

HSCI OJSC

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

*Moscow
2013*

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Important remarks

Consolidated financial statements of HSCI as of and for the year ended December 31, 2012 in accordance with IFRS as well as Auditor's report were prepared in Russian. In the event of any inconsistency between the English and the Russian texts, the Russian text shall prevail.

**To the Shareholders of
HSCI OJSC**

**INDEPENDENT AUDITOR'S REPORT
ON CONSOLIDATED FINANCIAL STATEMENTS
OF HSCI
FOR THE YEAR ENDED DECEMBER 31, 2012**

THE AUDITOR

ADK-audit LLC

Abbreviated name: ADK-audit LLC

Legal address: Bld. 240-1, 3rd staircase, Lunacharskogo str., Ekaterinburg, 620026, Russia

Postal address: Bld. 11/1, Derbenevskaya str., 115114, Moscow, Russia

Unified State Register of Legal Entities No. 1076672044712

Is a member of: SRO Nonprofit Partnership "Institute of professional auditors of Russia", ORNZ - 10202015968

THE AUDITEE

Name: Open Joint Stock Company "Human Stem Cells Institute" (HSCI OJSC) and its subsidiaries

Location of the parent company – Open Joint Stock Company "Human Stem Cells Institute" (HSCI OJSC): 18/1 Olympiskiy Prospekt, Moscow, 129110, Russia

State Registration: Certificate of Record in the Unified State Register of Legal Entities No. 007310997 series 77 issued on November 27, 2003 by the Inspectorate of the Ministry of Taxes and Levies of the Russian Federation No. 46 for Moscow

We have conducted an audit of the consolidated financial statements of OJSC HSCI (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter referred to collectively as “the Group”) consisting of a statement of financial position as of 31 December 2012, a statement of comprehensive income, changes in equity and cash flow for the year then ended as well as notes to the financial reporting, comprising a summary of significant accounting policies and other explanatory information.

Management’s responsibility for financial statements

The management of OJSC HSCI bears responsibility for the preparation and veracity of the given consolidated financial statements in accordance with International Financial Reporting Standards. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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

An audit involved performing auditing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of OJSC HSCI, as well as evaluating the overall presentation of the financial statements.

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

Auditor’s opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion above, we draw attention to the following circumstances disclosed in the notes to the financial statements:

- In “Note 11. Equity” it is reported that treasury shares purchased from shareholders were contributed to the charter capital of NextGen LLC in the amount of 3,006,200 shares with a nominal value of RUB 0.10 each. The shares were contributed at a value assessed by an independent assessor (report provided by KORRAS Consulting LLC No. 17/152-B from 16 November 2012, assessor – Viktor Nesterovich Lebedev) in the amount of RUB 39,141 thousand. The value of the shares at the end of 2012 as a result of revaluation amounted to RUB 40,866 thousand.

- In “Note 24. Subsequent Events” it is reported that as of 25 April 2013 the transaction to increase the charter capital of IceGen LLC had not been completed due to violations of the requirements of Article 21 of the Federal Law “On Limited Liability Companies” No.14-FZ from 8 February 1998 with regard to the mandatory notarization of deals involving the transfer of ownership interest.

Director for audit
by proxy #37 dated 13.02.2013
Herasimova Elena Petrovna
(Qualification Certificate in General Audit No. 041481
issued on 31.01.2002 without limit in time,
member of SRO NP IPAR, /ORNZ 20202000996/)

_____/s/_____

Manager for audit review
Terekhova Tatiana Anatolievna
(Qualification Certificate of Auditor No. 02-000099,
member of SRO NP IPAR, /ORNZ 20802005234/)

_____/s/_____

April 29, 2013

Statement of the Management's Responsibility for Preparation and Approval of the Consolidated Financial Statements for the Year Ended December 31, 2012

The following representation is drawn up in order to define the management's responsibility for the consolidated financial statements of the HSCI OJSC and its subsidiaries ("the Group").

The Group's management shall be held liable for the preparation of the consolidated financial statements giving a true and fair view of the financial position of the Group as of December 31, 2012, results of its operations, cash flows and changes in equity for the year ended December 31, 2012, in accordance with International Financial Reporting Standards (IFRS).

When preparing the financial statements, the management shall be held liable for:

- selection of appropriate accounting principles and their consistent application;
- application of reasonable appraisals and calculations;
- compliance with IFRS requirements, or interpretation and explanation of all material digressions from IFRS in the financial statements;
- preparation of the consolidated financial statements making allowances that the Group shall continue its activities in the foreseeable future, save for the cases when this allowance is unlawful.

The management shall also be held liable for:

- development, implementation and maintenance of an effective and reliable internal control system within all companies of the Group;
- maintenance of respective records sufficiently and accurately revealing information about the Group's financial position, and ensuring compliance of the Group's consolidated financial statements with IFRS requirements;
- maintenance of the consolidated financial statements' compliance with International Financial Reporting Standards;
- taking steps reasonably available for the Group to ensure preservation of the Group's assets; and
- revelation and prevention of deceitful practices and other violations.

The consolidated financial statements for the year ended December 31, 2012 are authorized to be issued on April 25, 2013 and signed on behalf of the Group's management:

_____/s/_____
A.A.Isaev
General Director

_____/s/_____
N.I.Alyutova
Chief Accountant

April 25, 2013

HSCI OJSC**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION***In thousands of Russian Rubles*

	Notes	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010 (as restated, see Note 3.1)
ASSETS				
Non-current assets				
Property, plant and equipment	4	66,163	37,009	35,787
Intangible assets	5	48,497	27,886	2,877
Investments in associates	6	652,427	787,614	97,343
Other investments	6	56,889	905	-
Long-term loans granted	7	10,531	15,936	9,359
Goodwill	6	1,014	1,014	-
Deferred income tax assets	12	1,598	6,518	2,139
Total non-current assets		837,119	876,882	147,505
Current assets				
Inventories	8	16,882	14,778	9,574
Accounts receivable and prepayments	9	109,406	57,583	46,076
Short-term loans granted	7	13,101	14,042	21,417
Cash and cash equivalents	10	26,671	17,363	70,030
Total current assets		166,060	103,766	147,097
Total assets		1,003,179	980,648	294,602
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	11	7,500	7,500	7,500
Treasury shares	11	(40,866)	(50,267)	-
Share premium	11	141,000	141,000	141,000
Revaluation reserve	11	-	635,133	-
Retained earnings	11	550,097	74,355	54,329
Total equity attributable to equity holders of the parent		657,731	807,721	202,829
Non-controlling interest		12,927	9,683	1,250
Total equity		670,658	817,404	204,079
Non-current liabilities				
Deferred income tax liability	12	3,898	1,730	3,153
Accounts payable and accrued expenses	14	63,655	59,141	62,170
Long-term borrowings	13	61,789	739	-
Total non-current liabilities		129,342	61,610	65,323
Current liabilities				
Short-term borrowings	13	87,217	9,714	15
Accounts payable and accrued expenses	14	112,531	87,115	24,245
Income tax payable	14	119	882	-
Other taxes payable	15	3,312	3,923	940
Total current liabilities		203,179	101,634	25,200
Total liabilities		332,521	163,244	90,523
TOTAL EQUITY AND LIABILITIES		1,003,179	980,648	294,602

April 25, 2013

General Director
Chief Accountant/s/
/s/A.A.Isaev
N.I.Alyutova

The notes on pages 13 through 58 are an integral part of these consolidated financial statements

HSCI OJSC**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***In thousands of Russian Rubles*

		Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010 (as restated, see Note 3.1)
Revenue				
Revenue from operations (primary business)		275,376	209,556	189,685
Other revenue		41,125	52,520	2,848
Total revenue	16	316,501	262,076	192,533
Operating expenses	18	(328,302)	(245,433)	(185,434)
Operating profit/ (loss)		(11,801)	16,643	7,099
Financial income/ (expenses):				
Foreign exchange loss, net		(252)	(404)	(103)
Interest income		2,698	6,660	9,162
Interest expenses		(5,450)	(414)	(302)
Gain/ (loss) from discounting of long-term accounts payable	19	1,062	(905)	969
Gain on sale of investments		(1,544)	-	-
Total financial income/ (loss), net	19	(3,486)	4,937	9,726
Gain / (loss) from investing activities	17	(126,882)	(2,344)	(6,382)
Profit before income tax		(142,169)	19,236	10,444
Income tax				
Current tax charge	12	(584)	(4,095)	(4,270)
Deferred tax benefit / (expense)	12	(7,087)	5,802	1,026
Total income tax	12	(7,671)	1,707	(3,244)
Profit for the year		(149,840)	20,943	7,200
Other comprehensive income/ (loss):				
Translation loss		(8,161)	-	-
Revaluation of financial assets		1,726	-	-
Other comprehensive income/ (loss), net of tax		(6,435)	-	-
Total comprehensive income/ (loss) for the year		(156,275)	20,943	7,200
Profit attributable to:				
Equity holders of the parent		(159,391)	(18,295)	7,497
Non-controlling interest		3,116	2,647	(297)
Earnings per share attributable to equity holders of the parent - basic and diluted (in Russian Rubles)		(21)	2.86	0.12

April 25, 2013

General Director /s/
Chief Accountant /s/

A.A.Isaev
N.I.Alyutova

The notes on pages 13 through 58 are an integral part of these consolidated financial statements

HSCI OJSC**CONSOLIDATED STATEMENTS OF CASH FLOWS***In thousands of Russian Rubles*

	Notes	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010 (as restated, see Note 3.1)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax		(142,169)	19,236	10,444
<i>Adjustments to reconcile profit before tax to cash generated from operations</i>				
Depreciation	4	6,556	5,904	4,990
Amortization	5	2,433	165	-
Bad debt expense	18	4,627	2,650	846
Increase in provisions for unused vacations	18	1,982	969	-
Purchase of investments, net		-	1,680	-
Written-off receivables		-	548	-
Net interest income/ (loss)	19	2,752	(6,247)	(8,860)
Loss from associates	17	126,882	2,797	6,382
Income from the change of stake in Hemafund MBC LLC		-	(453)	-
Loss from contribution of HSCI's treasury shares to the charter capital of NextGen LLC		12,570	-	-
Materials writing-off		2,619	635	-
(Gain) / loss from discounting	19	(1,062)	905	(969)
Foreign exchange loss, net	19	252	404	103
Income/ (loss) from other non-cash transactions		25	71	(148)
Cash generated from operations before changes in working capital and profit tax paid		17,467	29,264	12,787
<i>Changes in working capital:</i>				
(Increase)/decrease in accounts receivable and prepayments		(49,810)	(7,898)	(23,120)
(Increase) / decrease in inventories		(4,755)	2,732	(5,937)
Increase in payables and accruals		16,367	19,275	24,137
(Decrease) / Increase in taxes payable, other than on income		624	2,840	(501)
Income tax paid		(6,504)	(4,096)	(7,251)
Net cash provided by operating activities		(26,611)	42,117	115
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of subsidiaries, net of cash acquired		-	7,443	-
Purchase of property, plant and equipment		(35,711)	(5,273)	(7,234)
Investments in associated and other companies		-	(10,792)	(60,865)
Purchase of intangible assets		(14,525)	(25,173)	(1,336)
Changes in short-term investments		(56,012)	(16,539)	(16,622)
Interest received		2,698	1,840	9,162
Changes in loans granted, net		1,327	-	-
Net cash used in investing activities		(102,223)	(48,494)	(76,895)

HSCI OJSC**CONSOLIDATED STATEMENTS OF CASH FLOWS***In thousands of Russian Rubles*

	Notes	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010 (as restated, see Note 3.1)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from / (outflow of) short-term borrowings		86,816	2,828	36,318
Repayment of borrowings		56,776	209	(36,310)
Dividends paid		-	-	(7,500)
Interest paid		(5,450)	(365)	(302)
Proceeds from shareholders' contribution to the registered share capital		-	1,320	-
Proceeds from increase of unregistered share capital		-	-	-
Purchase of treasury shares		-	(50,267)	-
Proceeds from share premium, paid		-	-	-
Net cash provided by/ (used in) financing activities		138,142	(46,275)	(7,794)
Net increase / (decrease) in cash and cash equivalents		9,308	(52,652)	84,574
Cash and cash equivalents at beginning of year		17,363	70,015	154,604
Cash and cash equivalents at the end of year		26,671	17,363	70,030

April 25, 2013

General Director /s/
Chief Accountant /s/

A.A.Isaev
N.I.Alyutova

The notes on pages 13 through 58 are an integral part of these consolidated financial statements

HSCI OJSC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In thousands of Russian Rubles

	Number of shares	Share capital	Treasury shares	Share premium	Revaluation reserve	Profit non- available for allocation	Retained earnings	Non-controlling interest	Total equity
Balances at December 31, 2010 (as restated, see Note 3.1)	75	7,500	-	141,000	-	-	54,329	1,250	204,079
Profit for the year	-	-	-	-	-	-	20,640	2,647	23,287
Income from the change of stake in Hemafund MBC LLC	-	-	-	-	-	-	453	-	453
Income/ (loss) from associates	-	-	-	-	-	-	(2,797)	-	(2,797)
Total income	-	-	-	-	-	-	18,296	2,647	20,943
Transactions with shareholders, recorded directly in equity									
Treasury shares	-	-	(50,267)	-	-	-	-	-	(50,267)
Disposal of subsidiaries	-	-	-	-	-	-	(183)	-	(183)
Decrease in non-controlling interest as a result of changes in the Group's stake in subsidiary	-	-	-	-	-	-	1,913	5,786	7,699
Revaluation reserve	-	-	-	-	653,133	-	-	-	635,133
Total transactions with shareholders	-	-	(50,267)	-	653,133	-	1,730	5,786	592,382
Balances at December 31, 2011	75	7,500	(50,267)	141,000	653,133	-	74,355	9,683	817,404
Operating profit	-	-	-	-	-	-	(22,958)	-	(22,958)
Operating profit	-	-	-	-	-	-	(3,116)	3,116	-
Income/ (loss) from associates	-	-	-	-	-	-	(126,882)	-	(126,882)
Total income	-	-	-	-	-	-	(152,956)	3,116	(149,840)
Other comprehensive income									
Translation loss	-	-	-	-	-	-	(8,161)	-	(8,161)
Revaluation gain on available- for-sale investments	-	-	-	-	-	-	1,726	-	1,726
Other comprehensive income	-	-	-	-	-	-	(6,435)	-	(6,435)
Total comprehensive income / (loss)	-	-	-	-	-	-	(159,391)	3,116	(156,275)

HSCI OJSC**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY***In thousands of Russian Rubles*

Transactions with shareholders, recorded directly in equity									
Treasury shares	-	-	9,401	-	-	-	-	-	9,401
Decrease in non-controlling interest as a result of changes in the Group's stake in subsidiary	-	-	-	-	-	-	-	128	128
Revaluation reserve	-	-	-	-	(635,133)	653,535	(18,402)	-	-
Total transactions with shareholders	-	-	9,401	-	(635,133)	653,535	(18,402)	128	9,529
Balances at December 31, 2012	75	7,500	(40,866)	141,000	-	653,535	(103,438)	12,927	670,658

April 25, 2013

General Director
Chief Accountant/s/
/s/A.A.Isaev
N.I.Alyutova

The notes on pages 13 through 58 are an integral part of these consolidated financial statements

HSCI OJSC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012

In thousands of Russian Rubles unless otherwise stated

Note 1. Information about the Group and its Activities

Organizational Structure and Activities

Open Joint Stock Company “Human Stem Cells Institute” – OJSC “HSCI” (hereinafter referred to as “the Company”) was founded in accordance with the laws of the Russian Federation in 2003. The HSCI Group of companies (hereinafter referred to as “the Group” or “the HSCI Group”) comprises the Company and its subsidiaries and associates located in Russia and abroad. The main focus of HSCI Group is research and development (including patent protection and outlicensing), as well as commercialization and marketing of novel products and services based on cell, gene and post-genome technologies. The Company owns the largest private cord blood stem cell bank in Russia – Gemabank[®], as well as a 50% stake in Hemafund, Ukraine’s largest family cord blood bank.

HSCI projects encompass five core focus areas:

- regenerative medicine;
- bio-insurance;
- medical genetics;
- gene therapy;
- biopharmaceuticals (in the framework of the SynBio project).

HSCI is a co-investor in SynBio – a long-term multilateral project to create new unique medicines (first-in-class and BioBetter) for the Russian and international markets. The SynBio project, supported by an investment from RUSNANO (a state-owned fund for supporting nanotechnologies), unites top Russian and international companies engaged in biotech/biopharm R&D.

The Group’s main business in 2012 which generated the most substantial portion of revenues was the provision of healthcare services to the public, in particular, providing cord blood stem cell collection, isolation and storage services, SPRS-therapy services (a set of personalized diagnostics and treatment procedures based on a medical technology approved by Russia’s healthcare oversight service Roszdravnadzor involving the application of autologous dermal fibroblasts to correct the effects of aging and skin defects), and Gemascreen for Newborns services (medical genetics consultations based on the results of the diagnostics for six of the most widespread inherited diseases and genetic disorders in the Russian Federation). Additionally, in 2012 sales were launched for the innovative drug Neovasculgen[®], which HSCI developed and obtained marketing authorization for; the drug is designed to treat Peripheral Arterial Disease (PAD).

Other projects which the company has been working on, as stipulated in the five-year business plan, include: clinical trials for and commercialization of a cell-based drug for treatment of myocardial infarction (clinical trial protocols for Cryocell IHD and Gemacell IHD); the Reprobank project (storage of personal and donated reproductive cells and tissues); the opening of a laboratory for preimplantation genetic diagnostics (PGD); distribution of innovative cell-processing equipment manufactured by the US-based company Cytori Therapeutics, Inc. (the technologically advanced Celution[®] System device for the collection and processing of human adipose (fat) tissue for use in reconstructive and aesthetic medicine /autotransplantation/).

HSCI OJSC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012

In thousands of Russian Rubles unless otherwise stated

Note 1. Information about the Group and its Activities (continued)

In addition to its research and commercial activities, the Group actively engages the scientific and academic community. For the purpose of developing the fields of research related to its core business areas, HSCI holds the Annual International Symposium “Current Issues in Cell-based Technologies” and also published the scientific journal *Cell Transplantology and Tissue Engineering*. The Group is also engaged in various activities aimed at raising public awareness, thus helping to build a market of advanced users of high-tech services in the field of medical biotechnology.

As of 2012, the HSCI Group comprises companies in Russia and Ukraine which boast state-of-the-art cell material storage facilities as well as processing and research laboratories.

OJSC “Human Stem Cells Institute” was established on November 27, 2003.

Location of the Company: 18/1 Olympiysky prospect, Moscow 129110, Russia.

As of the end of 2012, the main shareholders of the Company (with the ownership of more than 1% of the share capital) were:

Isaev Artur Aleksandrovich with the share of 40.80%;

First International Investment Group Ltd. (BVI) with the share of 34.48%;

BrokerCreditService (Cyprus) Limited with the share of 6.81 %;

NextGen LLC with the share of 4.01%;

Prikhodko Alexander Viktorovich with the share of 1.60%.

Formation of the Group

In October 2005 HSCI established subsidiary Human Stem Cells Institute Publishing House LLC. The share of HSCI in Human Stem Cells Institute Publishing House LLC amounts to 100 %.

In July 2006 HSCI established subsidiary Central Stem Cells Bank LLC. The share of HSCI in Central Stem Cells Bank LLC used to amount to 100 %. In September 2008 this subsidiary company was liquidated.

In April 2007 HSCI established subsidiary Cell Technology Laboratory Limited Liability Company. The share of HSCI in Cell Technology Laboratory Limited Liability Company amounts to 75 %.

In August 2008 HSCI established subsidiary Human Stem Cells Institute, Limited Liability Company in Kiev (Ukraine). As of December 31, 2010, the share of HSCI in Human Stem Cells Institute, Limited Liability Company in Kiev (Ukraine) amounted to 51%. In February 2011 the company changed its name to Hemafund Medical Biotech Company LLC, with HSCI’s share dropping to 50% after a charter capital increase by the second participant.

In April 2010 HSCI acquired a 60% stake in Vitacel LLC.

In March 2010 HSCI’s Board of Directors made a decision to acquire a 50% stake in Hemafund Medical Center LLC (Kiev, Ukraine). The transaction was performed on April 20, 2010.

In 2009 the financial results of HSCI LLC (Ukrainian subsidiary) were not included in the consolidated financial statements of the Group as immaterial for the purposes of consolidation (amounted to 0.2% of the Goup’s total assets). In 2009 the value of HSCI LLC (Ukraine) was reflected in the investments in

HSCI OJSC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012

In thousands of Russian Rubles unless otherwise stated

Note 1. Information about the Group and its Activities (continued)

associated and other companies at the acquisition cost. In 2010 the results of subsidiary HSCI LLC (Ukraine) were included in the consolidation because in December 2009 the shares of the parent started to trade on the open market (MICEX, Moscow) and the parent company started to submit its financial statements to FSFM of the Russian Federation.

In February 2011 via an equity capital sale-purchase agreement a 50% stake was acquired in Cryonix CJSC. In April 2011 an additional 5.98% stake was acquired. Thus, as at the end of the reporting period HSCI's stake in Cryonix amounted to 55.98%.

Cryonix operates in the biotech, pharmacological and medical sectors. The company's key R&D projects include the development of cell-based medications as well as introduction of novel therapeutics based on Histone H1 – for treatment of oncohematological diseases. For over 6 years Cryonix has represented the interests of Gemabank® in Saint Petersburg and the region. HSCI plans to maximize integration between the two companies in the development and commercialization of innovative drugs and provision of high-tech medical services, including the strengthening of HSCI's position on the market for isolation and storage of cord blood stem cells in northwest Russia.

In 2011 HSCI (parent company of the Group) and Cryonix (subsidiary) acquired stakes in SynBio LLC.

SynBio LLC is a project company engaged in the development and production of first-in-class medicines as well as products known as BioBetter for commercialization on the Russian and global markets. The company was created for the consolidation of the assets of participants for the purpose of implementing a multilateral project to product and introduce to market new medicines. The project was proposed by HSCI to RUSNANO (a state-owned fund for supporting nanotechnologies) and approved by the Supervisory Council of RUSNANO in December 2010.

According to the conditions of the Investment Agreement between participants of the SynBio project signed by HSCI on 4 August 2011 and approved by an Extraordinary General Shareholders' Meeting on 31 August 2011, HSCI acquired a stake in the project company SynBio LLC with a nominal value of RUB 613,078 thousand.

The property provided by HSCI as its contribution to the charter capital of SynBio LLC was:

Composition of financial investments	Amount, RUB thousand	Type of investment
Right to sublicense the use of an invention with Patent Number RU 2297848 on the basis of licensing agreement No. RD0045679	295,945	Intangible asset at fair value as contribution to charter capital

HSCI OJSC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012

In thousands of Russian Rubles unless otherwise stated

Note 1. Information about the Group and its Activities (continued)

Exclusive rights to the invention with Patent Number RU 2343928 “Method for isolating nucleated cells from umbilical cord blood”	124,584	Intangible asset at fair value as contribution to charter capital
44% stake in SymbioTec GmbH (Germany)	159,549	Financial investment revaluated (at reappraised value)
Cash	33,000	Cash paid in full
Total	613,078	

Subsidiary Cryonix acquired a stake in SynBio LLC through the contribution of sublicensing rights assessed at fair value arising from a License on the Transfer of Exclusive Rights and License for Development, Research, Production, Sale, Lease, Rent, Introduction and Marketing of all Products with the Use of Licensed Patents, Know-How and Results. The investment was assessed at RUB 118,799 thousand.

The appraisal of intangible assets and financial investments contributed to the charter capital of SynBio LLC was carried out by the independent assessor Financial Consulting Group LLC.

These assets are necessary for the development within the multilateral international SynBio project of 4 innovative drugs – for the treatment of oncohematology diseases, ischemic diseases and liver cirrhosis.

The Group’s initial investment in SynBio LLC totaled RUB 731,877 thousand.

HSCI OJSC’s stake in SynBio LLC at the end of 2011 was 28.18%.

The stake of Cryonix CJSC in SynBio LLC at the end of 2011 was 5.46%.

On 9 August 2011 the limited liability company IceGen was created, with HSCI OJSC owning a 48% stake and Cryonix owning a 9% stake in the new company.

As part of the execution of the Investment Agreement for the SynBio project, HSCI and other participants (except RUSNANO) are obliged to consolidate their stakes in the asset holder company IceGen and following the registration of changes in information about the legal entity, the participants of SynBio LLC will be RUSNANO and IceGen LLC. This has not happened (see Note 24. Subsequent Events).

The companies constituting the Group do not have representative offices.

In 2011 Human Stem Cells Institute Publishing House LLC was renamed to NextGen Company Limited.

On November 1, 2011, Human Stem Cells Institute Publishing House LLC was renamed to NextGen Company Limited. NextGen Company focuses on R&D in the fields of cell and gene therapy, the development of new ways to treat inherited diseases using Assisted Reproductive Technologies as well as the creation of DNA arrays for the diagnosis of inherited diseases and predisposition to them.

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Note 1. Information about the Group and its Activities (continued)

The function of publishing the journal Cell Transplantation and Tissue Engineering has been transferred to HSCI.

In December 2012 the Board of Directors of HSCI approved a contribution from HSCI to the charter capital of its subsidiary NextGen LLC in the amount of RUB 39,140,724. This additional contribution was made in the form of uncertified registered ordinary shares of HSCI (registration No. 1-01-08902-A from 12 January 2004) in the amount of 3,006,200 shares with a nominal value of RUB 0.10 each. Thus, at the end of 2012 the value of financial investments in the charter capital of NextGen LLC amounted to RUB 39,740,724.

In October 2012 through a meeting of founding members the limited liability company Regenerative and Genetic Medical Center of the Human Stem Cells Institute (RGMC LLC) was founded, with HSCI holding a 100% stake. The main business of the new company is the provision of healthcare services.

Conditions of Operations in the Russian Federation

The economy of the Russian Federation has definite characteristic features peculiar for emerging markets with a rather high inflation. The economy of the Russian Federation was influenced by the global financial crisis of 2008, business recession, oil free market prices' fall and Ruble devaluation. In 2011 and 2012 the Russian economy experienced moderate growth. Economic recovery has been accompanied by gradual growth in personal income, lower refinancing rates, stabilization of the rubles exchange rate vis-à-vis major foreign currencies and higher liquidity in the banking sector.

Tax, currency and customs legislation of the Russian Federation are highly dependent on the effectiveness of measures adopted in the realm of economic, financial and monetary regulations and new developments in tax policy as well as legislative, political and regulatory activities. The Group's management makes allowances for possible losses based on analysis of the economic situation and the forecast at the end of the reporting period.

The management can not to the full extent foresee all trends that could influence development of the Russian economy and banking sector, and what influence (if any) they may have on the Group's financial position. The management adopts all possible measures for supporting sustainable development of the Group's business.

These financial statements reflect how the management assesses the influence of conditions of operations in Russia on the business and financial condition of the Group. Future conditions of operations main differ from the management's assessment.

Note 2. Main Approaches to Preparation of the Financial Statements

Principle of Compliance. These consolidated financial statements (hereinafter referred to as "the Financial Statements") were prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations approved by International Accounting Standards Committee and International Financial Reporting Interpretations Committee (hereinafter referred to as "IFRS").

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Note 2. Main Approaches to Preparation of the Financial Statements (continued)

Basis of Preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) approved by International Accounting Standards Committee (IASB) and effective as of December 31, 2012, and in accordance with all Interpretations approved by International Financial Reporting Interpretations Committee (IFRIC) and effective as of December 31, 2012.

These consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with all interpretations and amendments which are effective from 1 January 2012 and which are relevant to its operations.

(i) Application of new and revised International Financial Reporting Standards.

Several new and revised standards were applied in the process of preparation of these financial statements. Those standards include supplement to IAS 1 “Presentation of Financial Statements” (enters into force on July 1, 2012), supplement to IAS 12 “Deferred Taxes: Assets Recovery” (enters into force on January 1, 2012). Application of mentioned supplements to standards did not materially influence these financial statements, but may influence operations reflection in future periods accounting.

Several officially published new standards, supplements to them and Interpretations have not yet entered into force as of December 31, 2012 and were not applied in the process of preparation of these financial statements. Some of those listed below may have potential influence on Group operations. Group plans to start applying these Standards and Interpretations as soon as they enter into force.

In May 2011 IASB issued a set of consolidation standards: IFRS No. 10 “Consolidated Financial Statements”, IFRS No. 11 “Joint Ventures”, IFRS No. 12 “Disclosure of Investments into Other Organizations”, revised IAS No. 27 “Individual Financial Statements” and revised IAS No. 28 “Investments into Affiliated and Joint Companies”. The set of new and revised standards presents a new model of control and approach to joint ventures as well as new requirements to information disclosure. The set enters into force for annual periods starting from January 1, 2013 or later. Group will start applying this set of standards starting from January 1, 2013. Group management expects that these changes will not materially influence Group consolidated financial statement and operating results.

In May 2011 IASB issued IFRS No. 13 “Fair Value Evaluation” (“IFRS No. 13”). New IFRS No. 13 sets requirements to evaluation of fair value and information disclosure. IFRS No. 13 enters into force for annual periods starting from January 1, 2013 or later. Group will start applying IFRS No. 13 starting from January 1, 2013. Group management expects that IFRS No. 13 will not materially influence Group consolidated financial statement and operating results.

In December 2011 IASB introduced amendments to IFRS No. 7 “Financial Instruments: Disclosures” (“IFRS No. 7”) and IAS No. 32 “Financial Instruments: Presentation in Statements” (“IAS No. 32”). These amendments clarify rules of assets and liabilities cutting and present new related information disclosure requirements. Amendments to IAS No. 32 enter into force for annual periods starting from January 1, 2014 or later. New information disclosure requirements provided for in IFRS No. 7 enter into force for annual periods starting from January 1, 2013 or later. Group will start applying updated IAS No. 32 starting from January 1, 2014 and updated IFRS No. 7 starting from January 1, 2013. Group management expects that these amendments will not materially influence Group consolidated financial situation and operational results.

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Note 2. Main Approaches to Preparation of the Financial Statements (continued)

IFRS No. 9 “Financial Instruments: Classification and Evaluation” issued based on the results of the first stage of IFRS Council project aimed at replacement of IAS No. 39 is applied with regard to classification and evaluation of financial assets and financial liabilities as they are defined in IAS No. 39. This Standard enters into force with regard to annual reporting periods starting from January 1, 2015 or after this date. During the following stages IFRS Council will consider hedging accounting and impairment of financial assets. In order to present situation in full Group will evaluate influence of this standard on respective amounts in financial statements in connection with other project stages after their publication.

In May 2012 IASC as the result of “2009-2011 Program for Annual Improvement of Standards” issued amendments to various standards. The following standards were mainly amended: IAS No. 1 “Presentation of Financial Statements”; IAS No. 16 “Capital Assets”; IAS No. 32 “Financial Instruments: Information Presentation”; IAS No. 34 “Interim Financial Statements”. Amendments introduce minor changes to clarify guidelines in current standards.

Amendments enter into force for annual periods starting from January 1, 2013 or later. Group will start applying amended standards starting from January 1, 2013. Group management expects that these amendments will not materially influence consolidated financial situation and operational results of the Group.

The Group presents the profit and loss statement using classification by the nature of expenditures. The Group considers this method convenient in terms of providing the users of financial statements the most useful information. The balance presentation is based on differentiation in accordance with the negotiability/non-negotiability principle.

The Group maintains individual accounting and prepares the financial statements in accordance with national accounting and reporting standards. The enclosed financial statements are prepared basing on national accounting data, corrected and reclassified for purposes of authentic presentation subject to IFRS requirements.

Functional and Reporting Currency. Items included into the financial statements of the Group are measured with the use of currency of initial economic environment where the Group is operating (“the functional currency”). The functional currency is a national currency of the country where the Group is operating. The functional currencies of the Group and its main subsidiaries is the Russian Ruble, Ukrainian Hryvnia and Euro. The reporting currency under IFRS is ***the Russian Ruble***.

Going Concern. These financial statements are prepared on the assumption that the Group does not intend or need to liquidate, or terminate its operation.

Use of Estimates. When preparing the Statements in accordance with IFRS, the management of the Group admitted a set of assumptions and estimates connected with presentation of assets and liabilities and disclosure of contingent assets and liabilities in the statements. Estimated values and value judgments are continually estimated and based on the management experience and a number of other factors, including expectations of future events considered acceptable in existing circumstances.

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Note 2. Main Approaches to Preparation of the Financial Statements (continued)

Apart from judgments implying preparation of estimates, the management also prepares definite judgments in the process of accounting policy principles application. Judgments having the greatest influence on amounts recognized in financial statements, and estimated values that can be reasons for significant corrections of the book value of assets and liabilities in the next financial year include:

Allowances for Doubtful Accounts Receivable. The allowances for accounts receivable impairment is established on the basis of the Group's estimation of financial solvency of specific customers. The allowances are made, if there is a reasonable acknowledgement of the Groups inability to collect all debts in accordance with initial conditions of its repayment. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial recognition, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired.

Property, Plant and Equipment. The fair value of property, plant and equipment and the residual maturity of the useful life were determined basing on the acquisition cost as of the date of transition to IFRS.

Items of property, plant and equipment are accounted for in accordance with their historical cost with the deduction of accumulated depreciation and impairment losses.

Should an item of property, plant and equipment consist of several components having different useful life, such components are to be accounted for as separate items of property, plant and equipment.

Expenses related to replacement of a component of property, plant and equipment accounted for separately are capitalized in the cost of the item of property, plant and equipment only if the Group considers that the expenses will result in an increase of future economic benefit from the use of this item of property, plant and equipment, provided that the asset value may be measured reliably. All other expenses including repair and maintenance costs are included into the financial results of the period they are incurred.

Profits and losses arising as a result of retirement of property, plant and equipment are accounted for in the profits and losses statement.

The book value of property, plant and equipment is influenced by assumptions concerning the value of the replacement cost, degree of wear and tear and remaining useful lives.

Depreciation is charged during expected useful life of separate items of property, plant and equipment using the straight-line method, and is included into financial results. The charge of depreciation starts from acquisition, and in respect of items of property, plant and equipment carried out in the framework of own-account construction – from the moment of completion of their construction and preparation for the further use. Land depreciation is not charged.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED
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Note 2. Main Approaches to Preparation of the Financial Statements (continued)

Useful lives (in years) by types of property, plant and equipment consist of:

Asset type	Useful life (number of years)
Buildings and site services	20-50
Machinery and equipment	5-7
Vehicles	7-10
Other	3

The management of the Group annually revises useful lives of property, plant and equipment. The management of the Group determines the existence of value reduction indications of property, plant and equipment as of every reporting date. If at least one such indication is revealed, the management of the Group estimates the recoverable amount determined as the greatest one of the two values: the net selling price of the asset and the cost of its use. The book value is reduced to the recoverable amount, and the economic aging loss is accounted for in the Profits and Losses Statement to the extent it exceeds the previous increase from the re-estimation of the same asset recognized as a part of the capital. The asset economic aging loss accounted for in previous reporting periods is reversed, if a change there occurred of estimations used for the determination of the cost of the asset use or its net selling price.

Provisions for Impairment of Property, Plant and Equipment. The management of the Group determines the existence of value reduction indications of the Group's assets recoverable amount against their book value as of every reporting date. The recoverable amount of property, plant and equipment is determined as the greatest one of the two values: the fair value of the asset with the deduction of selling expenses and use value. Should such a reduction be revealed, the book value of assets is reduced to the recoverable amount. If circumstances change, and the management of the Group comes to the conclusion that the asset value other than goodwill increased, the impairment reserve will be restored (reversed), in full or in part.

Actual results may be different from estimated values; moreover, these values may be both increased and reduced in future depending on results or expectations subject to factors accompanying each specific risk.

Useful Lives of Property, Plant and Equipment. The estimation of useful lives of this or that item of property, plant and equipment is a subject matter of the Group management's judgment that is formed subject to the preparation experience of judgments about other analogous assets.

When determining the useful life of this or that asset, the management considers an expected use, calculated technical depreciation, wear and tear, and actual conditions of the asset use. A change of any of the said conditions or estimations may result in correction of depreciation deductions rates in future periods. The Group accounts for impairment or establishes the said reserves, if estimation results show a possibility of liability or impossibility of the asset recovery; the size of the reserve can be determined with sufficient authenticity. Actual results may differ from expected ones, and estimations may both be increased and reduced by the Group in future periods depending on the resulting effect, or expectations subject to factors accompanying each specific risk.

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Note 2. Main Approaches to Preparation of the Financial Statements (continued)

Operational Lease. If the Group is a lessee under a lease agreement not implying transfer of substantial risks and benefits arising from title from a lessor to the Group, the total amount of rent payments is accounted for in the profits and losses statement proportionally within the whole lease term.

Payments under operational lease agreements (with the deduction of bonuses provided by the lessor) are accounted for in the profits and losses statement proportionally within the lease term.

Finance Lease. If the Group is a lessee under a lease agreement in accordance with which all substantial risks and benefits related to title transfer to it, assets rented are capitalized in property, plant and equipment as of the date of the lease' beginning at the lowest fair value of rented assets or current value of minimum rent payments.

All rent payments are spread between mandatory and financial payments in order to ensure permanent correlation of the finance rent debt. Corresponding lease liabilities (with the deduction of financial payments of future periods) are included into the debt.

Interest payment expenses are accounted for in the profits and losses statement within the whole lease term in accordance with the effective interest rate method. Assets acquired under finance lease agreements are amortized within their useful life or a shorter lease term, if the Group is not reasonably assured that it will obtain title to this asset by the lease term termination.

Contingent Liabilities for Tax Payment. The Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications. For those cases when, in the Group's management opinion, a possibility of tax authorities being disagreed with its interpretation of applicable laws and the Group's viewpoint with regard to the correctness of tax assessment and payment is rather great, the relevant reserve is established in the financial statements under IFRS.

Note 3. Summary of Principal Accounting Policies

Foreign Currency Transactions. Monetary assets and liabilities of the Group stated in foreign currency at the reporting date are calculated into Rubles at the rate as of this date. Foreign currency transactions are accounted for at the exchange rate as of the date of the transaction. Profits and losses arising as a result of these transactions' calculations and translation of monetary assets and liabilities stated in foreign currency are accounted for in the profits and losses statement.

Dividends. Dividends are not recognized as liabilities and deducted from the capital value as of the reporting date, unless they were declared (approved by owners) before the reporting date (up to and inclusive). Information about dividends is disclosed in the statements, if they are declared after the reporting date but before the date of the statements' approval to be issued.

Intangible Assets. All intangible assets of the Group have limited useful lives. Intangible assets of the Group include research and development available for use and capitalized, programs and licenses.

After their initial recognition intangible assets are accounted for at their initial cost with the deduction of accumulated amortization and accumulated impairment loss.

The amortization of intangible assets is charged by means of the straight-line method within the useful life. When drawing up the cash flows statement and expense disclosure note of the Group in 2010,

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Note 3. Summary of Principal Accounting Policies (continued)

the amortization of intangible assets were not taken into consideration due to the inessentiality of the amount.

The expected useful lives of intangible assets in the current and comparative periods were as follows:

- Rights to use and patents – 5 to 10 years;
- Computer software and licenses – 3 to 5 years.

As of each date of the statements' drawing up the management of the Group estimates if there are indications of intangible assets impairment. In case of impairment, the book value of intangible assets is written off to the greatest one of the two values: use value and the asset fair price with the deduction of selling expenses.

Development expenses are recognized for the period they are incurred. Development expenditures are capitalized if they meet criteria for an asset recognition. Development expenses previously recognized as expenses are not recognized as being in the structure of the asset in the subsequent period. The accounting value of development expenses is subject to an annual revision with respect to impairment.

Cash and Cash Equivalents. Cash includes physical cash and demand deposits. Cash equivalents include short-term highly liquid financial investments that can be easily converted into cash, which repayment dates are not later than three months from their acquisition and value of which is subject to slight fluctuations.

Inventory. Inventory is accounted for by the least of the two values: the prime cost and possible net selling price. The possible net selling price is a calculated selling price in the process of ordinary course of business with the deduction of selling expenses. The prime cost of inventory is determined by the weighted average cost method.

The Value Added Tax on Purchase and Sale. The value added tax arising upon sale of goods is due and payable to the state budget in accordance with the earliest one of the two dates (a) the date of a customer's payment of debts receivable, or (b) the date of the goods' or service delivery to the customer. The VAT paid to suppliers upon acquisition of goods, works, services (the input VAT), as a rule, subject to be refunded from the budget by means of set-off of the output VAT as soon as invoices from suppliers are received. The VAT related to purchase and sale transactions is disclosed separately as a current asset and short-term liability. When establishing a reserve of debts receivable impairment, a total amount of a doubtful debt is reserved, including VAT. The corresponding deferred VAT obligation is reflected in the statements up to the debts receivable writing-off for taxation purposes.

Accounts Receivable and Advances Made. The debts receivable are accounted for inclusive of VAT. The debts receivable from settlements with buyers and customers are corrected subject to the reserve of debts receivable impairment. This doubtful debt reserve is established, if there is a reasonable acknowledgement of the Groups inability to collect all debts in accordance with initial conditions of its repayment.

Income Tax. Expenses on income tax include current and deferred taxes. The current tax is an amount that is supposed to be paid with regard to taxable income for a period. The taxable income differs from net income reflected in the profits and losses statement, as it does not include profit or loss, and consequently subject to either taxation or deduction in other years, and items of profit or loss never taxable or deductible.

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Note 3. Summary of Principal Accounting Policies (continued)

Liabilities of the Group for the current income tax are calculated subject to rates of taxation effective at the reporting date.

Deferred Income Tax. The deferred income tax is reflected in accordance with the balance method of liabilities accounting and charged in respect of losses reducing taxable income of future periods, and temporary differences occurred between tax assessment of assets and liabilities and their book value. In accordance with the principle of non-recognition of deferred taxes upon initial reflection of transactions, deferred taxes are not recognized in respect of temporary differences arising upon initial reflection of an asset or liability for operations other than business combination operations, if the fact of the initial reflection of this operation affects neither accounting nor taxable income. Deferred income tax balances are calculated at tax rates adopted or effective at the reporting date, that, in accordance with expectations, will be applied in the renewal period of temporary differences or tax losses repayment. Assets and liabilities of the deferred income tax are only accounted for in the amount within the Group. The deferred income tax assets in respect of temporary differences and losses reducing taxable income of future periods are reflected to the extent that there is a possibility that a taxable income sufficient for their repayment will be received in future.

Accounts Payable and Accruals. Accounts payable is shown with accounting of the value added tax. Accounts payable to suppliers and contractors are accrued upon their performance of their contractual obligations and accounted for at the amortized cost with the use of the effective interest rate method.

Credits and Loans. Borrowed assets are initially recognized at the fair value. The fair value is determined subject to market interest rates of analogous instruments in case of their material difference from the received loan interest rates. In subsequent periods borrowed assets are accounted for at the amortized cost with the use of the effective interest rate method; the total difference between initial recognition amount and amount to be repaid is reflected in the profits and losses statements as interest repayment expenses during the whole period of the borrowed assets repayment obligations.

Borrowing Costs. Borrowing costs directly attributable to the acquisition, construction or production of assets /permanent facilities/ that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the costs of those assets; capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. Investment income, earned due to temporary investment of raised debt before being allocated for obtaining qualified assets, is deducted from borrowing costs to be capitalized.

All other borrowing costs are recognized in the consolidated profit and loss statement for the period they are incurred.

Provisions. Provisions are recognized in case if the Group has legal liabilities or liabilities from operation arisen as a result of preceding events, there is a possibility that repayment of this obligation will require retirement of the Group's resources, and a reliable estimation of the amount of the liability can be performed.

Revenue Recognition

Revenue is the fair value of compensation received or expected. Expected return of goods, discounts and other such reserves are deducted from revenues before value-added tax. Revenue is recognized to the extent to which there is a likelihood that the Group will receive economic gain and that this gain can be reliably measured. Advanced payment received from buyers is not recognized as revenue of the current year and is recognized as a liability.

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Note 3. Summary of Principal Accounting Policies (continued)

Revenue from cord blood stem cell isolation and cryopreservation is recognized in the period in which the services were provided, i.e. immediately after the cryopreservation process is complete (the time of processing of cord blood from the moment of its collection to the completion of the cryopreservation process is no more than 48 hours);

Revenue from the storage of cord blood stem cells concentrate is recognized on a monthly basis in amount indicated in the price list for the current period in equal amounts;

Revenue from the provision of SPRS-therapy comprehensive set of services is recognized immediately upon provision of such services on the basis of acknowledgements (“acceptance protocols”) presented. The service is deemed provided when the cells bank for transplantation is transferred to the client, at which moment an acknowledgement of services rendered is compiled and signed.

Revenue from the service of storing autologous dermal fibroblasts (SPRS-bank) is recognized on a monthly basis in amount indicated in the price list for the current period in equal amounts.

Other revenue from sales.

Other revenues from the sale of goods and services are recognized in accounting when the following conditions are met:

- all material risks and advantages arising from the ownership rights to the goods are transferred from the Group to the buyer;
- the Group does not retain management functions related to the ownership rights or have any real control over the sold goods; and,
- expenses which were or will be incurred as a result of the transaction can be reliably determined.

Investments in Associated Companies. Associated companies are companies that are greatly influenced by the Group and that are not subsidiary or jointly controlled companies. A great influence implies participation possibilities in decision-making of the financial or operational policy of the company but does not imply possibility to control or jointly control this policy. Associated companies are accounted for by means of the equity method. Investments in associated companies are accounted for by the prime cost of investments acquisition.

Financial Assets Available for Sale. Financial assets are classified as “available for sale” in case there is intent to own them during indefinite time. Such financial assets are accounted for as non-current assets. If the management of the Group intends to own financial assets within at least 12 months after the reporting date, or financial assets’ repayment date is less than 12 months, or there arises a need to sell financial assets to increase current assets, such financial assets are accounted for as current assets.

The management of the Group classifies financial assets as current or non-current ones as of their acquisition date, and revises their classification on the basis of repayment dates as of each reporting date.

Financial investments “available for sale”, as a rule, include securities that are not traded or quoted on the Russian stock exchanges. The fair value of such financial investments is determined by various

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Note 3. Summary of Principal Accounting Policies (continued)

methods, including methods based on their profitability, and methods based on discounting of future expected cash flows. In order to determine the fair value, the management of the Group makes assumptions based on the condition of the market at every reporting date.

Financial investments, if their market quotations are not available and their fair value cannot be determined reliably by other methods, are accounted for at their acquisition cost with the deduction of losses from their impairment.

Financial investments purchase and sale transactions are initially measured at the fair value and accounted for as of the date of payment, that is as of the date of the asset delivery to the customer. Acquisition expenses include operational costs. Financial investments “available for sale” are further accounted for at the fair value. Unrealized gains and losses arising as a result of a fair value change of such financial investments are accounted for in the fair value reserve reported about in stockholders' equity for the period they refer to. Profits and losses arisen upon sale of financial investments “available for sale” are charged to the financial result in the Profits and Losses Statement for the reporting period.

Subsidiary Companies. Subsidiary companies are companies in which the Group owns, directly or indirectly, more than 50% of voting shares, or may otherwise control decisions made by the management of these companies. Statements of subsidiary companies are included into the consolidated financial statements starting with the transfer date of working control over the subsidiary to the Group and till the date of loss of this control. All intra-group balances, income and expenses resulting from intra-group transactions are eliminated in full.

Goodwill and Non-controlling Interest. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. In accordance with IFRS 3 *Business Combinations*, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

Associates, Jointly Controlled Entities and Joint Ventures. Associates are companies over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies.

Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of

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Note 3. Summary of Principal Accounting Policies (continued)

post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associated company is carried in the consolidated balance sheet at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Joint ventures related to jointly controlled entities are entities which are jointly controlled by two or more parties and investments in such entities are accounted for using the equity method. Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures involving jointly controlled assets or joint operations are accounted for using the proportionate consolidation method.

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Note 3.1. Restatement of Earlier Financial Statements

In compiling financial statements for 2011 the presentation of accounts payable was changed and reflected in FY 2011 statements and in the comparable periods (2010 and 2009) with a distinction between long-term and short-term accounts payable. Long-term payables for 2011 and comparable periods (2009 and 2010) are discounted with a two-year repayment period and market rate of 10%. In financial statements for 2012 accounts payable is reflected for comparable period of 2010 adjusted to the restatements made in financial statements for 2011.

The effect of retrospective reflection of short-term and long-term payables with discounting as expressed in the corresponding line items of the Statements of Financial Position for 2010 is presented in the table below:

	2010		
	As reflected in Financial Statements for 2010	Retrospective reflection of figures for 2010 in Financial Statements for 2012	Amount of adjustment
EQUITY AND LIABILITIES			
Retained earnings	44,371	54,329	9,958
Total equity attributable to equity holders of the parent	192,871	202,829	9,958
Total equity	194,121	204,079	9,958
Deferred income tax liability	664	3,153	2,489
Accounts payable and accruals	-	62,170	62,170
Total non-current liabilities	664	65,323	64,659
Accounts payable and accruals	98,862	24,244	(74,618)
Total current liabilities	99,817	25,199	(74,618)
Total liabilities	100,481	90,523	(9,958)
TOTAL EQUITY AND LIABILITIES	294,602	294,602	-

The effect of retrospective reflection of short-term and long-term payables with discounting as expressed in the corresponding line items of the Comprehensive Income Statements for 2010 is presented in the table below:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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Note 3.1. Restatement of Earlier Financial Statements (continued)

	2010		
	As reflected in Financial Statements for 2010	Retrospective reflection of figures for 2010 in Financial Statements for 2012	Amount of adjustment
Financial income / (expenses)			
Gain / (loss) from discounting of long-term accounts payable	-	969	969
Total financial income, net	8,757	9,726	969
Profit before tax	9,474	10,443	969
Income tax			
Deferred tax benefit / (expense)	1,220	1,026	(194)
Total income tax expense	(3,050)	(3,244)	(194)
Profit for the year	6,424	7,200	776
Total comprehensive income for the year	6,424	7,200	776
Profit attributable to:			
Equity holders of the parent	6,721	7,497	776
Earnings per share attributable to equity holders of the parent – basic and diluted (in Russian Rubles)	0.11	0.12	0.01

The effect of retrospective reflection of short-term and long-term payables with discounting as expressed in the corresponding line items of the Cash Flow Statements for 2010 is presented in the table below:

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Note 3.1. Restatement of Earlier Financial Statements (continued)

	2010		
	As reflected in Financial Statements for 2010	Retrospective reflection of figures for 2010 in Financial Statements for 2012	Amount of adjustment
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax	9,474	10,443	969
Adjustments to reconcile profit before tax to cash generated from operations:			
(Gain) / loss from discounting	-	(969)	(969)

The effect of retrospective reflection of short-term and long-term payables with discounting as expressed in the corresponding line items of the Statements of Changes in Equity for 2010 is presented in the table below:

	Retained earnings			Total equity		
	As reflected in earlier Financial Statements	Retrospective reflection in Financial Statements for 2012	Amount of adjustment	As reflected in earlier Financial Statements	Retrospective reflection in Financial Statements for 2012	Amount of adjustment
Profit for the year	6,722	7,498	776	6,424	7,200	776
As of 31 December 2010	44,371	54,330	9,959	194,120	204,079	9,959

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Note 4. Property, Plant and Equipment

The net book value of property, plant and equipment as at December 31 of 2012, 2011 and 2010 was as follows:

	Building and site services	Machinery and equipment	Vehicles	Other	Construction in progress	Total
COST						
Balances at December 31, 2010	25,233	11,512	1,505	9,073	52	47,375
Acquisitions	3,178	2,555	-	1,613	4,798	12,144
Disposals	-	(20)	-	(76)	(4,850)	(4,946)
Hemafund Medical Biotech Company LLC (former Human Stem Cells Institute (Ukraine))	-	-	-	(72)	-	(72)
Balances at December 31, 2011	28,411	14,047	1,505	10,538	-	54,501
Acquisitions	6,489	18,116	3,734	4,112	3,458	35,909
Disposals	-	(10)	-	(189)	-	(199)
Balances at December 31, 2012	34,900	32,153	5,239	14,461	3,458	90,211
ACCUMULATED DEPRECIATION						
Balances at December 31, 2010	(2,824)	(3,355)	(268)	(5,141)	-	(11,588)
Depreciation for 2011	(1,356)	(2,106)	(150)	(2,322)	-	(5,934)
Depreciation from 2011 write off	-	7	-	10	-	17
Disposals	-	1	-	12	-	13
Balances at December 31, 2011	(4,180)	(5,453)	(418)	(7,441)	-	(17,492)
Depreciation for 2012	(1,515)	(2,557)	(361)	(2,311)	-	(6,744)
Depreciation from 2012 write off	-	7	-	180	-	187
Disposals	-	1	-	-	-	1
Balances at December 31, 2012	(5,695)	(8,002)	(779)	(9,572)	-	(24,048)
NET BOOK VALUE						
At December 31, 2010	22,409	8,157	1,237	3,932	52	35,787
At December 31, 2011	24,231	8,594	1,087	3,097	-	37,009
At December 31, 2012	29,205	24,151	4,460	4,889	3,458	66,163

Depreciation of the asset starts when it is available for use, that is, when location and condition of the asset ensure its use in accordance with intents of the Company's management.

Other property, plant and equipment include computer equipment, office furniture and other equipment.

During the reporting period the Group took items of property, plant and equipment on lease (motor vehicles and non-residential premises).

The value of leased items (non-residential premises) as of December 31, 2012 amounted to 113,591 thousand Rubles (December 31, 2012: 113,591 thousand Rubles, December 31, 2011: 55,437 thousand Rubles, December 31, 2010: 92,099 thousand Rubles), motor vehicles 5,057 thousand Rubles (December 31, 2012: 5,057 thousand Rubles, December 31, 2011: 5,778 thousand Rubles, December 31, 2010: 3,635 thousand Rubles). Information about lease expenses is in Note 18.

The Group does not have pledged property, plant and equipment.

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Note 5. Intangible Assets

The book value of intangible assets as of December 31, 2012, 2011 and 2010 was as follows:

	Computer software and licenses	Developments	Rights and patents	Trademarks	Total
Initial cost					
Balances at December 31, 2010	147	2,320	306	142	2,915
Acquisitions	143	-	1,373	128	1,644
Developments	-	25,142	-	-	25,142
Disposals	-	(1,458)	(154)	-	(1,612)
Balances at December 31, 2011	290	26,004	1,525	270	28,089
Acquisitions	76	10,144	1,935	50	12,175
Developments	-	13,695	-	-	13,695
Disposals	-	(21,436)	18,610	-	(2,826)
Balances at December 31, 2012	366	28,377	22,070	320	51,133
Accumulated amortization					
Balances at December 31, 2010	(28)	-	(10)	-	(38)
Amortization for 2010	(88)	-	(77)	-	(165)
Disposals	-	-	-	-	-
Balances at December 31, 2011	(116)	-	(87)	-	(203)
Amortization for 2012	(182)	(56)	(2,195)	-	(2,433)
Disposals	-	-	-	-	-
Balances at December 31, 2012	(298)	(56)	(2,282)	-	(2,636)
Net book value					
Balances at December 31, 2010	119	2,320	295	143	2,877
Balances at December 31, 2011	174	26,004	1,438	270	27,886
Balances at December 31, 2012	68	28,321	19,788	320	48,497

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Note 6. Investments in Associates and Other Companies

Investments in Associates

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
SymbioTec GmbH, Saarbrücken (Germany)	-	-	35,693
Hemafund MBC LLC, Ukraine (former Human Stem Cells Institute LLC, /Ukraine/)	(878)	302	-
Hemafund Medical Center LLC (Ukraine)	51,022	53,607	61,650
IceGen LLC	-	144	-
SynBio, LLC	602,283	733,561	-
Total investments in associates	652,427	787,614	97,343

Consolidated statements for 2010 include financial performance of subsidiary “Hemafund” MBC LLC, since starting from December 2009 equity instruments of a parent became listed at the stock exchange (ME, former MICEX, Moscow) and the parent company started presenting its financial statements to FFMS (Federal Service for Financial Markets) of the Russian Federation. In 2011 share of parent company in “Hemafund” MBC LLC decreased to 50%. Control was lost and in these consolidated financial statements as well as in 2011 statements “Hemafund” MBC LLC is presented in the section of investment into associated companies.

Human Stem Cells Institute LLC (HSCI LLC) in Kiev (Ukraine), a company founded by HSCI on 2008 as a subsidiary (51%), in February 2011 changed its name to Hemafund Medical Biotech Company LLC, with the stake of HSCI simultaneously being reduced to 50% on account of the charter capital increase by the second participant.

Group’s consolidated financial statements for 2011 did not include performance results of subsidiary IceGen LLC because financial performance of this subsidiary were not material for consolidation purposes and amounted to 0.009% of Group assets value. IceGen LLC value in 2011 is presented in investment into associated and other companies section according to acquisition cost. Group consolidated statements for 2012 include performance of subsidiary IceGen LLC. Cumulative ownership of IceGen LLC with account of shares of HSCI OJSC (48%) and Cryonix CJSC (9%) amounted to 53.28%.

On March 5, 2010 HSCI’s Board of Directors adopted a resolution on acquirement of a stake in Hemafund Medical Center Limited Liability Company, Kiev, in the amount of 50 % of the Charter Capital from Melton Consortium Limited, office 404, Albani House, 324/326, Regent Street, London (W1B 3HH), Great Britain, for the amount of USD 1,500,000 but not more than 45,800,000 in Ruble equivalent. This transaction was performed on April 20, 2010 for the amount of 43,954,800 Rubles, or 16% of the the HSCI’s asset value as of March 31, 2010. On July 12, 2010 the Board of Directors of HSCI OJSC approved a resolution on increase of the charter capital of Hemafund Medical Center LLC from 650,000 hryvnias to 10,138,640 hryvnias by means of additional proportional contributions of participants in the amount of USD 600,000 each. So, after the increase of the charter capital of Hemafund Medical Center LLC, the stake of HSCI has not changed. The amount of the transaction for HSCI in the national currency of the Russian Federation totaled 18,346,200 Rubles.

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Note 6. Investments in Associates and Other Companies (continued)

In February 2011 through a buy-sale agreement and based on a decision of the Board of Directors, HSCI acquired a 50% stake in Cryonix CJSC for RUB 4,647,000. In April 2011 an additional stake of 5.98% was acquired for RUB 1,680,000. Thus, the sum of the Group's stakes in Cryonix amounted to 55.98% and the sum of financial investments totaled RUB 6,327,000.

HSCI's stake in SymbioTec GmbH, which was increased in Q1 2011 to 44%, was contributed to SynBio LLC in November of 2011. SynBio LLC – is a project company aimed at creating novel medicines, first-in-class and those known as BioBetter, for the Russian and international markets. The company was created to accumulate the assets of participants in order to implement a multilateral project of production and sale of novel medicines, which was proposed by HSCI to RUSNANO and approved by RUSNANO's Supervisory Board in December of 2010.

The total sum of the Group's financial investments in SynBio at the end of the reporting period was RUB 602,283 thousand.

The value of the stake of HSCI in the charter capital of SynBio at the end of 2012 was 28.18%.

The share of subsidiary Cryonix in the charter capital of SynBio at the end of 2012 was 5.46%.

Cumulative HSCI Group's ownership in the charter capital of SynBio amounted to 31.24%.

In December 2012, HSCI OJSC share in NextGen LLC equity capital was increased by additional contribution in amount of 39,140,724 rubles. Additional contribution was made in the form of ordinary nominal uncertified shares of HSCI OJSC (registration No. 1-01-08902-A dated January 12, 2004) in amount of 3,006,200 shares with nominal value of 0.10 rubles. Thus the above mentioned amount of shares during consolidation of the Group financial statements as of the end of 2012 remained in Group and are represented in financial situation statement in "Treasury shares" line at cost of 40,866,000 rubles. At this cost of above mentioned securities was excluded out of other financial contributions section of NextGen LLC statements.

Investment in associated companies in accordance with accounting policy is reflected using the equity method. In the current year the value of these investments was decreased by the recognized share of the investor in the losses incurred by these companies.

	Effective share of the Group as of December 31, 2012, %	Effective share of the Group as of December 31, 2011, %	Effective share of the Group as of December 31, 2010, %
SymbioTec GmbH, Saarbrücken (Germany)	-	-	25.17
Hemafund MBC LLC (Ukraine)	50	50	51
Hemafund Medical Center LLC (Ukraine)	50	50	50
IceGen, LLC	53.28	53.28	-
SynBio, LLC	31.24	31.24	-

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Note 6. Investments in Associates and Other Companies (continued)

The calculation of goodwill arising due to the consolidation of HSCI's subsidiary Cryonix

Investment in the subsidiary at the acquisition date	6,327
Net assets of the subsidiary at the acquisition date	9,491
Share of the Group in the subsidiary, %	55.98
The Group's share in the net assets of the subsidiary at the acquisition date	5,313
Goodwill	1,014

Other financial investments

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Oxford BioMedica PLC	-	905	-
Cryo Cell International Inc	11,800	-	-
VITA34 INTEL N	45,089	-	-
Total investments in other companies	56,889	905	-

Note 7. Loans Granted

	December 31, 2012	December 31, 2011	December 31, 2010
Long-term loans granted			
OJSC "United TeleCom"	-	-	1,859
CJSC "Auto-Compas.ru"/OJSC "Signal TeleCom"	-	500	500
CJSC "EFR-TeleCom"	-	5,000	5,000
"Bars" LLC	-	2,366	-
Hemafund Medical Center LLC (Ukraine)	6,070	6,070	-
CJSC "Rabochiy"	1,000	1,000	-
HSCI's employees	3,461	1,000	-
Others	-	-	2,000
Total long-term loans granted	10,531	15,936	9,359

	December 31, 2012	December 31, 2011	December 31, 2010
Short-term loans granted			
LLC "Integrated Ticket Systems"	-	-	13,456
"Bars" LLC	-	465	2,367
CJSC "EFR-TeleCom"	-	2,329	1,579
CJSC "Rabochiy"	275	185	1,095
OJSC "B&N BANK"	-	-	952
OJSC "United TeleCom"	-	-	874
CJSC "Auto-Compas.ru"	-	196	121
Hemafund Medical Center LLC (Ukraine)	1,191	571	-
AS SEB BANK	1,432	1,352	-
HSCI's employees	7,019	8,944	834
First International Investment Group Ltd	3,184	-	-
Other	-	-	139
Total short-term loans granted	13,101	14,042	21,417

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Note 8. Inventories

	December 31, 2012	December 31, 2011	December 31, 2010
Raw materials	3,955	6,500	5,391
Materials in processing	586	203	1,254
Tools and accessories	657	74	73
Finished goods	-	2,027	1,665
Goods for resale	7,889	3,611	37
Work in progress	129	-	-
Shipped goods	265	-	-
Other inventory	3,419	2,363	1,154
Total inventories	16,882	14,778	9,574

Note 9. Accounts Receivable and Advances Made

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Trade accounts receivable (Less: allowance for doubtful trade accounts receivable of 1,686 thousand Rubles as of December 31, 2012, 2,469 thousand Rubles as of December 31, 2011, and 413 thousand Rubles as of December 31, 2010)	36,898	37,381	27,633
Taxes for refund	1,421	1,155	1,902
Income tax receivables	6,402	2,531	1,720
Prepayments and advances to suppliers (Less: allowance for doubtful trade accounts receivable of 463 thousand Rubles as of December 31, 2011, and 127 thousand Rubles as of December 31, 2010)	61,910	12,376	14,777
Other accounts receivable (Less: allowance for doubtful trade accounts receivable of 1,148 thousand Rubles as of December 31, 2011, 890 thousand Rubles as of December 31, 2010)	2,775	4,140	44
Total	109,406	57,583	46,076

The amount of allowance for doubtful accounts receivable is specified by the management of the Group on the basis of solvency determination of certain customers, client's traditional methods of payment, subsequent receipts and settlements and analysis of expected cash flows. The management of the Group supposes that the Group companies can receive the net value of accounts receivable sale by means of direct receipt of cash and non-monetary calculations; hence the said amount approximately reflects their fair value.

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Note 10. Cash and Cash Equivalents

	December 31, 2012	December 31, 2011	December 31, 2010
Cash on hand and at bank account	26,671	17,363	50,030
Deposits (up to 3 months)	-	-	20,000
Total cash and cash equivalents	26,671	17,363	70,030

Note 11. Equity

The Share Capital

The Share Capital of the Parent Company consists of 75,000,000 ordinary shares in non-documentary form, with nominal value of 0.10 Rubles. The Share Capital is paid in full.

As of May 3, 2012 (the record date for the AGM) the number of HSCI's shareholders of record amounted to 1,385, including 2 nominee holders. The largest were:

1. Isaev Artur Alexandrovich;
2. First International Investment Group Ltd. (90 Main Street, P.O. Box 3099, Road Town, Tortola, BVI).

The rest are minority shareholders.

The Extraordinary General Shareholders' Meeting on September 22, 2009 adopted a resolution on increase of the share capital of the parent company by means of placement of 20,000,000 additional ordinary shares, each with nominal value of 0.10 Rubles by private placement. The state registration number of the additional issue of securities and the date of the state registration: 1-01-08902-A-001D, December 8, 2009.

As a result of IPO conducted on December 10, 2009, OJSC HSCI placed 15 million ordinary shares (20% of increased share capital) in the Innovation and Growth Companies (IGC) sector of MICEX. The offering price amounted to 9.5 Rubles per share.

As of December 31, 2009, the increase of the share capital was not registered. The Report on the additional issue of HSCI's ordinary shares obtained state registration in April 2010. Therefore, according to Russian Federal laws on financial markets, the stock placement couldn't be stated as having taken place as of January 1, 2010. For that reason, in these consolidated financial statements as of and for the year ended December 31, 2010, the overall nominal value of ordinary shares placed (1,500 Rubles) was reported as part of Share Capital, while 141,000,000 Roubles was recognized as Share Premium.

Treasury shares purchased from shareholders

The Consolidated Statements of Financial Position for 2011 indicated the cost of HSCI's own shares purchased from shareholders in the amount of RUB 50,267 thousand (mandatory buyback in compliance with the Federal Law on Joint-Stock Companies). 589,569 shares were purchased at the price of 14.17 rubles per share from shareholders who did not participate in the voting or who voted against the

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Note 11. Equity (continued)

significant transaction approved by EGM on 17 March 2011. The amount of funds spent on purchasing the above mentioned number of shares totaled RUB 8,354,193.

A total of 2,916,625 of the Company's own shares were purchased upon request of shareholders not participating in the voting or voting against the significant transaction approved by EGM on 31 August 2011 (to approve the Investment Agreement for the SynBio project and other transactions in the process of its realization). The shares were purchased at the price approved by the Board of Directors of HSCI on 29 July 2011 – RUB 14.37 per common share. Due to the fact that the shareholders presented demands for a sum exceeding 10% of HSCI's net assets as of 31 August 2011 (the date of the EGM), the shares were purchased proportionately to the amount proffered for buyback. The coefficient was 0.7125. The amount of funds spent executing the buyback totaled RUB 41,911,901.

The total number of own shares purchases as of 31 December 2011 was 3,506,194 for a total sum of RUB 50,266,092.70.

In accordance with the law "On Joint-Stock Companies" within the year of 2012 treasury shares bought back from shareholders were partially realized with selling price of 5,790,000 rubles and loss in amount of 1,298,000 rubles.

Other treasury shares were contributed to NextGen LLC charter capital in amount of 3,006,200 shares with nominal value of 0.10 rubles. Shares were transferred at the price established by independent evaluation (report of KORRAS Consulting LLC No. 17/152-B dated November 16, 2012, assessor – Lebedev Viktor Nesterovich) in amount of 39,141,000 rubles. Price of shares as of the end of 2012 with account of revaluation amounted to 40,866,000 rubles.

Provisions for profit from revaluation (revaluation reserve)

At the end of the reporting period the consolidated financial statements indicate Provisions for profit from revaluation in the amount of RUB 635,133 thousand which includes the revalued amounts of the following items:

Item name	Fair value (RUB '000)
44% stake in SymbioTec GmbH (Germany)	102,361
Right to sublicense the use of an invention with Patent Number RU 2297848 on the basis of licensing agreement No. RD0045679	295,956
Exclusive rights to the invention with Patent Number RU 2343928 "Method for isolating nucleated cells from umbilical cord blood"	124,584
Right to sublicense agreement No. 04-1/2011 dated 31 October 2011	112,232
TOTAL	635 133

The formation of the Provisions for profit from revaluation was justified by the valuation of intangible assets and financial investments at market value carried out by Financial Consulting Group LLC on June, 1 2011 with the aim of appraising the contribution to the charter capital of SynBio LCC.

Revaluation profit reserves referred to in this Appendix was included in 2012 into profits not subject to allocation section.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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Note 11. Equity (continued)

The structure and flow of the Share Capital as of December 31, 2010, December 31, 2011 and December 31, 2012 were as follows:

Shareholders	<i>December 31, 2010</i>				<i>December 31, 2011</i>				<i>December 31, 2012</i>			
	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share, %	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share, %	Number of ordinary shares	Nominal value, Rubles	Share capital, thousand Rubles	Share, %
Isaev Artur Aleksandrovich	30,600,000	0.1	3,060	40.8	30,600,000	0.1	3,060	40.80	30,600,000	0.1	3,060	40.80
First International Investment Group Ltd. (BVI)	25,860,000	0.1	2,586	34.5	25,860,000	0.1	2,586	34.48	25,860,000	0.1	2,586	34.48
BrokerCreditService (Cyprus) Limited	-	-	-	-	-	-	-	-	5,107,500	0.1	511	6.81
NextGen, LLC	-	-	-	-	-	-	-	-	3,006,200	0.1	301	4.01
Minority shareholders	18,540,000	0.1	1,854	24.72	18,540,000	0.1	1,854	24.72	10,426,300	0.1	1,042	13.9
Total registered share capital	75,000,000	0.1	7,500	100	75,000,000	0.1	7,500	100	75,000,000	0.1	7,500	100
Unregistered share capital	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	15,000	9.40	141,000	-	15,000	9.40	141,000	-	15,000	9.40	141,000	-

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Note 11. Equity (continued)

Dividends. Allocation and other disposition of profits are performed on the basis of accounting data of the Group drawn up in accordance with Russian accounting standards. In accordance with Russian laws net profit is subject to allocation. In 2012, the Group have not declared and paid dividends (for the year 2011); in 2010 the Group declared and paid dividends in the amount of RUB 7,500 thousand (for the year 2009).

Note 12. Income Tax

Income Tax Expenses

The components of income tax expense for the years ended December 31, 2010, December 31, 2011 and December 31, 2012 were as follows:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Current income tax expense	(584)	(4,095)	(4,270)
Deferred income tax benefit/ (expense)	(7,087)	5,802	1,026
Total income tax expense/ (benefit)	(7,671)	1,707	(3,244)

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Profit before income tax, incl.:	(142,169)	19,237	10,445
Income / (Loss) from associates	(126,882)	(2,797)	(6,382)
Income from the change of stake in Hemafund MBC LLC		453	-
Profit before income tax	(15,287)	21,581	16,827
Theoretical income tax expense at statutory 20%	3,057	(4,316)	(3,365)
Permanent differences:			
- other	(10,728)	6,023	(6,610)
Total income tax expense	(7,671)	1,707	(3,244)

Deferred Income Tax Assets and Liabilities

Difference in approaches to tax regulation from points of view of IFRS and Russian tax laws result in occurrence of temporary differences between accounting value of certain assets and liabilities for the financial statements purposes, on the one hand, and, on the other hand, for the purposes of income tax taxation. The tax effect due to movements of temporary differences reflected in accordance with legislatively established rate of 20%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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Note 12. Income Tax (continued)

Deferred income tax liabilities

	December 31, 2012	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2011	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2010	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2009
Property, plant and equipment	1,353	(597)	756	(226)	530	(526)	4
Intangible assets	-	732	732	(599)	133	(133)	-
Long-term borrowings	2,405	(2,405)	-	-	-	-	-
Accounts payable	-	242	242	2,248	2,490	(194)	2,296
Other long-term liabilities	139	(139)	-	-	-	-	-
Total	3,897	(2,167)	1,730	1,423	3,153	(853)	2,300

Deferred income tax assets

	December 31, 2012	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2011	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2010	Movement during the period, recognized in Consolidated statements of comprehensive income	December 31, 2009
Property, plant and equipment	-	-	-	-	-	(270)	(270)
Intangible assets	483	4,317	4,800	(4,800)	-	-	-
Other non-current assets	-	799	799	(774)	25	(25)	-
Accounts receivable and prepayments	88	304	392	(106)	286	(169)	117
Inventories	632	(354)	278	1,550	1,828	(1,441)	387
Other current assets	251	(186)	65	(65)	-	26	26
Accounts payable	144	40	184	(184)	-	-	-
Total	1,598	4,920	6,518	(4,379)	2,139	(1,879)	260

Difference between figures of Deferred income tax assets and Deferred income tax liabilities

(7,087)	5,802	1,026
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Note 13. Borrowings

Long-term borrowings

Creditor	Currency	Effective rate, %	December 31, 2012	December 31, 2011	December 31, 2010
“Dixcart Limited” company	Rubles	13.5	739	739	-
“Sberbank” OJSC	Rubles		37,485	-	-
“Finam Bank” CJSC	Rubles		23,565	-	-
Total long-term borrowings			61,789	739	-

Short-term borrowings

Creditor	Currency	Effective rate, %	December 31, 2012	December 31, 2011	December 31, 2010
OJSC “PharmsynteZ”	Rubles	7.75	-	47	-
Isaev Artur Aleksandrovich	Rubles	10.00	7	9,667	-
“Sberbank” OJSC	Rubles		27,921	-	-
“Finam Bank” CJSC	Rubles		6,720	-	-
“SynBio” LLC	Rubles		52,569	-	-
Other	Rubles	10.00	-	-	15
Total short-term borrowings			87,217	9,714	15

Note 14. Accounts Payable and Accrued Liabilities

Long-term accounts payable

	Currency	December 31, 2012	December 31, 2011	December 31, 2010
Advances received	Rubles	63,655	59,141	62,170
Total		62,655	59,141	62,170

Short-term accounts payable

	Currency	December 31, 2012	December 31, 2011	December 31, 2010
Accounts payable due to suppliers and contractors	Rubles	6,896	19,290	6,217
Payroll obligations	Rubles	1,854	3,392	-
Advances received	Rubles	95,356	63,444	16,099
Deferred income	Rubles	3,898	-	18
Other payables	Rubles	4,527	989	1,911
Total accounts payable and accrued expenses		112,531	87,115	24,245
Income tax payable	Rubles	119	882	-
Total		112,650	87,997	24,245

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Note 14. Accounts Payable and Accrued Liabilities (continued)

Starting from January 2011 the Group changed its method for presenting accounts payable, making a distinction between long-term and short-term accounts payable. The corresponding information for 2010 was changed to reflect this. Long-term accounts payable are comprised of advanced payments received on long-term agreements on provision of services for storage of cord blood stem cells and autologous dermal fibroblasts.

Note 15. Other taxes payable

	December 31, 2012	December 31, 2011	December 31, 2010
Individual income tax withheld	1,094	1,067	413
Property tax	282	184	181
UST (insurance contributions)	1,605	1,319	340
VAT	315	1,340	-
Other taxes	16	13	6
Total	3,312	3,923	940

Note 16. Revenue

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Revenue from operations (primary business)	275,376	209,556	189,685
Revenue from isolation and cryopreservation of cord blood stem cells	189,526	160,024	164,278
Revenue from storage of cord blood stem cells	50,635	39,775	25,407
Revenue from SPRS-therapy service	16,222	9,757	-
Revenue from the sale of Neovasculgen® drug	9,450	-	-
Revenue from Gemascreen service	5,725	-	-
Revenue from the distribution of Cytori equipment in Russia (Cellution® 800/CRS medical device)	3,818	-	-
Other revenue:	41,125	52,520	2,848
Revenue from R&D	24,449	48,000	-
Revenue from leasing	5,875	-	-
Revenue from the use of Gemabank trade mark	-	-	596
Revenue from publishing of CTTE journal	270	32	267
Other	10,531	4,488	1,985
Total revenue	316,501	262,076	192,533

The Group's revenue growth in 2012 was largely a result of a 20.2% increase (RUB 40.322 million) in revenue from the provision of cord blood stem cell isolation, cryopreservation and storage services. In 2012 HSCI signed 3,717 contracts for the storage of cord blood stem cells, which was 15.7% more than in 2011 (3,213 contracts).

In 2012 revenue were also higher from the provision of SPRS-therapy, a service which was introduced to the market in December 2010. In addition, in 2012 HSCI launched its Gemascreen for Newborns medical genetics consulting services and also began sales of the Company's innovative new drug Neovasculgen®.

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Note 17. Gain / Loss from investing activities

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Share in losses in the financial results of associated company Hemafund Medical Center LLC (Ukraine)	(1,335)	(8,043)	(651)
Share in profits/losses in the financial results of associated company SymbioTec GmbH (Germany)	-	3,422	(5,731)
Share in profits in the financial results of associated company Hemafund MBC LLC	5,731	140	-
Share in profits/losses in the financial results of associated company SynBio LLC	(131,278)	1,684	-
Income from the change of stake in Hemafund MBC LLC	-	453	-
Total	(126,882)	(2,344)	(6,382)

Loss/income share of financial performance of associated company SynBio LLC for 2012 presents loss from revaluation of financial investments accounted at fair value with revaluation for other cumulative income.

Note 18. Operating Expenses

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Wages, salaries, other benefits and payroll taxes	132,138	99,451	68,773
Materials and reagents	32,928	28,594	28,594
R&D costs	21,079	27,387	5,812
Rental fee	30,057	17,268	8,487
Advertising costs	29,925	14,030	15,688
Medical services of third-party organizations (contractors)	658	13,817	15,933
Consulting and similar services	7,127	6,694	13,577
Travelling expenses	8,205	6,180	3,738
Depreciation	6,556	5,904	4,990
Taxes other than income	971	3,904	5,813
Utilities, including communications services	3,180	2,667	2,617
Bad debt expense	4,627	2,650	846
Representation expenses	7,269	2,513	452
Usage rights for software products and databases	3,874	1,868	1,896
Bank charges	3,494	1,778	1,289
Repair & Maintenance costs	8,680	1,658	1,766
Transportation services	3,727	1,584	658
Vacations provisions change	1,982	969	-
Postal services	-	630	484
Stationery	824	602	472
Accounts receivable write-off	4,500	548	47
Insurance costs	-	470	1,354
Amortization	2,433	165	24
Other expenses	12,006	4,102	2,064
Inventory impairment	2,062	-	-
Total operating expenses	328,302	245,433	185,434

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Note 18. Operating Expenses (continued)

Major reason for operational expenses increase was planned expenses on development of projects according to HSCI's approved business plan which mainly resulted in increase of salary expenditures in connection with forming of highly professional team for each of projects and for company at large. Forming of management team within the company for medium-term period was one of the priority goals in 2012.

Due to a rent payment for the additional office premises, there is a substantial change in this reporting item from 2011 to 2012 towards increasing.

In 2012 advertising expenses were increased as well for the purpose of maintaining increasing sales dynamics with regard to HSCI products and medical services.

Note 19. Financial Income and Expenses

Financial gain

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Interest income	2,698	6,660	9,162
Foreign exchange gain	16	230	74
Gain from discounting of long-term accounts payable	11,260	10,119	11,242
Total financial income	13,974	17,009	20,478

Financial expenses

	Year ended December 31, 2011	Year ended December 31, 2011	Year ended December 31, 2010
Interest expense	(5,450)	(414)	(302)
Foreign exchange loss	(268)	(634)	(177)
Loss from discounting of long-term accounts payable	(10,198)	(11,024)	(10,272)
Loss on sale of investments	(1,544)	-	-
Total financial expenses	(17,460)	(12,072)	(10,752)
	(3,486)	4,937	9,726

Note 20. Contingent and Contractual Liabilities and Operational Risks

Political Situation. Operational activity and profit gained by the Group companies are, to different extents, influenced by political, legislative, financial and administrative changes taking place in the Russian Federation.

Insurance. The Group has restricted insurance policies with regard to assets, operations, civil responsibility and other insured risks. So, the Group may be exposed to risks that are not insured.

Legal Proceedings. The Group is not involved in legal proceedings. The management of the Group supposes that there are no such claims or lawsuits that could exert a significant negative influence on

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Note 20. Contingent and Contractual Liabilities and Operational Risks (continued)

financial condition of the Group among claims or lawsuits existing at present time and judgments delivered in respect of them.

Allowance for Decrease in Value of Accounts Receivable and vacations provision. The table below shows a change in the allowances for decrease in value of accounts and allowances for staff vacancies:

	<i>Vacations provision</i>	<i>Allowance for decrease in value of accounts receivable</i>
Balance at December 31, 2009	-	584
Provisions change	-	846
Balance at December 31, 2010	-	1,430
Provisions change	969	2,650
Balance at December 31, 2011	969	4,080
Provisions change	(50)	1,686
Balance at December 31, 2012	969	2,394

Taxation. The Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications. The Group interpretation of these laws when used in respect of operation and activities of the Group may be objected by relevant regional or federal authorities. Recent events that took place in the Russian Federation show that tax authorities can adopt a more severe attitude regarding interpretation of laws and inspection of tax calculations.

As a result, considerable additional taxes, penalties and fines may be charged. Tax inspections can concern three calendar years of operation directly preceding the year of the inspection. Under certain conditions earlier periods can also be inspected.

The management supposes that relevant provisions of laws were interpreted by them correctly as of December 31, 2012, and the condition of the Group regarding tax, currency and customs laws will be stable. For those cases when, in the Group's management opinion, a significant doubt in maintenance of the Group's condition exists, proper liabilities are recognized in the financial statements.

Natural Environment. Laws concerning protection of the environment are in the process of development in the Russian Federation, and corresponding measures of government authorities are being constantly revised. The Group regularly estimates its environment protection liabilities.

Possible liabilities may arise as a result of changes in requirements of the existing laws and civil disputes regulation. Influence of these possible changes cannot be estimated but they can be material. Considering the existing situation in respect of compliance with effective regulations, the management of the Group supposes that there is no material liabilities related to environment protection.

Conditions of the Group's Operation. Despite improvement of the economic situation in the Russian Federation, it still has some characteristic features of an emerging market. These characteristic features include, without limitation, inconvertibility of the Russian Ruble in most countries and a rather high inflation. Moreover, existing Russian tax, currency and customs laws allow various interpretations and are subject to frequent modifications.

Economic prospect for the Russian Federation depends to a large extent on efficiency of economic measures, financial mechanisms and monetary policy adopted by the Government of the Russian Federation, and development of fiscal, legal and political systems.

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Note 21. Factors of Financial Risks

While performing production, investment and financial activities the Group is exposed to the following financial risks: credit risk, liquidity risk, market risk, and it determined these risks as follows:

- Credit risk: the probability of the situation when a debtor does not make repayments for financial assets, in full or in part, or does not repay them in time thus inflicting damage to the Group.
- Liquidity risk: the Group determines this risk as risk related to its failure to dispose cash, or to raise investment, if necessary, and will meet difficulties in performing its obligations related to financial liabilities.
- Market risk: the risk of fluctuations of financial instruments' value, on the basis of the fair value or future cash flows change as a result of fluctuations of market prices for company goods and raw materials.

To effectively manage these risks the Group implements some strategies for financial risks management complying with objectives of the Group. These principles specify short-term and long-term objectives, and actions taken for managing financial risks met by the Group.

Basic recommendations of these policies are as follows:

- to minimize risk of a change in interest rate, and foreign exchange and market risks regarding all kinds of operations;
- all risk management activities shall be performed and constantly controlled;
- all risk management activities shall be performed reasonably and consistently, and in accordance with the best market practices;
- the Group may invest in shares or analogous instruments only in case of temporary excess liquidity, and such operations are subject to be approved by the Board of Directors. Internal audit is performed in order to ensure practical observation of policies and procedures of the Group.

The Group observes the following policies of risk management, in particular, in respect of derivative instruments:

- the Group thoroughly documents all derivative instruments including interactions between them;
- the Group only operates with quality financial institutions as partners of derivative instrument transactions.

Information about the book value of financial assets and liabilities as of December 31, 2010, 2011 and 2012 is shown in the table below (in accordance with IAS 39):

	December 31, 2012	December 31, 2011	December 31, 2010
Financial assets			
Cash and cash equivalents	26,671	17,363	70,030
Trade and other accounts receivable:	111,092	57,583	46,076
<i>Ref: allowance for doubtful accounts receivable</i>	(1,686)	(4,079)	(1,430)
Short-term loans provided for organizations	13,101	14,042	21,417
Total less allowance (for the end of the period)	150,864	88,988	137,523

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Note 21. Factors of Financial Risks (continued)

	December 31, 2011	December 31, 2011	December 31, 2010
Financial liabilities			
Classified at amortized cost:			
Borrowings	87,217	9,714	15
Trade and other accounts payable (except for payroll liabilities and provisions for unused vacations):	173,866	147,670	87,354
Accounts payable due to suppliers and contractors	9,904	19,290	6,217
Advances received	159,011	122,585	78,268
Deferred income	-	-	18
Other payables	1,520	989	1,911
Income tax payable	119	882	-
Other taxes payable	3,312	3,924	940
Total for the end of the period	261,083	157,384	87,369

Financial income and expenses of the Group – see Note 19.

Credit Risk

The Group controls its exposure to credit risk setting limits of exposure by definite clients. This information is disclosed to companies, and monitoring of compliance is performed by the Group financial department. Credit limits are set for clients in order to control credit risk. There is no significant credit risk concentration. During reporting periods the Group did not receive financial or non-financial assets by means of lien or another loan collateral.

All financial assets of the Group are planned to be repaid. Moreover, the allowance for doubtful receivables was established in the amount of 1,686 thousand Rubles as of December 31, 2012, of 4,080 thousand Rubles as of December 31, 2011, 1,430 thousand Rubles as of December 31, 2010. The Group does not have impaired financial assets.

The Group's maximum exposure to credit risk is summarized in the table below:

	December 31, 2012	December 31, 2011	December 31, 2010
Financial assets			
Loans and accounts received:			
Trade and other accounts receivable (including allowance for doubtful accounts receivable)	111,092	57,583	46,076
Short-term loans provided for organizations (including allowance for doubtful accounts receivable)	13,101	14,042	21,417
Total (for the end of the period)	124,193	71,625	67,493

Remaining cash and cash equivalents maximally exposed to credit risk are short-term deposits with repayment period of less than 30 days. The Group does not have such assets.

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Note 21. Factors of Financial Risks (continued)

The amount of cash and cash equivalents owned by the Group, as of the beginning and the end of the reporting period consists of cash on commercial bank accounts.

Analysis of financial assets' aging is illustrated by the following table:

	December 31, 2012	Including past-due liabilities	December 31, 2011	Including past-due liabilities	December 31, 2010	Including past-due liabilities
Financial assets						
Less than 1 month	44,994	-	25,949	-	26,865	-
1 to 3 months	41,217	-	23,548	-	22,190	-
3 to 6 months	21,038	-	10,691	-	10,074	-
6 to 12 months	15,258	-	7,358	-	6,934	-
Over 12 months	1,686	1,686	4,079	4,079	1,430	1,430
Total (for the end of the period)	124,193	1,686	71,625	4,079	67,493	1,430

Liquidity Risk

Analysis of Financial Liabilities' Due Dates

The Group manages liquidity risk on the basis of expected maturity dates.

The following table presents financial liabilities by their reminding maturity dates specified by contracts (contractual and not discounted cash flows):

	Borrowings	Trade and other accounts payable	Total
Financial liabilities			
Less than 1 year	82,217	110,211	197,428
1 to 3 years	-	20,768	20,768
3 to 5 years	-	18,799	18,799
More than 5 years	-	24,088	24,088
Total at December 31, 2012	82,217	173,866	261,083
Financial liabilities			
Less than 1 year	9,714	88,529	98,243
1 to 3 years	-	17,639	17,639
3 to 5 years	-	15,967	15,967
More than 5 years	-	25,535	25,535
Total at December 31, 2011	9,714	147,670	157,384
Financial liabilities			
Less than 1 year	15	25,185	25,200
1 to 3 years	-	17,480	17,480
3 to 5 years	-	16,953	16,953
More than 5 years	-	27,736	27,736
Total at December 31, 2010	15	87,354	87,369

At the present time the Group does not intend to repay all liabilities within contractual due dates. In order to comply with these liabilities, the Group relies on sufficient cash inflows provided by operational

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Note 21. Factors of Financial Risks (continued)

activity. Except that, the Group owns financial assets with a liquid market that can be easily converted into cash to satisfy liquidity requirements.

Interest Rate Risk

The Group is not exposed to risk of interest rate change, as there are only obligations with a fixed interest rate.

At the present time the Group does not have long-term receivables.

The table below shows the analysis of a breakdown of financial liabilities by kinds of interest rates:

	December 31, 2012	December 31, 2011	December 31, 2010
Financial liabilities			
With a fixed rate	87,217	9,714	15
Interest-free	173,866	147,670	87,354
Total for the end of the period	261,083	157,384	87,369

A sensitivity analysis is not required in this case.

Foreign Exchange Risk

As the Group is only operating in the Russian market and most of its purchases are stated in Rubles, the Group is not exposed to foreign exchange risk in its normal course of business.

The Group's management undertakes the necessary measures to ensure that the share of imported goods in the structure of business costs (COS) does not exceed a critical threshold. The Group primarily relies on internal sources of financing and is not significantly dependent upon external sources, and due to the fact that HSCI OJSC has not placed any bonds or assumed substantial bank loans the risk of interest rate changes is seen as low for the Group. External sources of financing are not nominated in foreign currency.

The Fair Value

The management of the Group supposes that the fair value of financial assets and financial liabilities slightly differs from their current value.

Industry Risks

In the broad sense, the sector in which the Group operates is medicine and pharmaceuticals. As of early 2013 the projects of the parent company HSCI that are both ongoing and pipeline products and services of the Group can be grouped into five sector fields: regenerative medicine; bio-insurance; medical genetics; gene therapy; biopharmaceuticals (in the framework of the SynBio project).

In 2012 the main sector segments of the business of the parent company were **cell technologies** (isolation and storage of cord blood stem cells was the main generator of revenue; the cell service SPRS-therapy introduced to the market in 2011, which includes application of a cell-based product containing the patient's own dermal fibroblasts as well as long-term storage of the patient's autofibroblasts in a

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Note 21. Factors of Financial Risks (continued)

cryogenic bank; cell-based drug Cryocell/Gemacell); **genetic diagnostics** (sales of Gemascreen services); and **gene therapy** (start of sales in the Russian Federation of Neovasculgen[®] drug for therapeutic angiogenesis).

Since the given sector segments are considered to be *innovative*, they entail specific risks, including the following:

- risk of the emergence of new regulatory documents;
- reputational risks (additional information could emerge on the effectiveness and side-effects of drugs due to the short experience or lack of experience in their application /first-in-class drugs/);
- heightened attention from journalists, actions by competitors via the mass media;
- competition from other drugs created using other technologies which may be more effective.

There are risks related to the promotion of the Group's services on the market. The Group's business results could be affected by such factors as:

- the level of public awareness about innovative services in the Group's sphere of business;
- the incidence rate of hematological and oncological diseases, primary immunodeficiency diseases, inherited metabolic disorders, and others;
- the environmental situation;
- the condition of biotech science in Russia and abroad;
- the availability of highly qualified primary and secondary personnel;
- the number of examples of successful practical application of cell technology (including transplantation of stem cells) in Russia;
- unforeseen changes in the market for R&D products;
- negative research results;
- negative economic consequences;
- unforeseen changes in state normative documents on commercial activities (taxes, amortization, etc.);
- decrease in population and thus lower number of consumers;
- decrease in personal income and thus lower consumer buying power.

The abovementioned risks could influence the Group's business for the worse or slow growth in financial results, which could be reflected in the Group's share price and capacity to pay dividends. However, the Group reduced these risks to a minimum through the implementation of a broad advertisement and public awareness campaign covering safety concerns, the latest scientific developments and discoveries in the main sphere of business operations as well as in associated spheres.

The Group's business can be divided into two components, each of which has its own specific risks:

- current business, largely related to the isolation and storage of cord blood stem cells (revenues from new products accounted for less than 15% of the consolidated revenues at the end of the reporting period);
- pipeline business, related to the commercialization of proprietary drugs and technologies (cell, gene and post-genome technologies) as well as an implementation of projects defined in Business-plan reflecting the areas of Group's business interest for mid-term period.

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Note 21. Factors of Financial Risks (continued)

The parent company HSCI evaluates the risk of change in the competitive environment on the main current market as rather low due to the substantial market share of the Company compared to the closest competitors (the service of isolation and storage of cord blood stem cells).

The risk of changes in the competitive environment of the target market for products and services in accordance with the new business plan of HSCI, starting from 2012, is evaluated as rather low due to the absence of direct competitors, as the indicated products and services form new brands and new market niches (first-in-class gene-therapy drug Neovasculgen[®] and the portfolio of genetic diagnostics and consulting services).

The long-term development strategy of the parent company foresees growth through expansion and development of HSCI's unique products (Neovasculgen[®] and SPRS-therapy) on foreign markets, including through participation in partnership programs. In this regard, the Group's management and owners do not rule out a number of risks related to the development of promising new drugs abroad.

Except that, the Group is exposed to financial risks related to climate changes, diseases and other natural risks, such as fires, floods and storms, and losses caused by human activities, for instance, strikes, disorders and deliberate infliction of damage. These risks are covered by relevant insurance in accordance with resolutions of the management.

In addition, managements of the Group Companies pay proper attention to methods of effective business and fire prevention measures.

The probability of risks is low.

Note 22. Related Parties

Parties shall be deemed related if one of them can control or greatly influence operational and financial decisions of the other party, or in case of a joint control over them, or it is over a joint control with the other party. While considering each possible case of existence of relationship between such parties, the main attention shall be paid to the essence of the relationship but not to their legal nature.

Related parties of the Group during reporting periods were:

Isaev Arthur Aleksanderovich;

Isaev Andrei Aleksanderovich;

Prihodko Alexander Victorovich;

Kiselev Sergey Lvovich;

Vasilyev Maksim Iurevich;

Alexandrov Dmitry Andreevich;

Saulin Vladislav Alvinovich;

Genkin Dmitry Dmitrievich;

Dremin Maxim Vladimirovich;

First International Investment Group Ltd. (BVI);

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Note 22. Related Parties (continued)

Hemafund Medical Biotech Company LLC (former Human Stem Cells Institute, Limited Liability Company in Kiev (Ukraine));

SymbioTec Gesellschaft zur Forschung und Entwicklung auf dem Gebiet der Biotechnologie mbH, Germany;

Hemafund Medical Center LLC (Ukraine);

SynBio LLC;

IceGen LLC;

The nature of relationship with the related parties with which the Group performed material operations in 2010, 2011 and 2012, or has material account balances as of December 31, 2010, 2011 and 2012 is described in details further.

Operations of parent with associated parties include:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	20,572	26	-
IceGen LLC	-	4	-
SynBio LLC	20,572	24	-
Expenses	-	10	-
SynBio LLC	-	10	-

Revenue of RUB 20.572 million (including 18% VAT) includes payment received for a portion of the contract work done via an agreement between HSCI and SynBio approved by the AGM on 21 June 2012 (for the development of technical documentation for the production of a pharmaceutical product and the preparation of pilot batches of the product for pharmaceutical testing and clinical trials) in the amount to 20 million (including 18% VAT).

Account balances with regard to related parties of the Group as of the beginning and end of the period are shown below:

	December 31, 2012	December 31, 2011	December 31, 2010
Accounts receivable			
IceGen LLC	-	4	-
Hemafund Medical Center LLC	1,191	-	-
SynBio LLC	-	24	-
Accounts payable			
SynBio LLC	5,000	10	-
Short-term loans and credits granted			
First International Investment Group Ltd	3,424	-	-
Short-term loans and credits received			
Isaev Artur Alexandrovich	-	9,667	-
Isaev Andrei Alexandrovich	7	-	-
SynBio LLC	52,569	-	-

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Note 22. Related Parties (continued)

Remuneration paid to the management of the Group

Remuneration paid to the management of the Group for performance of their duties in accordance with their positions is formed by salaries specified by contracts, and bonuses. Amounts indicated include personal income tax but do not include insurance payments to non-budgetary funds. The remuneration amounted to:

	For 2012	For 2011	For 2010
Wages and other types of short-term employee benefits	10,194	15,042	12,714
Share-based payments	-	-	3,414
Total at December 31	10,194	15,042	16,128

Note 23. The Structure of the Group

These consolidated financial statements include assets, liabilities and operational results of HSCI and its subsidiary and associated companies as follows:

	Main activity	Effective share of the Group, % as of December 31		
		2012	2011	2010
Subsidiaries				
Human Stem Cells Institute Publishing House LLC (from November 2011 – NextGen LLC)	HSCI Publishing House – publishing of Cellular Transplantology and Tissue Engineering scientific & analytical journal. NextGen – focuses on R&D in the fields of cell and gene therapy, the development of new ways to treat inherited diseases using Assisted Reproductive Technologies as well as the creation of DNA tests (arrays) for the diagnosing of inherited diseases and predisposition to them.	100	100	100
Cell Technology Laboratory LLC	Scientific research and development in the field of natural and technical sciences. The laboratory facilitates the development of new technologies and medicines based on cell and gene therapy.	75	75	75
Vitacel LLC	The developer of the technology for application of patients' own autologous dermal fibroblasts for repairing skin damage – SPRS-therapy. Is engaged in development and planning for application of technologies for applying gingival autologous fibroblasts as well as tissue engineering of osteoplastic biocomposites for treatment of soft and hard periodontal tissues.	60	60	60
Cryonix CJSC	Business focused on biotechnologies, pharmacology and medicine. Key R&D projects of the company include the application of innovative drugs based on Histone H1 for the treatment of oncohematological diseases as well as the development of medicines based on stem cells. Also provides services on the market for isolation and cryopreservation of cord blood stem cells.	55.98	55.98	-
RGMC LLC	Medical services	100	-	-

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Note 23. The Structure of the Group (continued)

Associated companies

SymbioTec GmbH (Germany)	Biotech company, holder of international patents, and developer of next generation medicines for treatment of oncological and infectious diseases (including based on Histone H1.3).	-	-	25.17
Hemafund Medical Biotechnological Company LLC (Ukraine)	Medical services; collection, cryopreservation, transport and banking of cord blood.	50	50	51
Hemafund Medical Center LLC (Ukraine)	Family cord blood bank. Provides services for isolation, cryopreservation and long-term storage of cord blood stem cells	50	50	50
IceGen LLC	The Company which was created for the consolidation of the shares of participants of the SynBio project (except RUSNANO) as an asset holding company.	53.28	53.28	-
SynBio LLC	A project company engaged in the development of innovative first-in-class medicines as well as BioBettors for commercialization on the Russian and international markets.	31.24	31.24	-

In 2011 Human Stem Cells Institute Publishing House LLC was renamed to NextGen LLC and HSCI LLC (Ukraine) was renamed to Hemafund Medical Biotechnological Company LLC.

CJSC Cryonix

In February 2011 via an equity capital sale-purchase agreement a 50% stake was acquired in Cryonix CJSC. In April 2011 an additional 5.98% stake was acquired. Thus, as at the end of the reporting period HSCI's stake in Cryonix amounted to 55.98%.

Cryonix operates in the biotech, pharmacological and medical sectors. The company's key R&D projects include the development of new medicines based on Histone H1 for treatment of oncohematological diseases as well as the development of drugs based on stem cells. Cryonix also provides services on the market for isolation and cryopreservation of cord blood stem cells.

SymbioTec GmbH:

In 2011 share of HSCI in the charter capital of SymbioTec GmbH (Science Park Saar 1, Shtuhlsatzenhausweg 69, 66123 Saarbrücken, Germany, registration number HR B 11799) was increased up to 44%. Later in 2011 a valuation was made of the market value of HSCI's stake in the charter capital of SymbioTec GmbH. This stake of HSCI in the charter capital of SymbioTec GmbH was transferred as a contribution to the charter capital of SynBio LLC along with other assets in autumn of 2011. The value of financial assets of HSCI in the charter capital of SymbioTec GmbH transferred as a contribution to the charter capital of SynBio according to the valuation performed amounted to RUB 159,549,000.

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Note 23. The Structure of the Group (continued)

Hemafund Medical center LLC (Ukraine)

In April 2010 HSCI OJSC completed the acquisition of a 50% stake in Hemafund - the largest Ukrainian cord blood bank (Hemafund Medical Center LLC), and in July 2010 took part in the increase of its charter capital without changing the stake size.

Medical Biotechnological Company Hemafund, LLC, (Ukraine)

As of December 31, 2012, HSCI's share in Hemafund Medical Center LLC as well as in Hemafund Medical Biotechnological Company LLC amounts to 50%. Participation of HSCI in charter capitals the above-mentioned companies reflected in these consolidated financial statements as of December 31, 2012 as investments in associates.

SynBio LLC

SynBio is a special-purpose company created for the implementation of multilateral project aimed at creating novel medicines (first-in-class and BioBetter) for the Russian and international markets. The SynBio project, supported by an investment from RUSNANO, unites top Russian and international companies engaged in biotech/biopharm R&D. HSCI was among the project initiators. The Project received an approval from Supervisory Board of RUSNANO in December 2010.

The property provided by HSCI as its contribution to the charter capital of SynBio LLC included intangible assets associated with IP – a patent and the right for patent's use, as well as the HSCI's stake in SymbioTec GmbH (Saarbrücken, Germany), which was increased to 44% in Q1 of 2011.

HSCI OJSC's stake in SynBio LLC at the end of 2012 was 28.18%. The stake of Cryonix CJSC in SynBio LLC at the end of 2012 was 5.46%. HSCI's stake in the charter capital of SynBio LLC (as of December 31, 2012) is defined as a result of direct and indirect participation. Therefore, total share of HSCI in the charter capital of SynBio LLC amounts to 31.24%.

IceGen LLC

On 9 August 2011 at a meeting of founders the limited liability company IceGen was established, with HSCI holding a 48% stake and Cryonix holding a 9% stake.

Due to the fact that the share of HSCI in the charter capital of SynBio LLC and IceGen LLC as of December 31, 2012 was less than 50% and in Hemafund Medical Biotechnology Company and Hemafund Medical Center was 50% and also due to the fact that the parent company (head organization) does not have other methods for controlling the decision-making of these companies, the participation of HSCI in the charter capital of these companies is expressed in the consolidated financial statements of the Group as of December 31, 2012 in the manner established for reflecting investment in associated companies.

Note 24. Subsequent events

On 6 March 2012 HSCI increased the nominal value of its stake in IceGen (founded on 9 August 2011 with HSCI's contribution of RUB 144 thousand to the company's charter capital, which totaled RUB 300 thousand) through the contribution to the company's charter capital of HSCI's stake in SynBio with a nominal value of RUB 613,078 thousand. Thus, the nominal value of HSCI's stake in IceGen following the increase in the charter capital of the later amounted to RUB 613,222,208.74 (with the

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Note 24. Subsequent events (continued)

charter capital of IceGen increased to RUB 1,275,697,000). Hence the size of HSCI's stake in IceGen, amounting to 613078/1275397 (approximately 48.07%) did not change.

Therefore, HSCI ceased to be a direct participant of SynBio and following the state registration of changes in information about the legal entity (SynBio) the shareholders of SynBio will be RUSNANO and IceGen.

These actions are being taken by HSCI in accordance with the Investment Agreement for the SynBio project, signed by the Company on 4 August 2011 and approved along with other transaction related to its realization by an Extraordinary General Shareholders' Meeting on 31 August 2011.

According to the conditions of the Investment Agreement the participants of SynBio (except RUSNANO) are obliged to consolidate their stakes in an asset holder company. This obligation is to be fulfilled following the increase in the charter capital of SynBio resulting from the contribution by RUSNANO, which took place on 25 November 2011. The consolidation is effected through the transfer to the charter capital of the asset holding company of the stakes of all participants of the project (excluding RUSNANO). As a result, there are to be only two participants of SynBio: RUSNANO and the asset holding company, which represents the interests of all other participants of the project, including HSCI. The asset holding company is IceGen LLC. However later it was found out that on March 6, 2012 Inter-district Inspectorate of FTS No. 46 for Moscow incorrectly registered increase of IceGen LLC charter capital by means of additional contributions of Company participants in the form of their shares in SynBio LLC. When submitting documents on increase of equity capital for registration IceGen LLC violated provisions of the Federal Law "On Limited Liability Companies" No. 14-FZ dated February 8, 1998 (further on – "FZ") in part of mandatory notarial certification of transactions with shares (transactions on alienation of shares in SynBio LLC were not certified): Director General of the Company submitted to Inter-District Inspectorate of FTS No. 46 for Moscow incorrect data stating that increase of equity capital of IceGen LLC already occurred (it could not occur since transfer of shares due to violation of transaction form stipulated by FZ became a void transaction). Charter capital cannot be increased before such charter capital is paid in full. Thus in fact Company charter capital was not increased and registration was carried out with violation of current legislation: HSCI OJSC and other participants of SynBio LLC restored their shares in SynBio LLC.

In October 2012 in execution of the legislation the procedure for decrease of IceGen LLC charter capital was initiated to restore its initial amount (before registration on March 6, 2012 when IceGen LLC charter capital amounted to 300,000 rubles.).

This decrease of IceGen LLC charter capital was registered on December 29, 2012, after which date the process of executing a transaction on increase of IceGen LLC charter capital by means of alienation of their shares by SynBio LLC participants started again.

Presently transaction participants gather required set of documents after which a notary will establish a transaction date: minutes of Extraordinary general participants meeting of IceGen LLC on increase of charter capital shall be prepared, then transactions on alienation of shares shall be certified by notary, and then documents for registration of IceGen LLC charter capital increase shall be submitted to tax inspectorate. Starting from the date of certification of transaction by notary HSCI OJSC will lose the title to share in SynBio LLC, and from the moment of registration of IceGen LLC charter capital increase HSCI OJSC will cease to be SynBio LLC participant. As of April 25, 2013 this transaction is not yet completed, management expects it to be completed before the end of Q2 of 2013.

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Note 24. Subsequent events (continued)

On March 25, 2013 HSCI OJSC executed a supply contract with “Sotex “PharmFirm” CJSC ready for sale of Neovasculgen[®] drug. Supply contract was signed by parties for three commercial years with extension possibility. Parties coordinated delivery plan for the first year of cooperation – for the first year transaction price amounts to 211,750,000 rubles. Supply contract was approved by HSCI OJSC Board of Directors on March 20, 2013 (protocol No. 0313)

The beginning of sales of Neovasculgen[®], the first Russian gene-therapy drug for treatment of Peripheral Arterial Disease is planned for Q3 2012. The process of securing marketing authorization in Ukraine has already been initiated. Following the successful implementation of the drugs marketing program, Neovasculgen[®] sales should account for a substantial portion of HSCI’s revenues.

In early 2012 the Company began active implementation on the Russian market of a socially significant project to introduce the practice of medical genetic diagnostics and consultation to identify carrier status of and prevention or early treatment measures for inherited diseases (Gemascreeen project). In January 2012 the first service of this project was launched across Russia – genetic diagnosis of the six most common monogenic and multifactor inherited diseases in the Russian Federation and their carrier status through DNA screening using umbilical cord blood of a newborn.

Among other projects which the company is working on as stipulated in the business plan for 2012-2016, confirmed by the Board of Directors of HSCI in December 2011, is the holding of clinical trials and commercialization of a cell-based drug for treating myocardial infarction (clinical study protocols Cryocell/Gemacell), the creation of personal and donor banks of reproductive cells and tissues, the provision of preimplantation genetic diagnosis (PGD) services, and commercialization of the technology for applying gingival fibroblasts for treatment of periodontal soft tissues.

On 24 May 2012 the Federal Service for Supervision of Healthcare and Social Development of the Russian Federation issued HSCI marketing authorization (Registration Certificate No. FSZ 2012/12193) for a device called Celution 800 System, a closed system which processes human adipose (fat) tissue manufactured by Cytori Therapeutics (USA). The beginning of sales planned for the third quarter of 2012. HSCI and Cytori Therapeutics signed an agreement in 2011 on the exclusive distribution rights for this technology on the territory of the Russian Federation.

There are no other significant subsequent events.