

**MD MEDICAL GROUP INVESTMENTS PLC**

**CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2016

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**MD MEDICAL GROUP INVESTMENTS PLC**OFFICERS, PROFESSIONAL ADVISORS AND REGISTERED OFFICE

Board of Directors	Vladimir Mekler – Chairman (since 14 June 2016) Mark Kurtser (Chairman until 14 June 2016) Vitaly Ustimenko Kirill Dmitriev Nikolay Ishmetov (appointed as an alternate director to Kirill Dmitriev) Simon Rowlands Alsu Nazyrova (appointed in June 2016) Elena Mladova (until June 2016) Liubov Malyarevskaya
Secretary	Menustrust Limited
Secretary assistant	Mikhail Melnikov
Independent Auditors	KPMG Limited
Registered Office	15 Dimitriou Karatasou street, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus

## MD MEDICAL GROUP INVESTMENTS PLC

### MANAGEMENT REPORT

The Board of Directors of MD Medical Group Investments Plc (the “Company”) presents to the members its Annual Report together with the audited consolidated financial statements of the Company and its subsidiary companies (the Company and its subsidiaries together referred to as the “Group”) for the year ended 31 December 2016.

#### **INCORPORATION**

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

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company is that of an investment holding company and, for that purpose, to acquire and hold controlling and other interests in the share or loan capital of any company or companies of any nature, but primarily in the healthcare industry. Note 4 to the consolidated financial statements gives more detailed information about the service provided by the Group’s medical centres.

#### **FINANCIAL RESULTS**

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

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

The profit for the year ended 31 December 2016 amounted to RUB2,277,427 thousand (2015: RUB1,770,469 thousand). The total assets of the Group as at 31 December 2016 were RUB18,715,770 thousand (31 December 2015: RUB17,207,810 thousand) and the net assets were RUB12,770,137 thousand (31 December 2015: RUB11,509,414 thousand).

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

#### **DIVIDENDS**

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

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

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to RUB500,332 thousand (USD7,298 thousand), which corresponds to RUB6.66 (USD0.1) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB285,475 thousand (USD4,375 thousand), which corresponds to RUB3.8 (USD0.06) per share. The dividend distribution was approved by the Board of Directors Meeting on 2 September 2016. The dividend was paid on 18 October 2016.



## MD MEDICAL GROUP INVESTMENTS PLC

### MANAGEMENT REPORT (continued)

#### **DIVIDENDS (continued)**

The Board of Directors recommends the payment of RUB338,063 thousand as final dividend for the year 2016 which correspond to RUB4.5 per share.

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

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

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

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

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

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

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

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

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

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

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

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

#### **DIRECTORS' INTEREST**

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

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

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

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

## **MD MEDICAL GROUP INVESTMENTS PLC**

### MANAGEMENT REPORT (continued)

#### **FUTURE DEVELOPMENTS**

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

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

#### **SHARE CAPITAL**

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

#### **BOARD OF DIRECTORS**

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

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

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

#### **THE BOARD COMMITTEES**

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

##### Audit Committee

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

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

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

## **MD MEDICAL GROUP INVESTMENTS PLC**

### MANAGEMENT REPORT (continued)

#### **THE BOARD COMMITTEES (continued)**

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

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

#### Internal audit

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

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

#### Nomination Committee

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

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

#### Remuneration Committee

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

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

### **CORPORATE GOVERNANCE**

Since 2012, the Company has maintained full compliance with the UK Corporate Governance Code. The Company is committed to the highest standards of corporate governance and transparency. The Board of Directors recognises that good governance is a strategic asset that helps it to deliver consistent long term value to its shareholders. By running the Company in an open way, the Board of Directors enables shareholders to understand how it has been able to deliver consistently strong results. The Board of Directors believes that corporate responsibility is an essential part of good governance and makes sound business sense, as well as being crucial to the appropriate management of risk within the Company.

## **MD MEDICAL GROUP INVESTMENTS PLC**

### MANAGEMENT REPORT (continued)

#### **CORPORATE GOVERNANCE** *(continued)*

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

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

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

#### **INTERNAL CONTROL IN RELATION TO THE FINANCIAL REPORTING PROCESS**

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

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

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

#### **MEETINGS OF SHAREHOLDERS**

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

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

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

All shareholders are entitled to attend the general meeting or be represented by a proxy authorized in writing. In the general meeting, on a poll, every share gives the holder the right to cast one vote, whereas, on a show of

**MD MEDICAL GROUP INVESTMENTS PLC****MANAGEMENT REPORT (continued)****MEETINGS OF SHAREHOLDERS** *(continued)*

hands, each member has one vote. A corporate member may, by resolution of its directors or other governing body, authorize a person as the corporate member could exercise if it were an individual member of the Company.

**BRANCHES**

MD Medical Group Investments Plc has a branch in Moscow.

**TREASURY SHARES**

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

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

**EVENTS AFTER THE REPORTING PERIOD**

In January 2017 the Group has pledged a hospital building in Ufa with net book value RUB3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

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

**INDEPENDENT AUDITORS**

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

By order of the Board of Directors,



Mark Kurtser

Managing Director, member of the Board of Directors

Moscow, 17 March 2017

## MD MEDICAL GROUP INVESTMENTS PLC

### DIRECTORS' RESPONSIBILITY STATEMENT

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

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap.113, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the adoption of the going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the Management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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





KPMG Limited  
Chartered Accountants  
11, June 16th 1943 Street, 3022 Limassol, Cyprus  
P.O.Box 50161, 3601 Limassol, Cyprus  
T: +357 25 869000, F: +357 25 363842

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

**Report on the audit of the consolidated financial statements**

**Opinion**

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

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

**Basis for opinion**

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

**Board Members:**

N.G. Syrimis, A.K. Christofides, P.G. Loizou, A.M. Gregoriades, D.S. Vakis, A.A. Apostolou,  
S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadis, C.V. Vasiliou, P.E. Antoniadis,  
M.J. Halios, M.P. Michael, P.A. Peleties, G.V. Markides, M.A. Papacosta, K.A. Papanicolaou,  
A.I. Shiammoutis, G.N. Tziortzis, H.S. Charalambous, C.P. Anaviotos, I.P. Ghalanos,  
M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kallas, C.N. Kallis, M.H. Zavrou, P.S. Elia,  
M.G. Lazarou, Z.E. Hadjizacharias, P.S. Theophanous, M.A. Karantoni, C.A. Markides,  
G.V. Andreou, J.C. Nicolaou, G.S. Prodromou, A.S. Sofocleous, G.N. Syrimis, T.J. Yiasemides,  
A.A. Bergilly, K.A. Christofides, P.P. Vanezis

Nicosia  
P.O. Box 21121, 1502  
T: +357 22 209000  
F: +357 22 678200

Larnaca  
P.O. Box 40075, 6300  
T: +357 24 200000  
F: +357 24 200200

Paphos  
P.O. Box 60288, 8101  
T: +357 26 943050  
F: +357 26 943062

Paralimni / Aya Napa  
P.O. Box 33200, 5311  
T: +357 23 820080  
F: +357 23 820084

Polis Chrysochou  
P.O. Box 66014, 8330  
T: +357 26 322098  
F: +357 26 322722

**Key audit matters**

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

<i>Goodwill</i>	
Please refer to Note 13 of the consolidated financial statements (RUB2,046,672 thousand).	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As a result of the Group's expansion, a significant amount of goodwill arising from business combinations has been recognised. There is a risk of impairment of the Group's goodwill balances, which are material to the consolidated financial statements as at 31 December 2016, due to the inherent uncertainty involved in preparing forecasts and discounting future cash flow projections for this purpose. Significant judgment is involved in determining the key assumptions used in the Group's goodwill impairment test models. The assumptions and estimates used in the forecasts and the calculation of discount rates are therefore key judgmental areas that our audit is concentrated on.</p>	<p>Our audit procedures included testing the assumptions and methodologies used by the Group based on which the forecast were prepared. Particular attention was given to the assumptions relating to terminal growth, after-tax profitability and discount rates. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies. We compared the Group's assumptions on revenue growth and after-tax profitability margins with equivalent medical centers of the Group in nearby regions, externally derived data as well as our own assessment in relation to key inputs into the models. We assessed the sensitivity analysis prepared by the Group and prepared our own sensitivity analysis around the key assumptions. We also assessed whether the disclosures regarding terminal growth and discount rates in Note 13 presented the Group's assumptions in relation to goodwill impairment and reflected the risks inherent in the valuation of goodwill.</p>
<i>Acquisition accounting</i>	
Please refer to Note 14 of the consolidated financial statements (RUB485,000 thousand).	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the year the Group acquired 100% of the share capital in 5 entities located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul for a total consideration of RUB 485,000 thousand, while fair value of the net assets acquired was RUB124,846 thousand.</p> <p>The allocation of the consideration to the fair value of the identifiable assets and liabilities acquired requires significant judgment, predominantly relating to fair value assumptions to determine the value of property, plant and equipment.</p> <p>There is also an inherent risk relating to the</p>	<p>Our audit procedures included challenging the methodology and key assumptions used by the Group to determine fair values of property, plant and equipment as well as challenging the completeness of the intangible assets. We used our own valuation specialists to assist us in this assessment.</p> <p>For property, plant and equipment acquired we evaluated the methodology and fair value inputs applied by the Group, as well as economic obsolescence testing performed, by reconciling market values of property, plant and equipment and price indexes to observable information on the market.</p>



<p>completeness of recognised intangible assets acquired, which may not be identified and incorrectly allocated to goodwill, as such intangible assets may not be recorded or recorded at different values in the accounting records prior to the acquisition.</p>	<p>We assessed the completeness of intangible assets acquired by testing the existence of registered trademarks, assessing the visibility of the brand in the medical center acquired and related local community as well as inquiring the Group about its intentions for future use of the acquired trademark.</p> <p>We also considered whether there were other identifiable intangible assets such as patents, customer relationships, etc., which should have been included in the purchase price allocation, by inspecting and analysing contracts and accounting records, making inquiries to the Group, assessing legal obligations and rights relating to the patient information with the assistance of our legal specialists, etc.</p> <p>We also assessed the adequacy of the disclosures of the acquisition in the consolidated financial statements by comparing them with the required disclosures per IFRS3 “Business combinations”.</p>
<p><i>Revenue recognition</i></p>	
<p>Please refer to Note 4 of the consolidated financial statements (RUB12,179,082 thousand).</p>	
<p><b><i>The key audit matter</i></b></p>	<p><b><i>How the matter was addressed in our audit</i></b></p>
<p>The Group has a number of revenue streams with different revenue recognition policies.</p> <p>The majority of the revenue is generated from individual patients who receive medical care either based on concluded contracts or based on daily tickets for one-off visits. Contracts may last for longer periods. Generally, patients prepay for the whole amount of the contracts and visit doctors within the period of the contract.</p> <p>The number of visits in all medical centers of the Group is significant. Therefore, the Group relies on automation within the medical IT system for complete and accurate revenue recognition through interface with the accounting system.</p> <p>Given the number of different revenue streams, the volume of transactions and related reliance on IT, we consider that a risk exists in relation to revenue being recorded in the correct period at the correct amount, including related deferred income in the consolidated statement of financial position.</p> <p>As such, revenue recognition is an area of focus in the audit.</p>	<p>Our procedures included testing of general IT controls and IT application controls relevant to the revenue recognition, including segregation of duties for inputs and modification of data in the medical IT system, allocation of cash receipts and visits of patients for each individual contract, accuracy of data transfers from cash registers to the medical IT system through to the accounting system.</p> <p>We assessed the design and implementation and we tested the operating effectiveness of controls over daily cash movements and the completeness of the daily encashment to the bank accounts of the Group.</p> <p>We evaluated controls over approval of prices and discounts for individual agreements with patients, as all prices and discounts, which are included in the medical IT system, require authorisation.</p> <p>We obtained external confirmations from banks and compared annual cash receipts and cash balances on bank accounts to the data recorded in the accounting systems.</p> <p>We performed a sales cut-off test, as well as other substantive tests covering the whole year in relation to revenue contracts, to ensure accuracy of provided revenue reports, as well as analytical review of gross profit margins, revenue structure and advances received in proportion to revenue.</p>

### **Other information**

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

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

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

### **Responsibilities of the Board of Directors for the consolidated financial statements**

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

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

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

### **Auditors' responsibilities for the audit of the consolidated financial statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

#### **Report on other legal requirements**

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009, L42(I)/2009 as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 2 to 7, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.

- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

**Other matter**

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

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



Zakis E. Hadjizacharias, CA  
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors

No. 11, June 16<sup>th</sup> 1943 Street,  
3022 Limassol,  
Cyprus.

17 March 2017

## MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 RUB'000	2015 RUB'000
<b>Revenue</b>	4	12,179,082	9,506,801
Cost of sales	5	(7,399,833)	(5,918,210)
<b>Gross profit</b>		<u>4,779,249</u>	<u>3,588,591</u>
Other income		30,043	17,732
Administrative expenses	6	(2,067,344)	(1,792,787)
Other expenses		(18,230)	(38,492)
<b>Operating profit</b>		<u>2,723,718</u>	<u>1,775,044</u>
Finance income	8	49,322	230,312
Finance expenses	8	(443,079)	(459,483)
Net foreign exchange transactions (loss) / gain	8	(90,847)	259,068
<b>Net finance (expenses) / income</b>		<u>(484,604)</u>	<u>29,897</u>
<b>Profit before tax</b>		<u>2,239,114</u>	<u>1,804,941</u>
Income tax benefit/(expense)	9	38,313	(34,472)
<b>Profit for the year</b>		<u>2,277,427</u>	<u>1,770,469</u>
<b>Total comprehensive income for the year</b>		<u>2,277,427</u>	<u>1,770,469</u>
<b>Profit for the year attributable to:</b>			
Owners of the Company		2,065,848	1,603,530
Non-controlling interests		211,579	166,939
		<u>2,277,427</u>	<u>1,770,469</u>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		2,065,848	1,603,530
Non-controlling interests		211,579	166,939
		<u>2,277,427</u>	<u>1,770,469</u>
<b>Basic and fully diluted earnings per share (RUB)</b>	10	<u>27.58</u>	<u>21.41</u>

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

## MD MEDICAL GROUP INVESTMENTS PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 December 2016 RUB'000	31 December 2015 RUB'000
<b>Assets</b>			
Property, plant and equipment	12	13,410,453	12,364,449
Intangible assets	13	2,441,586	2,144,818
Trade, other receivables and deferred expenses	15	184,984	184,344
Investments		-	2,403
Deferred tax assets	9	175,751	99,282
<b>Total non-current assets</b>		<u>16,212,774</u>	<u>14,795,296</u>
Inventories		445,183	327,365
Trade, other receivables and deferred expenses	15	359,855	257,889
Non-current assets held for sale		45,778	45,778
Current income tax asset		9,236	7,170
Cash and cash equivalents	16	1,642,944	1,774,312
<b>Total current assets</b>		<u>2,502,996</u>	<u>2,412,514</u>
<b>Total assets</b>		<u>18,715,770</u>	<u>17,207,810</u>
<b>Equity</b>			
Share capital	17	180,585	180,585
Reserves	18	12,166,702	10,906,097
<b>Total equity attributable to the owners of the Company</b>		<u>12,347,287</u>	<u>11,086,682</u>
<b>Non-controlling interests</b>	26	<u>422,850</u>	<u>422,732</u>
<b>Total equity</b>		<u>12,770,137</u>	<u>11,509,414</u>
<b>Liabilities</b>			
Loans and borrowings	19	2,199,768	2,292,567
Obligations under finance leases		6,120	7,359
Trade and other payables	20	232,498	243,045
Deferred tax liabilities	9	118,020	107,337
Deferred income	21	129,936	106,295
<b>Total non-current liabilities</b>		<u>2,686,342</u>	<u>2,756,603</u>
Loans and borrowings	19	1,083,647	1,161,339
Obligations under finance leases		1,226	1,196
Trade and other payables	20	1,151,765	873,443
Deferred income	21	1,001,849	885,622
Current income tax liability		20,804	20,193
<b>Total current liabilities</b>		<u>3,259,291</u>	<u>2,941,793</u>
<b>Total liabilities</b>		<u>5,945,633</u>	<u>5,698,396</u>
<b>Total equity and liabilities</b>		<u>18,715,770</u>	<u>17,207,810</u>

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

.....  
Vladimir Møkler  
Director

.....  
Mark Kurtser  
Managing Director

.....  
Andrey Khopersky  
Finance Director

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.



**MD MEDICAL GROUP INVESTMENTS PLC**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Attributable to owners of the Company							Total equity RUB'000
		Share capital RUB'000	Share premium RUB'000	Treasury shares RUB'000	Other reserves RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interests RUB'000	
Balance at 1 January 2016		180,585	5,243,319	(43,751)	(655,352)	6,361,881	11,086,682	422,732	11,509,414
<b>Total comprehensive income</b>									
Profit and total comprehensive income for the year		-	-	-	-	2,065,848	2,065,848	211,579	2,277,427
<b>Contributions by and distributions to owners</b>									
Equity-settled share-based payment	18	-	-	25,014	-	-	25,014	-	25,014
Dividends	11	-	-	-	-	(785,807)	(785,807)	(199,911)	(985,718)
<b>Total transactions with owners</b>				25,014	-	(785,807)	(760,793)	(199,911)	(960,704)
<b>Changes in ownership interests</b>									
Acquisition of non-controlling interests without a change in control	18	-	-	-	-	(44,450)	(44,450)	(11,550)	(56,000)
<b>Total changes in ownership interests</b>						(44,450)	(44,450)	(11,550)	(56,000)
<b>Balance at 31 December 2016</b>		180,585	5,243,319	(18,737)	(655,352)	7,597,472	12,347,287	422,850	12,770,137

Share premium is not available for distribution.

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

**MD MEDICAL GROUP INVESTMENTS PLC**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2015

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total			
Note	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Balance at 1 January 2015	180,585	5,243,319	(73,086)	(655,352)	5,058,812	9,754,278	382,316	10,136,594	
<b>Total comprehensive income</b>									
Profit and total comprehensive income for the year	-	-	-	-	1,603,530	1,603,530	166,939	1,770,469	
<b>Contributions by and distributions to owners</b>									
Equity-settled share-based payment	18	-	29,335	-	-	29,335	-	29,335	
Dividends	11	-	-	-	(300,329)	(300,329)	(134,628)	(434,957)	
<b>Total transactions with owners</b>									
Changes in ownership interests									
Non-controlling interests in newly consolidated entities							7,973	7,973	
Decrease in ownership in subsidiary							132	-	
<b>Total changes in ownership interests</b>									
<b>Balance at 31 December 2015</b>	<b>180,585</b>	<b>5,243,319</b>	<b>(43,751)</b>	<b>(655,352)</b>	<b>6,361,881</b>	<b>11,086,682</b>	<b>422,732</b>	<b>11,509,414</b>	

Share premium is not available for distribution.

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.



**MD MEDICAL GROUP INVESTMENTS PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2016

	Note	2016 RUB'000	2015 RUB'000
<b>Cash flows from operating activities</b>			
Profit for the year		2,277,427	1,770,469
Adjustments for:			
Depreciation of property, plant and equipment	12	850,262	787,187
Equity-settled share-based payment transaction	18	25,014	29,335
Loss / (gain) from the sale of property, plant and equipment		877	(782)
Amortisation of intangible assets	13	96,126	93,493
Finance income	8	(49,322)	(230,312)
Finance expense (excluding impairment)	8	425,758	457,823
Impairment of property, plant and equipment	12	-	19,113
Impairment of trade and other receivables	8	17,321	1,660
Net foreign exchange transactions loss / (gain)	8	90,847	(259,068)
Taxation	9	(38,313)	34,472
		3,695,997	2,703,390
Increase in inventories		(73,332)	(57,088)
Increase in trade and other receivables		(86,333)	(12,870)
Increase in trade and other payables		216,183	79,211
Increase in deferred income		127,919	115,266
<b>Cash flows from operations</b>		3,880,434	2,827,909
Tax paid		(19,604)	(9,691)
<b>Net cash flows from operating activities</b>		3,860,830	2,818,218
<b>Cash flows from investing activities</b>			
Payment for acquisition/construction of property, plant and equipment		(1,716,097)	(779,840)
Proceeds from disposal of property, plant and equipment		21,426	782
Payment for acquisition of intangible assets		(31,359)	(7,862)
Acquisition of subsidiaries, net cash outflow on acquisition		(474,873)	(280,881)
Interest received		46,311	47,358
<b>Net cash flows used in investing activities</b>		(2,154,592)	(1,020,443)

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

**MD MEDICAL GROUP INVESTMENTS PLC**

**CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)***

For the year ended 31 December 2016

	Note	2016 RUB'000	2015 RUB'000
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		987,125	215,015
Repayment of loans and borrowings		(1,171,623)	(949,368)
Repayment of obligations under finance leases		(1,477)	(600)
Payments on settlement of derivative financial instruments, net		(10,052)	-
Finance expenses paid		(449,145)	(458,377)
Increase in ownership in subsidiary	18	(56,000)	-
(Repayment of) / proceeds from reimbursed VAT		(50,445)	466,374
Dividends paid to the owners of the Company	11	(785,807)	(300,329)
Dividends paid to non-controlling interests		(199,472)	(134,628)
<b>Net cash flows used in financing activities</b>		<u>(1,736,896)</u>	<u>(1,161,913)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		(30,658)	635,862
Cash and cash equivalents at the beginning of the year		1,774,312	890,551
Effect of exchange rate changes on cash and cash equivalents		(100,710)	247,899
<b>Cash and cash equivalents at the end of the year</b>	16	<u>1,642,944</u>	<u>1,774,312</u>

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**1. INCORPORATION AND PRINCIPAL ACTIVITIES**

MD Medical Group Investments Plc (the "Company") was incorporated in Cyprus on 5 August 2010 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. In August 2012, following the special resolution passed by the shareholder, the Company was converted into a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its Registered Office is at Dimitriou Karatasou 15, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus.

The consolidated financial statements for the year ended 31 December 2016 consist of the consolidated statement of financial position as at the aforementioned date and the related consolidated statements of comprehensive income, changes in equity and cash flows and a summary of significant accounting policies and other explanatory notes of the Company and its subsidiaries (which together are referred to as "the Group") for the reporting period.

The principal activity of the Company is that of an investment holding company and, for that purpose, to acquire and hold controlling and other interests in the share or loan capital of any company or companies of any nature, but primarily in the healthcare industry. Please refer to note 4 for more detailed information about the services provided by the Group's medical centres.

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

Name	Country of incorporation	Activities	31 December 2016 Effective Holding %	31 December 2015 Effective Holding %
CJSC MD PROJECT 2000	Russian Federation	Medical services	95	95
LLC Khaven	Russian Federation	Medical services	100	100
LLC Velum	Russian Federation	Medical services	64	54
LLC Capital Group	Russian Federation	Pharmaceutics retail	80	80
LLC FimedLab	Russian Federation	Medical services	60	60
LLC Clinic Mother and Child	Russian Federation	Holding of trademarks	100	100
LLC Clinica Zdorovia	Russian Federation	Medical services	60	60
LLC Ivamed	Russian Federation	Medical services	100	100
LLC Dilamed	Russian Federation	Medical services	100	100
CJSC Listom	Russian Federation	Service company	100	100
LLC Ustic-ECO	Russian Federation	Medical services	70	70
LLC Mother and Child Perm	Russian Federation	Medical services	80	80
LLC Mother and Child Ufa	Russian Federation	Medical services	80	80
LLC Mother and Child Saint-Petersburg	Russian Federation	Medical services	60	60
LLC MD PROJECT 2010	Russian Federation	Medical services	100	100
LLC Mother and Child Ugo-Zapad	Russian Federation	Medical services	60	60
LLC MD Service	Russian Federation	Pharmaceutics retail	95	95
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	100	100
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services	100	100
LLC TechMedCom	Russian Federation	Service company	-	-
LLC Service Hospital Company	Russian Federation	Service company	-	-

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**1. INCORPORATION AND PRINCIPAL ACTIVITIES** *(continued)*

Name	Country of incorporation	Activities	31 December 2016 Effective Holding %	31 December 2015 Effective Holding %
LLC Mother and Child Tyumen	Russian Federation	Medical services	100	-
Vitanostra Ltd	Cyprus	Holding of investments	100	100
LLC NPC MIR	Russian Federation	Holding of investments	-	100
CJSC MK IDK	Russian Federation	Medical services	100	100
LLC Apteka IDK	Russian Federation	Pharmaceutics retail	100	100
LLC CSR	Russian Federation	Medical services	100	100
LLC Elleprof	Russian Federation	Service company	-	-
LLC Medtechnoservice	Russian Federation	Service company	-	-
LLC MD Assistance	Russian Federation	Assistance services	100	100
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	80	80
LLC Mother and Child Kostroma	Russian Federation	Medical services	100	-
LLC Mother and Child Vladimir	Russian Federation	Medical services	100	-
LLC MD Management	Russian Federation	Management company	100	100
LLC Mother and Child Ryazan	Russian Federation	Medical services	100	100
Shelly Management ltd	BVI	Holding of investments	-	100
Ivicend Holding Ltd	Cyprus	Holding of investments	100	100
CJSC MC Avicenna	Russian Federation	Medical services	100	100
LLC H&C Medical Group	Russian Federation	Medical services	100	100
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	85	85
LLC Medica-2	Russian Federation	Medical services	100	100
LLC Mother and Child Siberia (*)	Russian Federation	Medical services	100	-
LLC Siberia service company	Russian Federation	Service company	-	-
LLC Krasnoyarskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	-
LLC Novosibirskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	-
LLC Omskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	-
LLC Barnaulskii center of Reproductive Medicine (*)	Russian Federation	Medical services	100	-

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

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

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

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

The consolidated financial statements were approved by the Board of Directors and were authorised for issue on 17 March 2017.

**(b) Basis of measurement**

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

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

As from 1 January 2016, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the financial statements of the Company.

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

**(i) Standards and Interpretations adopted by the EU**

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

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

**(ii) Standards and Interpretations not adopted by the EU**

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

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

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

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

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

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

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

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

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

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

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

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

## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### **2. BASIS OF PREPARATION** *(continued)*

##### **(d) Use of estimates and judgements**

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

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

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

- Impairment of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are initially recorded at acquisition cost and are amortised on a straight line basis over their useful economic life. Intangible assets and property, plant and equipment that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year.

The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets and property, plant and equipment, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs.

- Impairment of goodwill

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

- Equity-settled share-based arrangements

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

##### **(e) Functional and presentation currency**

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

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

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

Several new standards and amendments apply for the first time in 2016. However, they do not impact these consolidated financial statements of the Group.



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

For the year ended 31 December 2016

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

**Business combinations**

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

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

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

***Acquisitions from entities under common control***

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

***Non-controlling interests***

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

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

***Loss of control***

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

***Transactions eliminated on consolidation***

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

## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 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 basis:

- Rendering of services

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

- Sale of goods

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

##### Deferred income

Deferred income represents advances received from patients.

##### Finance income

Finance income include:

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

##### Finance expenses

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

##### Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at 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 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.



## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Tax *(continued)*

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

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

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

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

#### Dividends

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

#### Property, plant and equipment

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

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

Depreciation is recognised in profit or loss on the 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
Leasehold improvements	10-20
Plant and equipment	5-10

No depreciation is provided on land.

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

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

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

## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

##### Property, plant and equipment *(continued)*

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

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

##### Intangible assets

###### (i) Goodwill

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

The excess of the Group's interest in the fair value of the new subsidiaries' net assets over the consideration paid for their acquisition ("a bargain purchase gain") is written-off in profit or loss in the year of acquisition of the relevant subsidiary. Positive goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. For the purpose of impairment testing goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combinations.

###### (ii) Patents and trademarks

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

###### (iii) Web site costs

External costs that are directly associated with web site controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently web site costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Web site costs are amortised using the 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.

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

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

*Classification*

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

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

*Recognition*

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

*Measurement*

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

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

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

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

*Impairment of non-derivative financial assets*

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

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

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

## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

##### Financial instruments *(continued)*

##### *Impairment of non-derivative financial assets* *(continued)*

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

##### Derecognition of financial assets

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

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

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

##### Derecognition of financial liabilities

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

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

##### Impairment of assets

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

##### Offsetting financial instruments

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

##### Inventories

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

**MD MEDICAL GROUP INVESTMENTS PLC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2016**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*Share capital

Proceeds from the issue of ordinary shares are classified as equity. The difference between the issue price of the shares and their nominal value is taken to the share premium account.

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

Treasury shares

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

Equity-settled share-based payment arrangements

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

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

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

Earnings per share

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

Provisions

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

Non-current liabilities

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



**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**4. REVENUE**

	31 December 2016 RUB'000	31 December 2015 RUB'000
In vitro fertilisation (IVF)	2,627,666	1,615,456
Deliveries	2,245,285	1,750,287
Obstetrics and gynaecology out-patient treatments	1,704,702	1,515,666
Paediatrics out-patient treatments	1,205,151	1,016,725
Other out-patient medical services	1,020,418	807,260
Other medical services	1,067,278	877,026
Obstetrics and gynaecology in-patient treatments	929,432	810,346
Other in-patient medical services	518,938	435,661
Paediatrics in-patient treatments	404,451	271,338
Sales of goods	315,682	279,672
Other income	140,079	127,364
	<u>12,179,082</u>	<u>9,506,801</u>

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

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

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

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

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

**5. COST OF SALES**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Payroll and related social taxes	3,980,084	3,289,756
Materials and supplies used	2,020,849	1,423,571
Depreciation	728,751	683,132
Medical services	204,600	172,951
Energy and utilities	137,796	118,147
Repair and maintenance	101,089	70,714
Property tax	96,549	98,490
Other expenses	130,115	61,449
	<u>7,399,833</u>	<u>5,918,210</u>

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**6. ADMINISTRATIVE EXPENSES**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Payroll and related social taxes	1,169,776	981,671
Utilities and materials	226,200	183,540
Other professional services	172,817	183,670
Advertising	149,739	121,580
Depreciation	121,511	104,055
Amortisation	96,126	93,493
Communication costs	29,361	24,892
Independent auditors' remuneration	23,510	21,795
Other expenses	78,304	78,091
	<u>2,067,344</u>	<u>1,792,787</u>

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

**7. STAFF COSTS**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Wages and salaries	4,098,759	3,397,948
Social insurance contributions and other taxes	1,051,101	873,479
Total staff costs	<u>5,149,860</u>	<u>4,271,427</u>

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

**8. NET FINANCE EXPENSES**

	31 December 2016 RUB'000	31 December 2015 RUB'000
<b>Finance income</b>		
<b>Interest income</b>		
Bank interest received	45,923	46,768
Interest from loans to third parties	388	590
<b>Other finance income</b>		
Bad debts recovered	3,011	4,820
Income on discounting	-	178,134
	<u>49,322</u>	<u>230,312</u>
<b>Finance expenses</b>		
<b>Interest expense</b>		
Interest on bank loans	(265,662)	(367,082)
Unwinding of discount on other payables to tax authorities	(32,799)	-
Interest on loans from third parties	(3,093)	(299)
Finance leases interest	(270)	(150)
<b>Other finance expense</b>		
Bank charges	(123,934)	(90,292)
Impairment of trade and other receivables	(17,321)	(1,660)
	<u>(443,079)</u>	<u>(459,483)</u>
<b>Net foreign exchange transaction (loss) / gain</b>	<u>(90,847)</u>	<u>259,068</u>
<b>Net finance (expense) / income</b>	<u>(484,604)</u>	<u>29,897</u>

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**9. TAXATION**

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

Reconciliation of effective tax rate:

	31 December 2016	31 December 2015
	RUB'000	RUB'000
Profit before taxation	2,239,113	1,804,941
Less profit before taxation of non-taxable subsidiaries	(2,768,532)	(1,950,440)
<b>Loss before taxation excluding not-taxable subsidiaries</b>	<b>(529,419)</b>	<b>(145,499)</b>
Tax using the Group's domestic tax rate	105,884	29,100
Effect of subsidiaries taxable at lower tax rates	344	300
(Non-deductible expenses) / non-taxable income	(1,637)	104
Current-year losses for which no deferred tax asset is recognised	(50,149)	-
Recognised temporary differences relating to property, plant and equipment on non-taxable medical subsidiaries expected to be utilized after 1 January 2020 at 20% corporate income tax rate	(16,129)	(63,976)
<b>Total income tax benefit/(expense)</b>	<b>38,313</b>	<b>(34,472)</b>

The Group recognized tax benefit of RUB38,313 thousand in 2016 mostly due to the increase in the deferred tax assets for LLC MD Project 2010, whose profits are taxable at 20% and tax losses were incurred in 2016.

Deferred tax assets of RUB175,751 thousand as at 31 December 2016 and RUB99,282 thousand as at 31 December 2015 were mostly recognised on tax losses. According to Russian tax rules such tax losses will not expire.

Deferred tax liabilities of RUB118,020 thousand as at 31 December 2016 and RUB107,337 thousand as at 31 December 2015 were mostly recognized on temporary differences relating to property, plant and equipment. These temporary differences are expected to be utilised after 1 January 2020 at 20% corporate income tax rate when the currently enacted tax concession with 0% corporate income tax rate will expire.

As at 31 December 2016 deferred tax assets relating to tax losses carried forward in the amount of RUB50,149 thousand (31 December 2015: nil) have not been recognized. The tax losses do not expire. Deferred tax assets have not been recognized in respect of these tax losses because it is not probable that future taxable tax profit will be available against which the Group can utilize the benefits therefrom.

At 31 December 2016, there were temporary differences (before calculating tax effect) of RUB3,496,686 thousand (31 December 2015: RUB2,670,405 thousand) related to investments in subsidiaries. Deferred tax liabilities related to these temporary differences were not recognised because the Group controls the dividend policy of its subsidiaries and, therefore, controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.



**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**10. EARNINGS PER SHARE**

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

**11. DIVIDENDS**

On 18 March 2016 the Board of Directors declared a final dividend for the year 2015 amounting to RUB500,332 thousand (USD7,298 thousand), which corresponds to RUB6.66 (USD0.1) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 15 April 2016. The dividend was paid on 20 May 2016.

On 2 September 2016 the Board of Directors declared an interim dividend for the six months ended 30 June 2016 amounting to RUB285,475 thousand (USD4,375 thousand), which corresponds to RUB3.8 (USD0.06) per share. The dividend distribution was approved by the Board of Directors Meeting on 2 September 2016. The dividend was paid on 18 October 2016.

On 27 April 2015 the Board of Directors declared a final dividend for the year 2014 amounting to RUB300,329 thousand (USD5,461 thousand), which corresponds to RUB4.01 (USD0.07) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 05 June 2015. The dividend was paid on 03 July 2015.

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

## MD MEDICAL GROUP INVESTMENTS PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RUB'000	Property under construction RUB'000	Plant and equipment RUB'000	Total RUB'000
<b>Initial cost</b>				
<b>Balance at 1 January 2015</b>	<b>10,166,726</b>	<b>130,789</b>	<b>3,987,349</b>	<b>14,284,864</b>
Acquisitions through business combinations	38,180	-	67,203	105,383
Additions	111,921	161,709	257,563	531,193
Disposals	-	-	(17,902)	(17,902)
Impairment loss	-	(19,113)	-	(19,113)
Transfer from construction in progress	23,057	(110,268)	87,211	-
<b>Balance at 31 December 2015</b>	<b>10,339,884</b>	<b>163,117</b>	<b>4,381,424</b>	<b>14,884,425</b>
Acquisitions through business combinations	37,157	7,132	86,964	131,253
Additions	104,917	1,234,642	454,229	1,793,788
Disposals	(18,713)	-	(26,433)	(45,146)
Transfer from construction in progress	20,065	(37,661)	17,596	-
<b>Balance at 31 December 2016</b>	<b>10,483,310</b>	<b>1,367,230</b>	<b>4,913,780</b>	<b>16,764,320</b>
<b>Depreciation</b>				
<b>Balance at 1 January 2015</b>	<b>512,819</b>	<b>-</b>	<b>1,231,873</b>	<b>1,744,692</b>
Depreciation during the year	218,737	-	568,450	787,187
Depreciation on disposals	-	-	(11,903)	(11,903)
<b>Balance at 31 December 2015</b>	<b>731,556</b>	<b>-</b>	<b>1,788,420</b>	<b>2,519,976</b>
Depreciation during the year	219,929	-	630,333	850,262
Depreciation on disposals	(1,819)	-	(14,552)	(16,371)
<b>Balance at 31 December 2016</b>	<b>949,666</b>	<b>-</b>	<b>2,404,201</b>	<b>3,353,867</b>
<b>Carrying amounts</b>				
<b>Balance at 1 January 2015</b>	<b>9,653,907</b>	<b>130,789</b>	<b>2,755,476</b>	<b>12,540,172</b>
<b>Balance at 31 December 2015</b>	<b>9,608,328</b>	<b>163,117</b>	<b>2,593,004</b>	<b>12,364,449</b>
<b>Balance at 31 December 2016</b>	<b>9,533,644</b>	<b>1,367,230</b>	<b>2,509,579</b>	<b>13,410,453</b>

As at 31 December 2016 construction in progress mainly includes construction costs of a hospital in the Russian city Novosibirsk of RUB1,061,823 thousand and a hospital in the Russian city Samara of RUB228,672 thousand.

The total net book value of property, plant and equipment which is held as collateral for the loans and borrowings is RUB5,430,699 thousand as at 31 December 2016 (31 December 2015: RUB5,560,245 thousand).

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**13. INTANGIBLE ASSETS**

	Goodwill	Patents and trademarks	Software and web site	Total
	RUB'000	RUB'000	RUB'000	RUB'000
<b>Initial cost</b>				
<b>Balance at 1 January 2015</b>	<b>1,438,268</b>	<b>564,698</b>	<b>24,967</b>	<b>2,027,933</b>
Acquisitions through business combinations	248,250	60	1,056	249,366
Additions	-	25	8,391	8,416
Disposals	-	-	(316)	(316)
<b>Balance at 31 December 2015</b>	<b>1,686,518</b>	<b>564,783</b>	<b>34,098</b>	<b>2,285,399</b>
Acquisitions through business combinations	360,154	-	1,381	361,535
Additions	-	-	31,359	31,359
<b>Balance at 31 December 2016</b>	<b>2,046,672</b>	<b>564,783</b>	<b>66,838</b>	<b>2,678,293</b>
<b>Amortisation</b>				
<b>Balance at 1 January 2015</b>	-	<b>39,974</b>	<b>6,870</b>	<b>46,844</b>
Amortisation during the year	-	84,752	8,741	93,493
Amortisation on disposals	-	-	244	244
<b>Balance at 31 December 2015</b>	-	<b>124,726</b>	<b>15,855</b>	<b>140,581</b>
Amortisation during the year	-	84,767	11,359	96,126
<b>Balance at 31 December 2016</b>	-	<b>209,493</b>	<b>27,214</b>	<b>236,707</b>
<b>Carrying amounts</b>				
<b>Balance at 1 January 2015</b>	<b>1,438,268</b>	<b>524,724</b>	<b>18,097</b>	<b>1,981,089</b>
<b>Balance at 31 December 2015</b>	<b>1,686,518</b>	<b>440,057</b>	<b>18,243</b>	<b>2,144,818</b>
<b>Balance at 31 December 2016</b>	<b>2,046,672</b>	<b>355,290</b>	<b>39,624</b>	<b>2,441,586</b>

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

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

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

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For the year ended 31 December 2016

**13. INTANGIBLE ASSETS** *(continued)*

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

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

No impairment was recognised in 2016. For all cash generating units management believes that any reasonable possible change in the key assumptions on which these units' estimated future profitability and recoverable amounts are based would not cause carrying amounts of these units to exceed their recoverable amounts materially.

**14. ACQUISITION OF SUBSIDIARIES**

In the end of January 2016 the Company acquired 100% shares in five entities from a third party. All these entities are registered under Russian laws and located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul. The acquisition was for a cash consideration of RUB485,000 thousand. The acquisition is consistent with MDMG's strategy for regional expansion and the development of a high quality network of out-patient clinics focusing on IVF, obstetrics, gynecology and pediatrics.

Goodwill arising on consolidation is as follows:

	RUB'000
Consideration transferred - cash	485,000
Less: Fair value of the net assets acquired	<u>(124,846)</u>
Goodwill arising on consolidation	<u>360,154</u>

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

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

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

**MD MEDICAL GROUP INVESTMENTS PLC**

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For the year ended 31 December 2016

**14. ACQUISITION OF SUBSIDIARIES** *(continued)*

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

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

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

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

**Contribution to the Group results**

The amount of additional revenue that would have been contributed to the Group had the acquisition occurred at the beginning of the reporting period is approximately RUB33,643 thousand. The disclosure of the amount of profit that would have been contributed to the Group is impracticable to be estimated accurately since the acquired company has not reported financial information under IFRS.

**15. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES**

	31 December 2016	31 December 2015
	RUB'000	RUB'000
Trade receivables	241,166	152,230
CAPEX prepayments	180,659	184,344
Advances paid to suppliers	76,695	72,766
Deferred expenses	14,080	13,715
Other receivables	32,239	19,178
	<u>544,839</u>	<u>442,233</u>
Non-current portion	184,984	184,344
Current portion	359,855	257,889
	<u>544,839</u>	<u>442,233</u>

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

**MD MEDICAL GROUP INVESTMENTS PLC**

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For the year ended 31 December 2016

**15. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES** *(continued)*

Ageing analysis of trade receivables:

Trade receivables:	Gross amount	Impairment	Gross amount	Impairment
	31 December 2016 RUB'000	31 December 2016 RUB'000	31 December 2015 RUB'000	31 December 2015 RUB'000
Not past due	241,166	-	152,230	-
Past due	32,867	(32,867)	18,557	(18,557)
	<u>274,033</u>	<u>(32,867)</u>	<u>170,787</u>	<u>(18,557)</u>

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

**16. CASH AND CASH EQUIVALENTS**

Cash balances are analysed as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Cash at bank and in hand	318,800	402,335
Bank deposits with maturity less than 3 months	1,324,144	1,371,977
	<u>1,642,944</u>	<u>1,774,312</u>
<b>Currency:</b>	31 December 2016 RUB'000	31 December 2015 RUB'000
RUB	819,272	639,499
EUR	1,094	2,366
USD	822,578	1,132,447
	<u>1,642,944</u>	<u>1,774,312</u>

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

**17. SHARE CAPITAL**

	Number of shares	Nominal value US\$	Share capital RUB'000	Share capital US\$'000
<b>Authorised</b>	<u>125,250,000</u>	<u>0.08</u>	<u>-</u>	<u>10,020</u>
<b>Issued and fully paid ordinary shares</b>	<u>75,125,010</u>	<u>0.08</u>	<u>180,585</u>	<u>6,010</u>



**MD MEDICAL GROUP INVESTMENTS PLC**

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**18. RESERVES**

**Share premium**

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

**Treasury shares**

During the year ended 31 December 2014, the Company has acquired 230,000 own shares (0.3% of total shares issued) at total cost of RUB73,086 thousand.

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

At the grant date being 31 December 2015 the fair value of shares was measured as a market share price multiplied by number of the shares of the program (230,000 shares) and amounted to RUB88,005 thousand.

It was assumed that the target conditions will be met in 2018, therefore during 2016 the shares amounted to RUB25,014 thousand were credited to equity account and debited to expense account as employee remuneration (in 2015: RUB29,335 thousand).

**Retained earnings**

Retained earnings include accumulated profits and losses incurred by the Group. In 2016 the Company acquired 10% share in a subsidiary, which it controls, for RUB56,000 thousand. As a result non-controlling interest in this subsidiary decreased by RUB11,550 thousand. The difference of RUB44,450 thousand between consideration paid to a minority shareholder and the amount of non-controlling interest acquired was accounted as an equity transaction.

**Other reserves**

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

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

There were no changes during 2016 year.

**19. LOANS AND BORROWINGS**

	31 December 2016 RUB'000	31 December 2015 RUB'000
<b>Long term liabilities</b>		
Bank loans	2,199,768	2,292,567
<b>Short term liabilities</b>		
Bank loans	1,083,647	1,092,516
Other loans	-	68,823
	<u>1,083,647</u>	<u>1,161,339</u>
<b>Total loans and borrowings</b>	<u>3,283,415</u>	<u>3,453,906</u>

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**19. LOANS AND BORROWINGS** *(continued)*

Maturity of loans and borrowings:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Within one year	1,083,647	1,161,339
Between one and five years	1,949,869	2,217,710
More than 5 years	249,899	74,857
	<u>3,283,415</u>	<u>3,453,906</u>

The total net book value of property, plant and equipment which is held as collateral for the bank loans is disclosed in note 12. As additional collateral the Company has pledged the shares of CJSC MD PROJECT 2000 and LLC Khaven.

As at 31 December 2016, the terms and debt repayment schedule of loans is as follows:

	Currency	Nominal interest rate	Year of last payment	31 December 2016		31 December 2015	
				Face value RUB'000	Carrying amount RUB'000	Face value RUB'000	Carrying amount RUB'000
Secured bank loan	RUB	9%	2018-2019	1,099,550	1,099,550	1,873,080	1,873,080
Secured bank loan	RUB	10.9%	2022	1,103,604	1,103,604	213,875	213,875
Secured bank loan	RUB	10.8%	2019	947,338	947,338	1,254,010	1,254,010
Unsecured bank loan	RUB	10.75%	2023	100,558	100,558	-	-
Unsecured bank loan	RUB	14.2%	2019	32,365	32,365	44,118	44,118
Unsecured other loan	RUB	16%	2016	-	-	68,823	68,823
				<u>3,283,415</u>	<u>3,283,415</u>	<u>3,453,906</u>	<u>3,453,906</u>

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

**20. TRADE AND OTHER PAYABLES**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Trade payables	323,369	214,831
Accruals	308,512	246,207
Other payables to tax authorities	270,593	288,239
Payables to employees	260,997	182,443
Taxes payable	143,593	138,617
CAPEX payables	60,305	14,695
Other payables	16,894	31,456
	<u>1,384,263</u>	<u>1,116,488</u>
Non-current portion	232,498	243,045
Current portion	1,151,765	873,443
	<u>1,384,263</u>	<u>1,116,488</u>

**MD MEDICAL GROUP INVESTMENTS PLC**

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For the year ended 31 December 2016

**21. DEFERRED INCOME**

	31 December 2016 RUB'000	31 December 2015 RUB'000
Patient advances	1,131,785	991,917
<i>including:</i>		
Deferred income after more than one year	129,936	106,295
Deferred income within one year	1,001,849	885,622

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

Deferred income that relates to short term client advances represents money received from patients on stem cells storage contracts, childbirth management contracts lasting from 1 to 9 months, and children care contracts valid for a specified period of time.

**22. RELATED PARTY TRANSACTIONS**

The following transactions were carried out with related parties:

**22.1 Operations with key management personnel**

The remuneration of the members of the key management personnel and non-executive directors for the year ended 31 December 2016 was RUB51,277 thousand (31 December 2015: RUB40,542 thousand). The key management personnel participated in the equity-settled share-based arrangements with total 24,000 shares to be granted in 2018 if target conditions are met (31 December 2015: 27,600 shares).

The company received legal services from the key management personnel for the year ended 31 December 2016 amounted to RUB730 thousand (for the year ended 31 December 2015: RUB868 thousand).

**22.2 Directors' interests**

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

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

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

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

**MD MEDICAL GROUP INVESTMENTS PLC**

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For the year ended 31 December 2016

**23. FINANCIAL RISK MANAGEMENT**

Financial risk factors

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

- Credit risk
- Liquidity risk
- Market risk

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

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

*(i) Credit risk*

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

*Exposure to credit risk*

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

	31 December 2016 RUB'000	31 December 2015 RUB'000
Investments	-	2,403
Trade and other receivables	269,047	171,234
Cash and cash equivalents excluding cash in hand	1,633,206	1,766,372
	<u>1,902,253</u>	<u>1,940,009</u>

*Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no significant concentration of credit risk regarding trade and other receivables. This significantly reduces possible delays and other negative consequences that may potentially affect matching the maturity of assets with liabilities. Furthermore, according to the internal policy, clients usually pay in advance except for some particular cases.

*Cash and cash equivalents*

The Group held cash and cash equivalents excluding cash in hand of RUB1,633,206 thousand at 31 December 2016 (31 December 2015: RUB1,766,372 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are mostly held with bank and financial institution counterparties, which are rated Baa2-Ba1, based on rating agency Moody's Investors Service ratings.

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**23. FINANCIAL RISK MANAGEMENT** *(continued)*

*(ii) Liquidity risk*

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the objective of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets. The following are the contractual maturities of financial liabilities, including estimated interest payments:

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

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

The Group has bank loans which contain debt covenants. The breach of covenants may require the Group to repay the loans earlier than indicated in the above table.

**MD MEDICAL GROUP INVESTMENTS PLC**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

**23. FINANCIAL RISK MANAGEMENT** *(continued)*

*(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:

	31 December 2016 RUB'000	31 December 2015 RUB'000
<i>Fixed rate instruments</i>		
Financial assets	1,324,144	1,374,380
Financial liabilities	(3,290,761)	(3,462,461)
	<u>(1,966,617)</u>	<u>(2,088,081)</u>

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

*Currency risk*

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

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

	31 December 2016			31 December 2015		
	USD'000	EUR'000	GBP'000	USD'000	EUR'000	GBP'000
<i>Assets</i>						
Cash at bank	822,578	1,094	-	1,132,447	2,366	-
<i>Liabilities</i>						
CAPEX payables	(10,178)	(1,037)	-	(73)	(2,391)	-
Trade and other payables and accruals	(2,939)	(1,023)	(7,306)	(73)	(2,072)	(10,366)
<i>Net exposure</i>	<u>809,461</u>	<u>(966)</u>	<u>(7,306)</u>	<u>1,132,301</u>	<u>(2,097)</u>	<u>(10,366)</u>



## MD MEDICAL GROUP INVESTMENTS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 23. FINANCIAL RISK MANAGEMENT *(continued)*

The following significant exchange rates applied during the year:

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

#### Sensitivity analysis

A 10% weakening of the Russian Rubles against the above currencies will result in the increase in profit and equity of RUB80,119 thousand as at 31 December 2016 (31 December 2015: RUB111,987 thousand). A 10% strengthening of the Russian Rubles would have an opposite impact on the profit and other equity.

#### Capital management

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

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

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

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

#### 24. FAIR VALUES

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

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

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

For the year ended 31 December 2016

**25. CONTINGENT LIABILITIES****(a) Insurance**

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

**(b) Russian business environment**

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

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

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**(c) Russian tax environment**

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

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

**MD MEDICAL GROUP INVESTMENTS PLC**

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For the year ended 31 December 2016

**26. NON-CONTROLLING INTERESTS**

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

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

**27. OPERATING LEASES**

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

The future minimum lease payments under non-cancellable leases are payable as follows.

	2016 RUB'000	2015 RUB'000
Within one year	85,565	51,526
Between one and five years	172,347	72,216
More than five years	34,811	44,989
	292,723	168,731

**28. CAPITAL COMMITMENTS**

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

	31 December 2016 RUB'000	31 December 2015 RUB'000
Property, plant and equipment	49,044	77,862
Construction in progress	1,745,804	703,045
	1,794,848	780,907

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**29. SEGMENT REPORTING**

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

**30. EVENTS AFTER THE REPORTING PERIOD**

In January 2017 the Group has pledged a hospital building in Ufa with net book value RUB3,153,214 thousand as at 31 December 2016 to secure a loan agreement for financing a new hospital construction in Samara.

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