non-controlling interests		**127,401**	138,786
		978,136	1,453,830
Basic and fully diluted earnings per share (RUB)	10	**8.47**	21.46

The notes on pages 69 to 97 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2013

	Note	**31 December 2013 RUB'000**	31 December 2012 RUB'000
Assets			
Property, plant and equipment	12	**9,209,792**	7,422,875
Intangible assets	13	**451,911**	30,668
Trade, other receivables and deferred expenses	16	**437,719**	150,483
Investments	17	**2,000**	–
Deferred tax assets	23	**1,241**	136
Total non-current assets		**10,102,663**	7,604,162
Inventories	15	**110,931**	50,475
Trade, other receivables and deferred expenses	16	**151,802**	229,224
Current income tax asset		**8,160**	16,899
Investments	17	**1,750**	2,429,816
Cash and cash equivalents	18	**3,273,342**	2,582,933
Total current assets		**3,545,985**	5,309,347
Total assets		**13,648,648**	12,913,509
Equity			
Share capital	19	**180,585**	180,585
Reserves	20	**8,629,629**	8,101,975
Total equity attributable to owners of the Company		**8,810,214**	8,282,560
Non-controlling interests		**398,944**	340,857
Total equity		**9,209,158**	8,623,417
Liabilities			
Loans and borrowings	21	**2,379,389**	2,694,901
Obligations under finance leases	22	**1,093**	809
Trade and other payables	24	**4,349**	64,484
Deferred tax liabilities	23	**5,848**	5,984
Deferred income	25	**72,025**	56,716
Total non-current liabilities		**2,462,704**	2,822,894
Loans and borrowings	21	**617,865**	262,688
Obligations under finance leases	22	**1,797**	200
Trade and other payables	24	**748,001**	755,613
Deferred income	25	**607,963**	447,937
Current income tax liability		**1,160**	760
Total current liabilities		**1,976,786**	1,467,198
Total liabilities		**4,439,490**	4,290,092
Total equity and liabilities		**13,648,648**	12,913,509

On 14 March 2014 the Board of Directors of MD Medical Group Investments Plc authorised these consolidated financial statements for issue.

Elena Mladova	**Mark Kurtser**	**Vitaly Ustimenko**
Director	Director	Chief Financial Officer

The notes on pages 69 to 97 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

		Attributable to owners of the Company								
	Note	Share capital RUB'000	Share premium RUB'000	Common Control Transactions RUB'000	Capital contribution RUB'000	Translation reserve RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interests RUB'000	Total equity RUB'000
Balance at 1 January 2012		149,636	733,085	(682,873)	27,521	(19,329)	2,371,947	2,579,987	227,269	2,807,256
Comprehensive income										
Profit for the year		–	–	–	–	–	1,399,445	1,399,445	138,786	1,538,231
Other comprehensive income										
Foreign currency translation differences		–	–	–	–	(84,401)	–	(84,401)	–	(84,401)
Total comprehensive income for the year		–	–	–	–	(84,401)	1,399,445	1,315,044	138,786	1,453,830
Contributions by and distributions to owners										
Issue of share capital at a premium	19	30,949	4,510,234	–	–	–	–	4,541,183	–	4,541,183
Dividends	11	–	–	–	–	–	(153,654)	(153,654)	(25,200)	(178,854)
Total transactions with owners		30,949	4,510,234	–	–	–	(153,654)	4,387,529	(25,200)	4,362,329
Non-controlling interest in new subsidiaries		–	–	–	–	–	–	–	2	2
Total non-controlling interest		–	–	–	–	–	–	–	2	2
Balance at 31 December 2012		180,585	5,243,319	(682,873)	27,521	(103,730)	3,617,738	8,282,560	340,857	8,623,417

The notes on pages 69 to 97 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity continued

For the year ended 31 December 2013

	Note	Attributable to owners of the Company								
		Share capital RUB'000	Share premium RUB'000	Common Control Transactions RUB'000	Capital contribution RUB'000	Translation reserve RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interests RUB'000	Total equity RUB'000
Balance at 1 January 2013		180,585	5,243,319	(682,873)	27,521	(103,730)	3,617,738	8,282,560	340,857	8,623,417
Comprehensive income										
Profit for the year		–	–	–	–	–	636,146	636,146	127,401	763,547
Other comprehensive income										
Foreign currency translation differences		–	–	–	–	214,589	–	214,589	–	214,589
Total comprehensive income for the year		–	–	–	–	214,589	636,146	850,735	127,401	978,136
Contributions by and distributions to owners										
Dividends	11	–	–	–	–	–	(313,873)	(313,873)	(71,763)	(385,636)
Total transactions with owners		–	–	–	–	–	(313,873)	(313,873)	(71,763)	(385,636)
Non-controlling interest in new subsidiaries		–	–	–	–	–	–	–	1,020	1,020
Non-controlling interest in acquired subsidiary	14	–	–	–	–	–	–	–	2,105	2,105
Increase in ownership in subsidiary	14	–	–	–	–	–	(9,208)	(9,208)	(676)	(9,884)
Total non-controlling interest		–	–	–	–	–	(9,208)	(9,208)	2,449	(6,759)
Balance at 31 December 2013		**180,585**	**5,243,319**	**(682,873)**	**27,521**	**110,859**	**3,930,803**	**8,810,214**	**398,944**	**9,209,158**

Share premium is not available for distribution.

The notes on pages 69 to 97 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013

	Note	2013 RUB'000	2012 RUB'000
Cash flows from operating activities			
Profit for the year		**763,547**	1,538,231
Adjustments for:			
Depreciation	12	**414,951**	133,840
Loss from the sale of property, plant and equipment		**1,429**	1,954
Amortisation	13	**12,970**	288
Interest income	8	**(65,145)**	(13,135)
Interest expense	8	**279,211**	27,218
Impairment of trade and other receivables	8	**2,416**	1,118
Net foreign exchange transactions loss/(gain)	8	**53,331**	(14,297)
Taxation	9	**71,870**	(19,180)
Cash flows from operations before working capital changes		**1,534,580**	1,656,037
Increase in inventories		**(47,125)**	(23,404)
Increase in trade and other receivables		**(43,666)**	(41,356)
Increase in trade and other payables		**71,150**	99,878
Increase in deferred income		**158,510**	136,292
Cash flows from operations		**1,673,449**	1,827,447
Tax paid		**(64,182)**	(10,872)
Net cash flows from operating activities		**1,609,267**	1,816,575
Cash flows from investing activities			
Payment for acquisition/construction of property, plant and equipment		**(2,429,754)**	(2,646,366)
Proceeds from disposal of property, plant and equipment		**7,980**	759
Payment for acquisition of intangible assets		**(2,204)**	–
Payment for acquisition of investments in subsidiaries under common control		**–**	(9,337)
Acquisition of subsidiaries, net cash outflow on acquisition	14	**(647,603)**	–
Withdrawal/(deposit) of investments		**2,538,323**	(2,509,328)
Interest received		**65,145**	9,078
Net cash flows used in investing activities		**(468,113)**	(5,155,194)
Cash flows from financing activities			
Proceeds from issue of share capital at a premium		**–**	4,374,143
GDR contributions received from underwriters		**150,216**	–
Proceeds from loans and borrowings		**341,063**	1,903,366
Repayment of loans and borrowings		**(346,470)**	(59,538)
Repayment of obligations under finance leases		**(2,793)**	(106,574)
Interest paid		**(303,447)**	(179,285)
Increase in ownership in subsidiary	14	**(9,884)**	–
Dividends paid to the owners of the Company		**(313,873)**	(153,654)
Dividends paid to non-controlling interests		**(71,763)**	(10,500)
Net cash flows from financing activities		**(556,951)**	5,767,958
Net increase in cash and cash equivalents		**584,203**	2,429,339
Cash and cash equivalents at the beginning of the year		**2,582,933**	133,474
Effect of exchange rate changes on cash and cash equivalents		**106,206**	20,120
Cash and cash equivalents at the end of the year	18	**3,273,342**	2,582,933

The notes on pages 69 to 97 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2013

1. INCORPORATION AND PRINCIPAL ACTIVITIES

MD Medical Group Investments Plc (the ''Company'') was incorporated in Cyprus on 5 August 2010 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its Registered Office is at 84, Spyrou Kyprianou Avenue, 2nd floor, office #7, 4004 Limassol, Cyprus.

The consolidated financial statements for the year ended 31 December 2013 consist of the consolidated statement of financial position as at the aforementioned date and the related consolidated statements of comprehensive income, changes in equity and cash flows and a summary of significant accounting policies and other explanatory notes of the Company and its subsidiaries (which together are referred to as ''the Group'') for the year then ended.

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

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

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

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

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

Name	Country of incorporation	Activities	Notes	**31 December 2013 Effective Holding %**	31 December 2012 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		**54**	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	1	**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 Ecodeure	Russian Federation	Medical services		**85**	85
LLC Mother and Child Perm	Russian Federation	Medical services		**80**	80
LLC Mother and Child Ufa	Russian Federation	Medical services	2	**80**	80
LLC Mother and Child St Petersburg	Russian Federation	Medical services	2	**60**	60
LLC MD PROJECT 2010	Russian Federation	Medical services	3	**80**	80
LLC Mother and Child Ugo-Zapad	Russian Federation	Medical services	2	**60**	60
LLC MD Service	Russian Federation	Pharmaceutics retail	4	**98**	98
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	5	**100**	99
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services	5	**100**	99
LLC TechMedCom	Russian Federation	Service company	6	**–**	–
LLC Service Hospital Company	Russian Federation	Service company	6	**–**	–
Vitanostra Ltd	Cyprus	Holding of investments	7	**100**	–
LLC NPC MIR	Russian Federation	Holding of investments	8	**100**	–
LLC MK IDK	Russian Federation	Medical services	8	**100**	–
LLC Apteka IDK	Russian Federation	Pharmaceutics retail	8	**100**	–
LLC CSR	Russian Federation	Medical services	8	**100**	–
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	9	**85**	–

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

1. INCORPORATION AND PRINCIPAL ACTIVITIES CONTINUED

Name	Country of incorporation	Activities	Notes	**31 December 2013 Effective Holding %**	31 December 2012 Effective Holding %
LLC MD Assistance	Russian Federation	Assistance services	10	**100**	–
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	10	**80**	–
LLC MD Management	Russian Federation	Management company	10	**100**	–

Notes:
1. 1% of the share capital of this entity is directly owned by the Company and 99% of the share capital of this entity is indirectly owned through LLC Khaven. Thus effective holding percentage for the entity is 100%.
2. These entities are indirectly owned through LLC Khaven.
3. As at 31 December 2012, 99% of the share capital of this entity was owned by LLC Mother and Child Ufa and 1% of the share capital of this entity was owned by LLC Mother and Child Perm. In February 2013 80% of the share capital of this entity was sold by the aforementioned companies to the Company. The effective holding percentage for the entity has not changed.
4. This entity was incorporated in 2012. 95% of the share capital of the entity is directly owned by the Company and 5% of the share capital is owned by LLC Clinica Zdorovia. Thus effective holding percentage for the entity is 98%.
5. These entities were incorporated in 2012.
6. These entities were incorporated in 2013 and, although not directly owned by the Group, are controlled by the Group since most of their activities are carried out on behalf of the Group.
7. This entity was acquired in March 2013. The transaction was completed during April 2013 following the regulatory approval (note 14).
8. These entities are indirectly owned through Vitanostra Ltd.
9. The 80% share in this entity was acquired in May 2013. In July 2013 the Company has acquired the additional 5% share (note 14).
10. These entities were incorporated in 2013.

As of 31 December 2013, 67,90% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr. Mark Kurtser. The remaining 32,10% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors and were authorised for issue on 14 March 2014.

(b) Basis of measurement

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

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

As from 1 January 2013, 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 2013. The Company does not plan to adopt these Standards early.

2. BASIS OF PREPARATION CONTINUED

(i) Standards and Interpretations adopted by the EU

- IFRS 10 ''Consolidated Financial Statements'' (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – special Purpose Entities. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use this power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto circumstances. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held as at 31 December 2013.

- IFRS 11 ''Joint Arrangements'' (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 12 ''Disclosure of Interests in Other Entities'' (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).

IFRS 12 applies to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structure entities. IFRS 12 requires an entity to disclose information that enables users of financial statements to understand and evaluate nature and extent of its interests in other entities, the risks associated with those interests and their impact on its financial position, financial performance and cash flows. The amendment will affect presentation only and will have no impact on the Group's financial position or performance.

- Investment Entities – Amendments to IFRS 10, 12 and IAS 27 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Transition Guidance – Amendments to IFRS 10, 11 and 12 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 27 (Revised) ''Separate Financial Statements'' (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 28 (Revised) ''Investments in Associates and Joint ventures'' (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 32 (Amendments) ''Offsetting Financial Assets and Financial Liabilities'' (effective for annual periods beginning on or after 1 January 2014).
- IAS 36 (Amendments) ''Recoverable Amount Disclosures for Non-Financial Assets'' (effective for annual periods beginning on or after 1 January 2014).
- IAS 39 (Amendments) ''Novation of Derivatives and Continuation of Hedge Accounting'' (effective for annual periods beginning on or after 1 January 2014).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 7 (Amendments) ''Financial Instruments: Disclosures'' – ''Disclosures on transition to IFRS 9'' (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 ''Financial Instruments: Hedge accounting and Amendments to IFRS 9, IFRS 7 and IAS 39)'' (effective for annual periods beginning on or after 1 January 2015).
- IFRS 14 ''Regulatory Deferral Accounts'' (effective for annual periods beginning on or after 1 January 2016).
- IAS 19 (Amendments) ''Defined Benefit Plans: Employee Contributions'' (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 ''Bank Levies'' (effective for annual periods beginning on or after 1 January 2014).

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

(d) Use of estimates and judgments

Preparing consolidated 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 expense. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may differ from these estimates.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

2. BASIS OF PREPARATION CONTINUED

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

▲ **Provision for bad and doubtful debts**

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

▲ **Provision for obsolete and slow-moving inventory**

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

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

▲ **Income taxes**

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

▲ **Impairment of intangible assets**

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

▲ **Impairment of goodwill**

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

(e) Functional and presentation currency

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Business combinations

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Revenue recognition

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

- ▲ **Rental income**
  Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

- ▲ **Sale of goods**
  Sales of goods are recognised when significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually when the Group has sold or delivered goods to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured.

- ▲ **Rendering of services**
  Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Finance income

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

Finance expenses

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

Foreign currency translation

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

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

Tax

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

	Years
Freehold buildings	50
Plant and machinery	5-10
Leased 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.

Deferred income
Deferred income represents income receipts which relate to future periods.

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Intangible assets continued

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

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

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

Finance leases

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

The Group as lessee

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

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

Operating leases

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

Financial instruments

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments continued

(iv) Derivatives

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

(v) Cash and cash equivalents

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

(vi) Borrowings

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

(vii) Trade payables

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets

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

Offsetting financial instruments

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

Inventories

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Share capital

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

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

Provisions

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

Non-current liabilities

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

Comparatives

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

4. REVENUE

	2013 RUB'000	2012 RUB'000
Deliveries	**1,261,193**	1,056,910
Obstetrics and Gynaecology out-patient treatments	**1,138,469**	790,717
IVF	**800,349**	542,169
Paediatrics out-patient treatments	**729,869**	556,576
Obstetrics and Gynaecology in-patient treatments	**618,121**	416,828
Paediatrics in-patient treatments	**161,853**	136,580
Other medical services	**721,453**	386,729
Sales of goods	**146,257**	96,049
Other income	**95,189**	78,534
	5,672,753	4,061,092

5. COST OF SALES

	2013 RUB'000	2012 RUB'000
Payroll and related social taxes	**1,964,406**	1,268,403
Materials and supplies used	**655,688**	426,096
Depreciation	**355,579**	130,969
Property tax	**150,051**	53,884
Medical services	**90,131**	43,963
Energy and utilities	**75,798**	42,799
Repair and maintenance	**39,181**	20,696
Other expenses	**58,448**	26,325
	3,389,282	2,013,135

6. ADMINISTRATIVE EXPENSES

	2013 RUB'000	2012 RUB'000
Payroll and related social taxes	**557,795**	228,115
Utilities and materials	**210,857**	110,311
Other professional services	**123,799**	54,739
Advertising	**78,149**	36,041
Depreciation	**59,372**	2,871
Independent auditors' remuneration	**24,118**	20,562
Communication costs	**15,071**	7,198
Amortisation	**12,970**	288
Other expenses	**42,512**	24,276
	1,124,643	484,401

7. STAFF COSTS

	2013 RUB'000	2012 RUB'000
Wages and salaries	**2,047,410**	1,227,248
Social insurance contributions and other taxes	**474,791**	269,270
Total staff costs	**2,522,201**	1,496,518

The average number of employees employed by the Group during the year 2013 and 2012 were 3,118 and 1,766 respectively.

8. NET FINANCE EXPENSES

	2013 RUB'000	2012 RUB'000
Finance income		
Bank interest received	**64,953**	13,135
Interest from loans to third parties	**192**	–
	65,145	13,135
Finance expenses		
Interest expense		
Interest on bank loans	**(277,329)**	(24,538)
Interest on loans from third parties	**(1,083)**	(224)
Finance leases interest	**(799)**	(2,456)
Other finance expense		
Bank charges	**(52,894)**	(40,383)
Impairment of trade and other receivables	**(2,416)**	(633)
Other impairment provision	**–**	(485)
	(334,521)	(68,719)
Net foreign exchange transaction (loss)/gain	**(53,331)**	14,297
Net finance expense	**(322,707)**	(41,287)

No borrowing costs were capitalised for qualifying assets during year 2013 (2012: RUB178,756 thousand). The average capitalisation rate on funds borrowed specifically for the construction of the qualifying assets in 2012 was 10% per annum.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

9. TAXATION

Tax recognised in profit or loss

	2013 RUB'000	2012 RUB'000
Corporation tax	**73,112**	13,778
Deferred tax – (credit)	**(1,242)**	(32,958)
Charge for the year	**71,870**	(19,180)

Numerical reconciliation of income tax expense to prima facie tax payable

	2013 RUB'000	2012 RUB'000
Accounting profit before tax	**835,417**	1,519,051
Tax calculated at the applicable tax rates of the Group	**69,651**	26,835
Tax effect of expenses not deductible for tax purposes	**–**	41,940
Conversion to 0% tax rate	**–**	(66,391)
Other tax effects	**2,219**	(21,564)
Tax as per consolidated statement of comprehensive income-(credit)/charge	**71,870**	(19,180)

Majority of the Group companies, that are offering medical services and are operating in Russian Federation, apply 0% corporate income tax rate, other companies apply standard income tax rate of 20%. Management calculates the tax expense by multiplying the applicable tax rates of each Group company by the pre-tax income of the reporting period.

The Group's consolidated effective income tax rate for the year ended 31 December 2013 was 9% (year ended 31 December 2012: -1%). The change in effective tax rate was caused mainly by the increase in the distribution of dividends from subsidiaries to the Company, which is subject to 5% income tax rate in Russian Federation, has affected the tax expense for the period while not affecting the consolidated profit before tax. Also, the reversal of deferred tax liabilities by some Group companies due to the application of 0% income tax rate since 1 January 2013 has significantly decreased the tax expense for the year ended 31 December 2012.

10. PROFIT PER SHARE

	2013	2012
Basic and fully diluted earnings attributable to the owners of the Company (RUB'000)	**636,146**	1,399,445
Weighted average number of Ordinary shares in issue during the year	**75,125,010**	65,220,631
Basic and fully diluted earnings per share (RUB)	**8.47**	21.46

11. DIVIDENDS

During 2012, prior to the issue of the new shares and prior to the reduction in the nominal value of the share capital of the Company, the Board of Directors declared and paid an interim dividend out of 2012 profits amounting to US$5,050 thousand (RUB153,654 thousand), which corresponds to US$0.1008 (RUB3.07) per share.

On 5 April 2013 the Board of Directors declared a final dividend out of 2012 profits amounting to US$9,766 thousand (RUB313,873 thousand), which corresponds to US$0.13 (RUB4.18) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 7 June 2013. The dividend was paid on 11 June 2013.

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

12. PROPERTY, PLANT AND EQUIPMENT

2013	Freehold land and buildings RUB'000	Property under construction RUB'000	Plant and equipment RUB'000	Leased equipment RUB'000	Total RUB'000
Cost					
Balance at 1 January	**6,111,051**	**195,659**	**1,937,331**	**2,593**	**8,246,634**
Acquisitions through business combinations	**149,772**	**38,325**	**145,119**	**5,470**	**338,686**
Additions	**220,700**	**1,347,690**	**300,325**	**3,876**	**1,872,591**
Disposals	**(192)**	**–**	**(14,115)**	**–**	**(14,307)**
Transfer from construction in progress	**135,471**	**(171,104)**	**35,633**	**–**	**–**
Balance at 31 December	**6,616,802**	**1,410,570**	**2,404,293**	**11,939**	**10,443,604**
Depreciation					
Balance at 1 January	**231,175**	**–**	**592,426**	**158**	**823,759**
Depreciation during the year	**130,690**	**–**	**282,948**	**1,313**	**414,951**
On disposals	**–**	**–**	**(4,898)**	**–**	**(4,898)**
Transfer from leased equipment	**–**	**–**	**–**	**–**	**–**
Balance at 31 December	**361,865**	**–**	**870,476**	**1,471**	**1,233,812**
Carrying amounts					
Balance at 31 December	**6,254,937**	**1,410,570**	**1,533,817**	**10,468**	**9,209,792**

2012					
Cost					
Balance at 1 January	1,998,463	1,876,740	694,380	169,519	4,739,102
Additions	–	2,440,914	1,072,289	2,593	3,515,796
Disposals	–	–	(8,264)	–	(8,264)
Transfer from property under construction	4,112,588	(4,121,995)	9,407	–	–
Transfer from leased equipment	–	–	169,519	(169,519)	–
Balance at 31 December	6,111,051	195,659	1,937,331	2,593	8,246,634
Depreciation					
Balance at 1 January	185,400	–	507,246	2,824	695,470
Depreciation during the year	45,775	–	79,133	8,932	133,840
On disposals	–	–	(5,551)	–	(5,551)
Transfer from leased equipment	–	–	11,598	(11,598)	–
Balance at 31 December	231,175	–	592,426	158	823,759
Carrying amounts					
Balance at 31 December	5,879,876	195,659	1,344,905	2,435	7,422,875

The total net book value of property, plant and equipment which is held as collateral for the loans and borrowings is RUB6,064,050 thousand as at 31 December 2013 and RUB5,991,537 thousand as at 31 December 2012.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

13. INTANGIBLE ASSETS

2013	Goodwill RUB'000	Patents and trademarks RUB'000	Software and website RUB'000	Total RUB'000
Cost				
Balance at 1 January	**30,051**	**949**	**280**	**31,280**
Acquisitions through business combinations	**353,496**	**67,603**	**10,666**	**431,765**
Additions	**–**	**423**	**2,025**	**2,448**
Balance at 31 December	**383,547**	**68,975**	**12,971**	**465,493**
Amortisation				
Balance at 1 January	**–**	**425**	**187**	**612**
Amortisation during the year	**–**	**10,343**	**2,627**	**12,970**
Balance at 31 December	**–**	**10,768**	**2,814**	**13,582**
Carrying amounts				
Balance at 31 December	**383,547**	**58,207**	**10,157**	**451,911**
2012				
Cost				
Balance at 1 January/31 December	30,051	949	280	31,280
Amortisation				
Balance at 1 January	–	193	131	324
Amortisation during the year	–	232	56	288
Balance at 31 December	–	425	187	612
Carrying amounts				
Balance at 31 December	30,051	524	93	30,668

Goodwill is allocated to each cash-generating unit (CGU), identified according to the period of acquisition (note 14).

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

Goodwill carrying amount

	31 December 2013 RUB'000	31 December 2012 RUB'000
Subsidiaries acquired in 2011	**30,051**	30,051
Vitanostra Ltd acquired in March 2013	**211,303**	–
LLC Centre of Reproductive Medicine acquired in May 2013	**142,193**	–
	383,547	30,051

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

The recoverable amount of each CGU group is based on the sum of the fair values of the net assets of the subsidiaries included in each CGU. The calculation of the fair value of net assets of each subsidiary is based on the current and estimated future pre-tax profitability. Additional details for determination of fair values of net assets are disclosed in note 28 of the consolidated financial statements.

No impairment was recognised in 2013. 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.

14. ACQUISITION OF SUBSIDIARIES

Subsidiaries acquired during 2013 provide medical services in disciplines such as Gynaecology, Paediatrics, Fertility and In-Vitro Fertilisation ("IVF") Treatment. These entities are located in Samara and Irkutsk. The purpose of these acquisitions was the expansion of the Group's activities into related business geographically.

Goodwill arising on consolidation:

	Vitanostra Ltd acquired in March 2013 RUB'000	LLC Centre of Reproductive Medicine acquired in May 2013 RUB'000	Total RUB'000
Consideration transferred – cash	**504,393**	150,613	655,006
Plus: Non-controlling interests at acquisition date	**–**	2,105	2,105
Less: Fair value of the net assets acquired	**(293,090)**	(10,525)	(303,615)
Goodwill arising on consolidation	**211,303**	142,193	353,496

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

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

	Vitanostra Ltd acquired in March 2013 RUB'000	LLC Centre of Reproductive Medicine acquired in May 2013 RUB'000	Total RUB'000
Intangible assets	**78,272**	–	78,272
Property, plant and equipment	**323,154**	15,532	338,686
Inventories	**9,487**	3,844	13,331
Trade, other receivables and deferred expenses	**25,381**	740	26,121
Loans receivable	**3,874**	–	3,874
Cash and cash equivalents	**3,631**	3,772	7,403
Deferred tax liabilities	**(1)**	–	(1)
Loans and borrowings	**(70,107)**	–	(70,107)
Deferred income	**(12,130)**	(4,695)	(16,825)
Trade and other payables	**(68,261)**	(8,668)	(76,929)
Current income tax liability	**(210)**	–	(210)
Net assets	**293,090**	10,525	303,615

The gross contractual amounts to be received equal to the carrying amount at fair value. All contractual amounts are expected to be received.

Net cash outflow on acquisition of subsidiaries

	2013 RUB'000
Consideration paid in cash	**655,006**
Cash and cash equivalents acquired	**(7,403)**
	647,603

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

14. ACQUISITION OF SUBSIDIARIES CONTINUED

Acquisition of additional share in LLC Centre of Reproductive Medicine

In July 2013 the Company acquired additional 5% share in LLC Centre of Reproductive Medicine for cash consideration of RUB9,884 thousand. As a result of the transaction the effective ownership in LLC Centre of Reproductive Medicine increased from 80% to 85%. The Company has derecognised non-controlling interest in the amount of RUB676 thousand, and the excess of the value of the consideration paid over the non-controlling interests acquired was recognised as decrease in retained earnings in the amount of RUB9,208 thousand.

Non-controlling interests

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

Contribution to the Group results

The amounts of revenue and profit contributed to the Group from the subsidiaries acquired are presented below.

	Vitanostra Ltd acquired in March 2013 RUB'000	LLC Centre of Reproductive Medicine acquired in May 2013 RUB'000	Total RUB'000
Revenue	**509,845**	80,321	590,166
Profit	**31,800**	22,610	54,410

The amounts of revenue and profit that would have been contributed to the Group as though the acquisition date occurred at the beginning of the period are presented below.

	Vitanostra Ltd acquired in March 2013 RUB'000	LLC Centre of Reproductive Medicine acquired in May 2013 RUB'000	Total RUB'000
Revenue	**643,969**	116,506	760,475
Profit	**26,174**	30,669	56,843

15. INVENTORIES

	31 December 2013 RUB'000	31 December 2012 RUB'000
Consumables	**110,931**	50,475

16. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES

	31 December 2013 RUB'000	31 December 2012 RUB'000
CAPEX prepayments	**437,719**	150,483
Trade receivables	**76,981**	36,788
Advances paid to suppliers	**45,306**	30,682
Deferred expenses	**13,884**	3,932
Other receivables	**15,631**	157,822
	589,521	379,707
Non-current portion	**437,719**	150,483
Current portion	**151,802**	229,224
	589,521	379,707

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

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

Ageing analysis of trade and other receivables:

Trade receivables

	Gross amount 31 December 2013 RUB'000	Impairment 31 December 2013 RUB'000	Gross amount 31 December 2012 RUB'000	Impairment 31 December 2012 RUB'000
Not past due	**76,981**	**–**	74,808	–
Past due	**2,392**	**(2,392)**	1,671	(1,671)
	79,373	**(2,392)**	76,479	(1,671)

Capex prepayments

	Gross amount 31 December 2013 RUB'000	Impairment 31 December 2013 RUB'000	Gross amount 31 December 2012 RUB'000	Impairment 31 December 2012 RUB'000
Recoverable	**437,719**	**–**	150,483	–
Non–recoverable	**1,695**	**(1,695)**	–	–
	439,414	**(1,695)**	150,483	–

Currency

	31 December 2013 RUB'000	31 December 2012 RUB'000
Russian Ruble	**205,775**	130,447
United States Dollar	**240,135**	175,569
Euro	**143,611**	73,691
	589,521	379,707

The exposure of the Group to credit risk and impairment losses in relation to trade, other receivables and deferred expenses is reported in note 27 of the consolidated financial statements.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

17. INVESTMENTS

	31 December 2013 RUB'000	31 December 2012 RUB'000
Bank deposits with maturity of more than 3 but less than 12 months	**–**	2,429,816
Loans receivable	**3,750**	–
	3,750	2,429,816
Non-current portion	**2,000**	–
Current portion	**1,750**	2,429,816
	3,750	2,429,816

The exposure of the Group to credit risk and impairment losses in relation to investments is reported in note 27 of the consolidated financial statements.

18. CASH AND CASH EQUIVALENTS

Cash balances are analysed as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Cash at bank and in hand	**2,741,492**	1,271,752
Bank deposits with maturity less than 3 months	**531,850**	1,311,181
	3,273,342	2,582,933

Currency

	31 December 2013 RUB'000	31 December 2012 RUB'000
Russian Ruble	**1,487,020**	693,122
Euro	**416**	–
United States Dollar	**1,785,906**	1,889,811
	3,273,342	2,582,933

The exposure of the Group to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 27 of the consolidated financial statements.

19. SHARE CAPITAL

	2013				2012			
	Number of shares	Nominal value US$	Share capital RUB'000	Share capital US$'000	Number of shares	Nominal value US$	Share capital RUB'000	Share capital US$'000
Authorised								
Balance at 1 January	**125,250,000**	**0.08**		**10,020**	50,100,000	0.10		5,010
Increase in share capital	–	–		–	10,900,000	0.10		1,090
Decrease of nominal value from US$0.10 to US$0.08	–	–		–	15,250,000	0.08		–
Increase in share capital	–	–		–	49,000,000	0.08		3,920
	125,250,000	**0.08**		**10,020**	125,250,000	0.08		10,020
Issued and fully paid								
Balance at 1 January	**75,125,010**	**0.08**	**180,585**	**6,010**	50,100,000	0.10	149,636	5,010
Issue of new Ordinary shares	–	–	–	–	8	0.10	–	–
Decrease of nominal value from US$0.10 to US$0.08	–	–	–	–	12,525,002	0.08	–	–
Issue of new Ordinary shares	–	–	–	–	12,500,000	0.08	30,949	1,000
Balance at 31 December	**75,125,010**	**0.08**	**180,585**	**6,010**	75,125,010	0.08	180,585	6,010

Authorised share capital

On 18 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US$5,010,000 divided into 50,100,000 Ordinary shares of US$0.10 each to US$6,100,000 divided into 61,000,000 Ordinary shares of US$0.10 each by creating of 10,900,000 additional Ordinary shares of US$0.10 each.

On 19 September 2012, following special members' resolution, the authorised share capital of the Company which on that date was US$6,100,000 divided into 61,000,000 Ordinary shares of US$0.10 each was subdivided into 610,000,000 Ordinary shares of US$0.01 each. On the same date, the authorised share capital of the Company was consolidated from US$6,100,000 divided into 610,000,000 Ordinary shares of US$0.01 to US$6,100,000 divided into 76,250,000 Ordinary shares of US$0.08 each.

On 19 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US$6,100,000 divided into 76,250,000 Ordinary shares of US$0.08 each to US$10,020,000 divided into 125,250,000 Ordinary shares of US$0.08 each by creating of 49,000,000 additional Ordinary shares of US$0.08 each.

Issued share capital

On 18 September 2012, following a Board of Directors' resolution, the issued share capital of the Company was increased from US$5,010,000 divided into 50,100,000 Ordinary shares of US$0.10 each to US$5,010,001 divided into 50,100,008 Ordinary shares by issue of 8 Ordinary shares with a nominal value of US$0.10 each.

On 19 September 2012, following a special members' resolution, the 50,100,008 issued Ordinary shares of the Company with a nominal value of US$0.10 each were subdivided into 501,000,080 Ordinary shares of US$0.01 each. On the same date the issued share capital of the Company was consolidated from US$5,010,001 divided into 501,000,080 Ordinary shares of US$0.01 each to US$5,010,001 divided into 62,625,010 Ordinary shares with a nominal value of US$0.08 each.

On 11 October 2012, as a result of the initial public offering, the Company resolved to issue 12,500,000 Ordinary shares with a nominal value of US$0.08 each at an offer price of US$12 per Ordinary share. The total proceeds from this issue amounted to US$150,000,000 resulting in an increase of the issued share capital by US$1,000,000 (RUB30,949,300) and an increase of the share premium by US$149,000,000 (RUB4,611,445,700). A net amount of US$3,160,777 (RUB101,212,183) related to capital issue expenses that was directly attributable to the issue of the new shares following the IPO process, was written off against share premium.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

20. RESERVES

Share premium

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

Common control

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

Translation reserve

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

Capital contribution

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

Retained earnings

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

21. LOANS AND BORROWINGS

	31 December 2013 RUB'000	31 December 2012 RUB'000
Long-term liabilities		
Bank loans	**2,379,389**	2,694,901
Short-term liabilities		
Bank loans	**617,865**	262,688
Maturity of loans and borrowings		
Within one year	**617,865**	262,688
Between one and five years	**2,379,389**	2,504,374
More than five years	**–**	190,527
	2,997,254	2,957,589

For description of securities and covenants regarding loans and borrowings please refer to note 12.

As at 31 December 2013, the terms and debt repayment schedule of loans is as follows:

	Currency	Nominal interest rate	Year of maturity	**31 December 2013**		31 December 2012	
				Face value RUB'000	**Carrying amount RUB'000**	Face value RUB'000	Carrying amount RUB'000
Secured bank loan	RUB	9%	2013 – 2018	**2,534,712**	**2,534,712**	2,737,996	2,737,996
Secured bank loan	RUB	9%	2014 – 2019	**392,446**	**392,446**	219,593	219,593
Unsecured bank loan	RUB	9%	2013 – 2018	**44,398**	**44,398**	–	–
Secured bank loans	RUB	9% –12%	2013 – 2018	**25,698**	**25,698**	–	–
				2,997,254	**2,997,254**	2,957,589	2,957,589

The exposure of the Group to interest rate risk in relation to loans and borrowings is reported in note 27 of the consolidated financial statements.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments 31 December 2013 RUB'000	**Interest 31 December 2013 RUB'000**	**Principal 31 December 2013 RUB'000**	Minimum lease payments 31 December 2012 RUB'000	Interest 31 December 2012 RUB'000	Principal 31 December 2012 RUB'000
Within one year	**2,402**	**605**	**1,797**	412	212	200
Between one and five years	**1,200**	**107**	**1,093**	1,005	196	809
	3,602	**712**	**2,890**	1,417	408	1,009

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

The exposure of the Group to interest rate risk in relation to finance leases is reported in note 27 of the consolidated financial statements.

23. DEFERRED TAX

Deferred tax liability

	31 December 2013 RUB'000	31 December 2012 RUB'000
Balance at 1 January	**(5,984)**	(39,117)
Charged to the statement of comprehensive income	**136**	33,133
Balance at 31 December	**(5,848)**	(5,984)

The balance comprises of temporary differences attributable to property, plant and equipment.

Deferred tax assets

	31 December 2013 RUB'000	31 December 2012 RUB'000
Balance at 1 January	**136**	311
Charged to the statement of comprehensive income	**1,105**	(175)
Balance at 31 December	**1,241**	136

The balance comprises of temporary differences attributable to:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Property, plant and equipment	**122**	74
Accruals	**376**	62
Tax losses carried forward	**743**	–
	1,241	136

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

24. TRADE AND OTHER PAYABLES

	31 December 2013 RUB'000	31 December 2012 RUB'000
CAPEX payables	**255,371**	491,986
Accruals	**154,017**	82,565
Payables to employees	**119,126**	84,716
Trade payables	**108,244**	70,717
Taxes payable	**102,167**	65,956
Other payables	**13,425**	24,157
	752,350	820,097
Non-current portion	**4,349**	64,484
Current portion	**748,001**	755,613
	752,350	820,097
Currency:		
Russian Ruble	**532,832**	406,380
United States Dollar	**142,325**	354,402
Euro	**70,922**	58,039
UK Pound Sterling	**6,271**	1,276
	752,350	820,097

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

The exposure of the Group to liquidity risk in relation to trade and other payables is reported in note 27 of the consolidated financial statements.

25. DEFERRED INCOME

	31 December 2013 RUB'000	31 December 2012 RUB'000
Patient advances	**679,988**	504,653
Deferred income after more than one year	**72,025**	56,716
Deferred income within one year	**607,963**	447,937
	679,988	504,653

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.

26. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

26.1 Key management personnel

The remuneration of the members of the key management personnel and Non-Executive Directors for the year ended 31 December 2013 was RUB46,967 thousand and for the year ended 31 December 2012 was RUB29,412 thousand.

During the year ended 31 December 2013 the Company acquired 30% share capital of subsidiary from a member of the key management personnel. The total consideration paid for the acquisition of the share in subsidiary amounted to RUB56,480 thousand.

The Company has concluded an agreement for rental of an office in Cyprus with a member of the key management personnel effective from 1 July 2013. The rent expense under this agreement amounted to RUB387 thousand.

26.2 Transactions with other related parties

	31 December 2013 RUB'000	31 December 2012 RUB'000
Revenue received from other related parties	**1,462**	6,275

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

26.3 Outstanding balances due to other related parties

	31 December 2013 RUB'000	31 December 2012 RUB'000
Deferred income	**–**	1,140

26.4 Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2013 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 control of shares	5.55
Simon Rowlands	Direct ownership of shares	0.33

Control of the shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

27. FINANCIAL INSTRUMENTS AND 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:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Cash and cash equivalents	**3,273,342**	2,582,933
Trade and other receivables	**82,650**	190,727
Investments	**3,750**	2,429,816
	3,359,742	5,203,476

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 due to the long-term relationships with main suppliers. This significantly reduces possible delays and other negative consequences that may potentially affect matching the maturity of assets with liabilities. Furthermore, according to the internal policy, all clients have to pay in advance except for some particular cases when clients issue "Guarantee letter to pay", which ensures the services are duly paid afterwards.

	31 December 2013 RUB'000	31 December 2012 RUB'000
Exposure to credit risk by geographic location		
Russian Federation	**76,981**	42,139
USA	–	144,531
Austria	–	4,057
	76,981	190,727

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Cash and cash equivalents

The Group held cash at bank of RUB3,268,178 thousand at 31 December 2013 and RUB2,578,539 thousand at 31 December 2012 which represents its maximum credit exposure on these assets.

The credit quality of cash and cash equivalents is as follows:

Rating	Agency	**31 December 2013 RUB'000**	31 December 2012 RUB'000
A2	Moody's Investors Service	**2,326,148**	1,888,574
Baa1	Moody's Investors Service	**824,970**	681,366
Ba2	Moody's Investors Service	**–**	5,063
Baa2	Moody's Investors Service	**92,218**	–
Ba3	Moody's Investors Service	**11,821**	–
Baa3	Moody's Investors Service	**9,459**	–
B1	Moody's Investors Service	**2,222**	–
Caa1	Moody's Investors Service	**–**	1,206
Ca	Moody's Investors Service	**412**	–
N/A	*	**928**	2,330
Cash in hand		**5,164**	4,394
Cash and cash equivalents		**3,273,342**	2,582,933

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

(ii) Liquidity risk

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Cash and cash equivalents continued

(ii) Liquidity risk continued

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

31 December 2013	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	**2,997,254**	**3,616,048**	**142,082**	**720,955**	**898,103**	**1,854,908**	**–**
i. Obligations under finance leases	**2,890**	**3,602**	**418**	**1,984**	**1,200**	**–**	**–**
CAPEX payables	**255,371**	**255,371**	**223,097**	**27,925**	**4,349**	**–**	**–**
Trade payables	**108,244**	**108,244**	**108,244**	**–**	**–**	**–**	**–**
Other payables and accrued expenses	**387,206**	**387,206**	**259,959**	**127,247**	**–**	**–**	**–**
	3,750,965	**4,370,741**	**733,800**	**878,111**	**903,652**	**1,854,908**	**–**

31 December 2012	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	2,957,589	3,838,213	73,415	478,610	834,508	2,257,185	194,495
Obligations under finance leases	1,009	1,417	69	343	501	504	–
CAPEX payables	491,986	491,986	236,317	191,185	64,484		
Trade payables	70,717	70,717	70,717	–	–	–	–
Other payables and accrued expenses	257,394	257,394	195,172	62,222	–	–	–
	3,778,695	4,659,727	575,690	732,360	899,493	2,257,689	194,495

As disclosed in note 21, the Group has secured bank loans which contain debt covenants. The breach of covenants may require the Group to repay the loans earlier than indicated in the above table.

(iii) Market risk

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

Interest rate risk

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

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

	2013 RUB'000	2012 RUB'000
Fixed rate instruments		
Financial assets	**535,600**	3,740,997
Financial liabilities	**(3,000,144)**	(2,958,598)
	(2,464,544)	782,399

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.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Currency risk

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

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

	31 December 2013			31 December 2012		
	US$'000	**EURO'000**	**GBP'000**	US$'000	EURO'000	GBP'000
Assets						
Cash at bank	**54,566**	**9**	**–**	62,221	–	–
Bank deposits	**–**	**–**	**–**	80,000	–	–
Other receivables	**–**	**–**	**–**	4,892	–	–
Liabilities						–
CAPEX payables	**(4,181)**	**(1,438)**	**–**	(11,638)	(1,225)	–
Trade and other payables and accruals	**(168)**	**(138)**	**(116)**	(31)	(217)	(26)
Net exposure	**50,217**	**(1,567)**	**(116)**	135,444	(1,442)	(26)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	**2013**	2012
US$	**31,8480**	31,0930	**32,7292**	30,3727
EURO	**42,3129**	39,9524	**44,9699**	40,2286
GBP	**49,8486**	49,2474	**53,9574**	48,9638

Sensitivity analysis

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

	Profit or loss		Equity	
	2013 RUB'000	2012 RUB'000	**2013 RUB'000**	2012 RUB'000
US$	**(164,356)**	(411,381)	**(164,356)**	(411,381)
EURO	**7,048**	5,804	**7,048**	5,804
GBP	**626**	128	**626**	128
	(156,682)	(405,449)	**(156,682)**	(405,449)

Notes to the consolidated financial statements continued

For the year ended 31 December 2013

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Capital management

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

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

The Group monitors capital on the basis of the 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 less cash and cash equivalents. Total equity is calculated as ''equity'' shown in the consolidated statement of financial position.

The Group's capital is analysed as follows:

	2013 RUB'000	2012 RUB'000
Total loans and borrowings	**3,000,144**	2,958,598
Less: Cash and cash equivalents	**(3,273,342)**	(2,582,933)
Net debt	**(273,198)**	375,665
Total equity	**9,209,158**	8,623,418
Net debt to equity ratio	**not applicable**	4.36%

28. FAIR VALUES

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

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

- *the market approach for the buildings and construction in progress.* Fair values based on the market approach were calculated by using market prices for similar items of property being the estimated amounts for which a building could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.
- *the average of the cost approach and the market approach for the equipment.* Fair values based on the market approach were calculated by using market prices for similar items of equipment being the estimated amount for which an item of equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. Fair values based on cost approach were calculated by using depreciated replacement cost. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
- *the income approach for patents and trademarks.* Fair values based on the income approach were calculated based on discounted cash flows expected to be derived from the use of these assets.

29. 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 property, plant and equipment except for fixed assets insurance. Until the Group obtains adequate insurance coverage, there is a risk of material adverse effect on operations and statement of financial position.

(b) Russian business environment

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

29. CONTINGENT LIABILITIES CONTINUED

(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 remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance based position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncement and court decisions. However, the interpretations of the relevant authorities could differ and the effect on this consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Cyprus economic environment

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

The Cyprus government has concluded negotiations with the European Commission, the European Central Bank and the International Monetary Fund, as well as third parties, in order to obtain financing. As a result of the agreement reached, there are uncertainties prevailing the economic environment of Cyprus.

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

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

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

30. CAPITAL COMMITMENTS

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

	2013 RUB'000	2012 RUB'000
Property, plant and equipment	**5,666**	72,507
Construction contracts	**1,581,578**	90,127
	1,587,244	162,634

31. EVENTS AFTER THE REPORTING PERIOD

On 5 February 2014 the Company proceeded with the incorporation of a new subsidiary in Russia, LLC Mother and Child Ryazan, of which the Company and the Group holds directly and indirectly 99% of its share capital.

On 11 March 2014 the Company acquired additional 20% share in LLC MD PROJECT 2010 for cash consideration of RUB2 thousand. As a result of the transaction the effective ownership in LLC MD PROJECT 2010 increased from 80% to 100%.

Board of Directors' report

The Board of Directors of MD Medical Group Investments Plc (the ''Company'') presents to the members its Annual Report together with the audited financial statements of the Company for the year ended 31 December 2013.

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 2013 and its financial position as at that date are set out in the Statement of Comprehensive Income on page 10 and in the Statement of Financial Position on page 11 of the financial statements. The profit for the year attributable to the owners of the Company amounted to US$33,891 thousand (2012: US$5,717 thousand). The total assets of the Company as at 31 December 2013 were US$210,803 thousand (2012: US$186,449 thousand) and the net assets were US$210,193 thousand (2012: US$186,068 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 5 April 2013 the Board of Directors declared a final dividend out of 2012 profits amounting to US$9,766 thousand, which corresponds to US$0.13 per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 7 June 201 The dividend was paid on 11 June 201

The Board of Directors recommends the payment of US$5,259 thousand as a final dividend for the year 2013 which corresponds to US$0.07 per share.

Examination of the development, position and performance of the activities of the company
The current financial position and performance as presented in the financial statements is considered satisfactory.

During the year 2013 the Company acquired an 100% share in "Vitanostra Ltd" and 85% share in "Centre of Reproductive Medicine". Also, during 2013 the Company incorporated three new entities: LLC MD Assistance, LLC Mother and Child Yaroslavl and LLC MD Management.

In March 2013 the construction of a new medical center of 32,000 square meters in the Russian city of Ufa started.

Additional details for all subsidiaries are given in note 8 of the financial statements.

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

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

Future developments
The Company has been active in expanding its operations through acquisitions of controlling interests in companies operating in the healthcare industry.

The Company aims to expand its activities as well as to take advantage of any opportunities to further develop the existing business and/or to expand geographically and into related industries.

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 election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years (e.g. two three-year terms) for a non-executive director is subject to particularly rigorous review, and takes into account the need for progressive refreshing of the Board of Directors.

The members of the Board of Directors, who served as at the date of signing of these financial statements, are presented on page 58.

The members of the Board of Directors who served during the year 2013 and as at 31 December 2013 were are as follows:

– Mark Kurtser - Chairman
– Vitaly Ustimenko (appointed as alternate director to Mark Kurtser)
– Apollon Athanasiades
– Kirill Dmitriev
– Nikolay Ishmetov (appointed as an alternate director to Kirill Dmitriev)
– Olga Mikhailova (resigned on 28 February 2013)
– Elena Mladova
– Elia Nicolaou
– Angelos Paphitis (appointed on 5 April 2013)
– Andreas Petrides (appointed on 5 April 2013)
– Simon Rowlands
– Marios Tofaros
– Gulnara Ziadetdinova (resigned on 28 February 2013)

The term of office of all directors (other than Dr. Mark Kurtser, Mr. Kirill Dmitriev, Dr. Elena Mladova and Mr. Simon Rowlands who continue in office and Ms. Olga Mikhailova and Ms. Gulnara Ziatetdinova who resigned on 28 February 2013) expired at the conclusion of the Annual General Meeting held on 7 June 2013. Being eligible, they all offered themselves for re-election and were re-elected.

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, one of whom is independent. The Audit Committee is chaired by the independent non-executive director Mr. Simon Rowlands. Mr. Kirill Dmitriev and Mr.Andreas Petrides 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 implementations 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 Committees' monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board of Directors on actions needed to address the issues or to make improvements.

Nomination Committee

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

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE

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

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

Board of Directors' report continued

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.

Branches
During the year ended 31 December 2013, the Company did not operate any branches.

Treasury shares
During the year ended 31 December 2013, the Company did not acquire either directly or through a person in that person's name but on the Company's behalf any of its own shares.

Events after the reporting period
On 5 February 2014 the Company proceeded with the incorporation of a new subsidiary in Russia LLC Mother and Child Ryazan, of which the Company holds directly and indirectly 99% of its share capital.

On 11 March 2014 the Company acquired additional 20% share in LLC MD PROJECT 2010 for cash consideration of US$0.055 thousand (RUB2 thousand). As a result of the transaction the effective ownership in LLC MD PROJECT 2010 increased from 80% to 100%.

On 27 March 2014 the Company acquired additional 1% share in LLC Mother and Child Ryazan for cash consideration of US$0.028 thousand (RUB 1 thousand. As a result of the acquisition the effective shareholding in LLC Mother and Child Ryazan increased to 100%.

Outcome of ongoing investigation is still pending

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,

Menustrust Limited
Secretary

Limassol, 30 April 2014

Directors' and persons' responsible for reporting responsibility statement

Each of the directors and members responsible for reporting, whose names are listed below, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.
- the adoption of going concern basis for 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 Board of Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

The Directors of the Company and members responsible for reporting as at the date of this announcement are set out below:

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

Independent auditors' report

to the members of MD Medical Group Investments Plc

Report on the financial statements

We have audited the accompanying financial statements of parent company MD Medical Group Investments Plc (the ''Company'') on pages 10 to 29 which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company MD Medical Group Investments Plc as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account, so far as appears from our examination of the books.
- 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 Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 6 is consistent with the financial statements.

Other matter

This report, including the opinion expressed herein, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and 2013 and for no other purpose. We do not, in giving the aforementioned opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries during the year ended 31 December 2013.

Michalis A. Loizides, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of
KPMG Limited
Certified Public Accountants and Registered Auditors
11, June 16th 1943 Street
3022 Limassol
Cyprus

30 April 2014

Statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 US$000	2012 US$000
Dividend income		**38,369**	6,946
Administrative expenses	4	**(2,347)**	(1,002)
Profit from operations before net finance (expenses)/income		**36,022**	5,944
Finance income		**1,275**	136
Finance expenses		**(1,338)**	(18)
Net finance (expenses)/income	5	**(63)**	118
Profit before tax		**35,959**	6,062
Taxation	6	**(2,068)**	(345)
Profit for the year		**33,891**	5,717
Total comprehensive income for the year		**33,891**	5,717

Statement of financial position

As at 31 December 2013

	Note	**2013 US$000**	2012 US$000
Assets			
Investments in subsidiaries	8	**139,610**	38,879
Total non-current assets		**139,610**	38,879
Trade and other receivables	9	**109**	5,350
Short term investments	10	**–**	80,000
Cash and cash equivalents	11	**71,084**	62,220
Total current assets		**71,193**	147,570
Total assets		**210,803**	186,449
Equity			
Share capital	12	**6,010**	6,010
Share premium		**169,120**	169,120
Reserves		**35,063**	10,938
Total equity		**210,193**	186,068
Trade and other payables	13	**610**	361
Tax liability		**–**	20
Total current liabilities		**610**	381
Total equity and liabilities		**210,803**	186,449

On 30 April 2014 the Board of Directors of MD Medical Group Investments Plc authorised these financial statements for issue.

Elia Nicolaou
Director

Marios Tofaros
Director

Statement of changes in equity

For the year ended 31 December 2013

	Note	Share capital US$000	Share premium US$000	Retained earnings US$000	Total US$000
Balance at 1 January 2012		5,010	23,281	10,271	38,562
Comprehensive income					
Profit for the year		–	–	5,717	5,717
Contributions by and distributions to owners					
Issue of share capital	12	1,000	145,839	–	146,839
Dividends	7	–	–	(5,050)	(5,050)
Total transactions with owners		1,000	145,839	(5,050)	141,789
Balance at 31 December 2012		6,010	169,120	10,938	186,068
Balance at 1 January 2013		6,010	169,120	10,938	186,068
Comprehensive income					
Profit for the year		–	–	33,891	33,891
Contributions by and distributions to owners					
Dividends	7	–	–	(9,766)	(9,766)
Total transactions with owners		–	–	(9,766)	(9,766)
Balance at 31 December 2013		6,010	169,120	35,063	210,193

Share premium is not available for distribution.

Statement of cash flows

For the year ended 31 December 2013

	2013 US$000	2012 US$000
Cash flows from operating activities		
Profit for the year	**33,891**	5,717
Adjustments for:		
Net exchange loss	**365**	2
Dividend income	**(38,369)**	(6,946)
Interest income	**(454)**	(134)
Taxation	**2,068**	345
Cash flows used in operations before working capital changes	**(2,499)**	(1,016)
Decrease/(increase) in trade and other receivables	**236**	(5)
Increase/(decrease) in trade and other payables	**(414)**	(45)
Cash flows from/(used in) operations	**(2,677)**	(1,066)
Dividends received	**38,790**	6,501
Tax paid	**(2,088)**	(325)
Net cash flows from operating activities	**34,025**	5,110
Cash flows from investing activities		
Payment for share capital of new subsidiaries	**(79,511)**	(4)
Acquisition of subsidiaries	**(20,920)**	–
Withdrawal/(deposit) of investments	**80,000**	(80,000)
Interest received	**588**	–
Net cash flows used in investing activities	**(19,843)**	(80,004)
Cash flows from financing activities		
Proceeds from issue of share capital	**–**	142,080
GDR contributions received from underwriters	**4,766**	–
Increase in ownership in subsidiary	**(300)**	–
Dividends paid	**(9,766)**	(5,050)
Net cash flows (used in)/from financing activities	**(5,300)**	137,030
Net increase in cash and cash equivalents	**8,882**	62,136
Cash and cash equivalents at the beginning of the year	**62,220**	84
Effect of exchange rate changes on cash and cash equivalent	**(18)**	–
Cash and cash equivalents at the end of the year	**71,084**	62,220

Notes to the financial statements

For the year ended 31 December 2013

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 Cyprus Companies Law, Cap. 113. Its Registered Office is at 84 Spyrou Kyprianou Avenue, Office #7, 2nd floor, 4004 Limassol, 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 2013 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
During the current year the Company adopted all the changes to International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2013. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, Standards, Revised Standards and Interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a significant effect on the financial statements of the Company.

(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 principles and the related 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 write-down to fair value is necessary.

(e) Functional and presentation currency
The financial statements are presented in United States Dollars which is the functional currency of the Company. Financial information presented in United States Dollars 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 and exchange gain. Finance income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses

Finance expenses include bank charges and exchange loss. Finance expenses are recognised as expenses in the period in which they fall due.

Foreign currency translation

Transactions and balances

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

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 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.

Notes to the financial statements continued

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Dividends

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) or by the Company's shareholders in the Annual General Meeting (for final dividends).

Financial instruments

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

(i) Trade receivables

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

(ii) Cash and cash equivalents

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

(iii) Trade payables

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

Share capital

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

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

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

	2013 US$000	2012 US$000
Independent auditors' remuneration – current year	**663**	214
Independent auditors' remuneration – prior years	**–**	70
Executive and non-executive directors' fees	**261**	86
Other professional fees	**1,188**	593
Advertising and marketing	**118**	–
Annual listing fees	**–**	34
Other expenses	**117**	5
	2,347	1,002

5. NET FINANCE INCOME AND EXPENSES

	2013 US$000	2012 US$000
Finance income		
Bank interest	**454**	134
Exchange gain	**821**	2
Total finance income	**1,275**	136
Finance expenses		
Bank charges	**(17)**	(14)
Exchange loss	**(1,321)**	(4)
Total finance expenses	**(1,338)**	(18)
Net finance income/(expense)	**(63)**	118

6. TAXATION

	2013 US$000	2012 US$000
Overseas tax on dividends received	**1,924**	325
Special contribution to the defence fund for the year	**144**	20
Charge for the year	**2,068**	345

Reconciliation of tax based on the taxable income and tax based on accounting profits:

	2013 US$	2012 US$
Accounting profit before tax	**35,959,413**	6,062,348
Tax calculated at the applicable tax rates	**4,494,927**	606,235
Tax effect of expenses not deductible for tax purposes	**297,921**	87,297
Tax effect of allowances and income not subject to tax	**(4,852,835)**	(707,940)
Tax effect of loss for the year	**59,987**	14,408
Special contribution to the defence fund current year	**143,802**	20,035
Overseas tax in excess of credit claim used during the year	**1,924,130**	325,348
Tax as per statement of comprehensive income - charge	**2,067,932**	345,383

The corporation tax rate is 12,5% (2012:10%).

Under certain conditions interest income may be subject to Special contribution to the defence fund (SCDF) at the rate of 30%(2012:15%). In such cases this interest will be exempted from corporation tax. In certain cases, dividends received from abroad may be subject to SCDF at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter.

Due to tax losses sustained in the year, no tax liability arises on the Company. Tax losses may be carried forward for five years. Group companies may deduct losses against profits arising during the same tax year. As at 31 December 2013, the balance of tax losses which is available for offset against future taxable profits amounts to €536,520 for which no deferred asset is recognised in the statement of financial position.

7. DIVIDENDS

During 2012, prior to the issue of any new shares and prior to the reduction of the nominal value of the share capital of the Company, the Board of Directors declared and paid an interim dividend out of the 2012 profits of the Company amounting to US$5,050 thousand, which corresponds to US$0.10080 per share.

On 5 April 2013 the Board of Directors declared a final dividend out of 2012 profits amounting to US$9,766 thousand, which corresponds to US$0.13 per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 7 June 2013. The dividend was paid on 11 June 2013.

Dividends are subject to a deduction of special contribution to the defence fund at a rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter for individual owners that are residents in Cyprus for taxation purposes. Dividends payable to non-residents of Cyprus for taxation purposes are not subject to such a deduction.

Notes to the financial statements continued

For the year ended 31 December 2013

8. INVESTMENTS IN SUBSIDIARIES

	2013 US$000	2012 US$000
Balance at 1 January	**38,879**	38,875
Additions	**100,731**	4
Balance at 31 December	**139,610**	38,879

The details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Notes	31 December 2013 Effective Holding %	31 December 2012 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		**54**	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	1	**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 Ecodeure	Russian Federation	Medical services		**85**	85
LLC Mother and Child Perm	Russian Federation	Medical services		**80**	80
LLC Mother and Child Ufa	Russian Federation	Medical services	2	**80**	80
LLC Mother and Child Saint Petersburg	Russian Federation	Medical services	2	**60**	60
LLC MD PROJECT 2010	Russian Federation	Medical services	3	**80**	80
LLC Mother and Child Ugo Zapad	Russian Federation	Medical services	2	**60**	60
LLC MD Service	Russian Federation	Pharmaceutics retail	4	**98**	98
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	5	**100**	99
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services	5	**100**	99
Vitanostra Ltd	Cyprus	Holding of investments	6	**100**	–
LLC NPC MIR	Russian Federation	Holding of investments	7	**100**	–
LLC MK IDK	Russian Federation	Medical services	7	**100**	–
LLC Apteka IDK	Russian Federation	Pharmaeutics retail	7	**100**	–
LLC CSR	Russian Federation	Medical services	7	**100**	–
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	8	**85**	–
LLC MD Assistance	Russian Federation	Assistance services	9	**100**	–
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	9	**80**	–
LLC MD Management	Russian Federation	Management company	9	**100**	–

Notes:
1. 1% of the share capital of this entity is directly owned by the Company and 99% of the share capital of this entity is indirectly owned through LLC Khaven. Thus effective holding percentage for the entity is 100%.
2. These entities are indirectly owned by LLC Khaven.
3. As at 31 December 2012 , 99% of the share capital of this entity was owned by LLC Mother and Child Ufa and 1% of the share capital of this entity was owned by LLC Mother and Child Perm. In February 2013 80% of the share capital of this entity was sold by the aforementioned companies to the Company. Thus effective holding percentage for the entity has not changed.
4. This entity was incorporated in 2012. 95% of the share capital of the entity is directly owned by the Company and 5% of the share capital is owned by LLC Clinica Zdorovia. Thus effective holding percentage for the entity is 98%.
5. These entities were incorporated in 2012.
6. This entity was acquired in March 2013. The transaction was completed during April 2013 following regulatory approval.
7. These entities are indirectly owned through Vitanostra Ltd.
8. 80% share in this entity was acquired in May 2013. In July 2013 the Company acquired an additional 5% share.
9. These entities were incorporated in 2013.

9. TRADE AND OTHER RECEIVABLES

	2013 US$000	2012 US$000
Prepayments	**109**	13
Dividends receivable from subsidiary company	**–**	445
Other receivables	**–**	4,892
	109	5,350

Other receivables represent the fees due from the underwriters in relation to the reimbursement of IPO expenses incurred by the Company.

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

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

10. SHORT TERM INVESTMENTS

	2013 US$000	2012 US$000
Bank deposits with maturing more than 3 months but less than 12 months	**–**	80,000

The investment represents a bank deposit with maturity of 181 days. The effective interest rate is 0.13% per annum(2012:0.88%)

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

11. CASH AND CASH EQUIVALENTS

Cash balances are analysed as follows:

	2013 US$000	2012 US$000
Cash at bank and in hand	**71,084**	32,220
Bank deposits	**–**	30,000
	71,084	62,220

The effective interest rate on short-term bank deposits was 0.017% (2012: 0.37%) and these deposits have an average maturity period of 3 months.

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.

12. SHARE CAPITAL

	2013			2012		
	Number of shares	**Nominal value US$**	**Share capital US$'000**	Number of shares	Nominal value US$	Share capital US$'000
Authorised						
Balance at 1 January	**125,250,000**	**0.08**	**10,020**	50,100,000	0.10	5,010
Increase in share capital	**–**	**–**	**–**	10,900,000	0.10	1,090
Decrease of nominal value from US$0,10 to US$0,08	**–**	**–**	**–**	15,250,000	0.08	–
Increase in share capital	**–**	**–**	**–**	49,000,000	0.08	3,920
	125,250,000	**0.08**	**10,020**	125,250,000	0.08	10,020
Issued and fully paid						
Balance at 1 January	**75,125,010**	**0.08**	**6,010**	50,100,000	0.10	5,010
Issue of new ordinary shares	**–**	**–**	**–**	8	0.10	–
Decrease of nominal value from US$0,10 to US$0,08	**–**	**–**	**–**	12,525,002	0.08	–
Issue of new ordinary shares	**–**	**–**	**–**	12,500,000	0.08	1,000
Balance at 31 December	**75,125,010**	**0.08**	**6,010**	75,125,010	0.08	6,010

Notes to the financial statements continued

For the year ended 31 December 2013

12. SHARE CAPITAL CONTINUED

Authorised share capital

On 18 September 2012, following a relevant members resolution, the authorised share capital of the Company was increased from US$5,010,000 divided into 50,100,000 ordinary shares of US$0.10 each to US$6,100,000 divided into 61,000,000 ordinary shares of US$0.10 each by creating 10,900,000 additional ordinary shares of US$0.10 each.

On 19 September 2012, following a relevant special members' resolution, the authorised share capital of the Company which on that date was US$6,100,000 divided into 61,000,000 ordinary shares of US$0.10 each was subdivided into 610,000,000 ordinary shares of US$0.01 each. On the same date, the authorised share capital of the Company was consolidated from US$6,100,000 divided into 610,000,000 ordinary shares of US$0.01 to US$6,100,000 divided into 76,250,000 ordinary shares of US$0.08 each.

On 19 September 2012, following a relevant members' resolution, the authorised share capital of the Company was increased from US$6,100,000 divided into 76,250,000 ordinary shares of US$0.08 each to US$10,020,000 divided into 125,250,000 ordinary shares of US$0.08 each by creating 49,000,000 additional ordinary shares of US$0.08 each.

Issued share capital

On 18 September 2012, following a Board of Directors' resolution, the issued share capital of the Company was increased from US$5,010,000 divided into 50,100,000 ordinary shares of US$0.10 each to US$5,010,001 divided into 50,100,008 ordinary shares by the issue of 8 ordinary shares with a nominal value of US$0.10 each.

On 19 September 2012, following a special members' resolution, the 50,100,008 issued ordinary shares of the Company with a nominal value of US$0.10 each were subdivided into 501,000,080 ordinary shares of US$0.01 each. On the same date the issued share capital of the Company was consolidated from US$5,010,001 divided into 501,000,080 ordinary shares of US$0.01 each to US$5,010,001 divided into 62,625,010 ordinary shares with a nominal value of US$0.08 each.

On 11 October 2012, as a result of an initial public offering, the Company resolved to issue 12,500,000 ordinary shares with a nominal value of US$0.08 each at an offer price of US$12 per ordinary share. The total proceeds from this issue amounted to US$150,000,000 resulting in an increase of the issued share capital by US$1,000,000 and an increase of the share premium by US$149,000,000. A net amount of US$3,160,777 related to capital issued expenses that was directly attributable to the issue of the new shares following the IPO process, was written off against share premium.

13. TRADE AND OTHER PAYABLES

	2013 US$000	2012 US$000
Accruals	**148**	132
Other payables	**462**	229
	610	361

The exposure of the Company to liquidity risk in relation to financial instruments is reported in note 15 of the financial statements.

14. RELATED PARTY TRANSACTIONS

As of 31 December 2013, 67.9% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr. Mark Kurtser. The remaining 32.1% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders.

The transactions and balances with related parties are as follows:

14.1 Directors' remuneration

The fee paid to non-executive directors for the year ended 31 December 2013 was US$252 thousand and for the year ended 31 December 2012 was US$81 thousand.

During the year ended 31 December 2013 the Company acquired 30% share capital of subsidiary from a member of key management personnel. The total consideration paid for the acquisition of the share in subsidiary amounted to US$1,800 thousand.

The Company has concluded an agreement for rental of an office in Cyprus with a member of key management personnel effective from 1 July 2013. The rent expense for the year under review amounted to US$12 thousand.

14. RELATED PARTY TRANSACTIONS CONTINUED

14.2 Transactions with subsidiary companies

	2013 US$000	2012 US$000
Dividends received	**38,369**	6,946

14.3 Outstanding balances with subsidiary companies

	2013 US$000	2012 US$000
Dividends declared but unpaid at the year end	–	445
Total receivables from subsidiary companies	–	445
Unpaid contributions to share capital	**76**	–
Total payables to subsidiary companies	**76**	–

14.4 Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2013 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 control of shares	5.55
Simon Rowlands	Direct ownership of shares	0.33

Control of the shares by Kirill Dmitriev arises through his capacity as key management personnel of indirect shareholder.

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 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:

	2013 US$000	2012 US$000
Short term investments	–	80,000
Trade and other receivables	**109**	5,350
Cash and cash equivalents	**71,084**	62,220
	71,193	147,570

Notes to the financial statements continued

For the year ended 31 December 2013

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Financial risk factors continued

Cash and cash equivalents

The Company held cash at bank of US$71,084 thousand at 31 December 2013 and US$62,220 thousand at 31 December 2012 which represents its maximum credit exposure on these assets.

The credit quality of cash and cash equivalents is as follows:

Rating	Agency	2013 US$000	2012 US$000
A2	Moody's Investors Service	**71,071**	62,180
Ca	Moody's Investors Service	**13**	40
		71,084	62,220

(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:

31 December 2013	Carrying amounts US$000	Contractual cash flows US$000	2 months or less US$000	Between 2-12 months US$000	Between 1-5 years US$000	Over than 5 years US$000
Trade and other payables	**610**	–	**610**	–	–	–

31 December 2012	Carrying amounts US$000	Contractual cash flows US$000	2 months or less US$000	Between 2-12 months US$000	Between 1-5 years US$000	More than 5 years US$000
Trade and other payables	361	–	361	–	–	–

(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:

	2013 US$000	2012 US$000
Fixed rate instruments		
Financial assets	–	110,000

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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Financial risk factors continued

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 measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rouble and the Euro. 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 2013	Euro US$000	Russian Roubles US$000	GBP US$000
Assets			
Cash at bank	**5**	**16,515**	**–**
Other receivables	**6**	**40**	**–**
	11	**16,555**	**–**
Liabilities			
Trade payables	**(173)**	**(78)**	**(192)**
Net exposure	**(162)**	**16,477**	**(192)**

31 December 2012	Euro US$000	Russian Roubles US$000	GBP US$000
Assets			
Other receivables	–	445	–
Liabilities			
Trade payables	(316)	(2)	(42)
Net exposure	(316)	443	(42)

	Average rate		Reporting date spot rate	
	2013	2012	**2013**	2012
RUB	**31.8480**	31.0930	**32.7292**	30.3727
EURO	**0.7526**	0.7779	**0.7278**	0.7579
GBP	**0.6389**	0.6318	**0.6066**	0.6185

Sensitivity analysis

A 10% strengthening of the United States Dollars against the following currencies at 31 December 2013 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollars against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Equity		**Profit or loss**	
	2013 US$000	2012 US$000	**2013 US$000**	2012 US$000
RUB	**(1,648)**	0,2	**(1,648)**	0,2
EURO	**16**	15	**16**	15
GBP	**19**	(4)	**19**	(4)
	(1,612)	11,2	**(1,612)**	11,2

Notes to the financial statements continued

For the year ended 31 December 2013

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Financial risk factors continued

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

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

17. CONTINGENT LIABILITIES

(a) Russian business environment

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

(b) Russian tax environment

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance based position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

(c) Cyprus economic environment

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

The Cyprus government has concluded negotiations with the European Commission, the European Central Bank and the International Monetary Fund, as well as third parties, in order to obtain financing. As a result of the agreement reached, there are uncertainties prevailing the economic environment of Cyprus.

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

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

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

18. COMMITMENTS

The Company had no capital or other commitments as at 31 December 2013.

19. EVENTS AFTER THE REPORTING PERIOD

On 5 February 2014 the Company proceeded with the incorporation of a new subsidiary in Russia, LLC Mother and Child Ryazan, of which the Company holds directly and indirectly 99% of its share capital.

On 11 March 2014 the Company acquired additional 20% share in LLC MD PROJECT 2010 for cash consideration of US$0.055 thousand(RUB2 thousand). As a result of the transaction the effective ownership in LLC MD PROJECT 2010 increased from 80% to 100%.

On 27 March 2014 the Company acquired additional 1% share in LLC Mother and Child Ryazan for cash consideration of US$0.028 thousand RUB 1 thousand). As a result of the acquisition, the effective shareholding in LLC Mother and Child Ryazan increases to 100%.

Notes

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