MD MEDICAL GROUP INVESTMENTS PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

MD MEDICAL GROUP INVESTMENTS PLC

C O N T E N T S

MD MEDICAL GROUP INVESTMENTS PLC

OFFICERS, PROFESSIONAL ADVISORS AND REGISTERED OFFICE

Board of Directors	Vladimir Mekler – Chairman Mark Kurtser Vitaly Ustimenko Kirill Dmitriev Nikolay Ishmetov (alternate director to Kirill Dmitriev) Simon Rowlands Alsu Nazyrova Liubov Malyarevskaya
Secretary	Menustrust Limited
Secretary assistant	Darya Alekseeva
Independent Auditors	KPMG Limited
Registered Office	15 Dimitriou Karatasou street, Anastasio Building, 6th floor, office 601, Strovolos, 2024, Nicosia, Cyprus

MD MEDICAL GROUP INVESTMENTS PLC

MANAGEMENT REPORT

The Board of Directors of MD Medical Group Investments Plc (the "Company") presents to the members its Annual Report together with the audited consolidated financial statements of the Company and its subsidiary companies (the Company and its subsidiaries together referred to as the "Group") for the year ended 31 December 2018.

INCORPORATION

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

PRINCIPAL ACTIVITY

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

FINANCIAL RESULTS

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

The Group's financial results for the year ended 31 December 2018 and its financial position at that date are set out in the consolidated statement of profit or loss and other comprehensive income on page 14 and in the consolidated statement of financial position on page 15 of these consolidated financial statements.

Profit for the year ended 31 December 2018 amounted to RUB2,831,043 thousand (2017: RUB2,704,250 thousand). The total assets of the Group as at 31 December 2018 were RUB25,078,137 thousand (31 December 2017: RUB22,271,953 thousand) and the net assets were RUB15,998,948 thousand (31 December 2017: RUB14,567,665 thousand).

The main reason for the increased profit was the continuing ramp-up of Lapino, Novosibirsk and Ufa hospitals and expansion of services provided by existing facilities, as clinics in Moscow (M&C Khodynskoe pole and LLC Clinica Zdorovia). The main reason for increase in total assets was the equipment purchased for the new opened hospital in Samara and the construction of multifunctional hospital in Tyumen, realisation of the project Lapino-2 and renovation of PMC.

DIVIDENDS

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

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

On 16 March 2018 the Board of Directors declared final dividends for the year 2017 attributable to the owners of the Company amounting to RUB450,750 thousand (USD7,905 thousand), which corresponds to RUB6.0 (USD0.11) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 17 April 2018. The dividends were paid on 22 May 2018.

On 17 March 2017 the Board of Directors declared final dividends for the year 2016 attributable to the owners of the Company amounting to RUB338,063 thousand (USD5,804 thousand), which corresponds to RUB4.5 (USD0.08) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 21 April 2017. The dividends were paid on 23 May 2017.

On 8 September 2017 the Board of Directors declared interim dividends for the six months ended 30 June 2017 attributable to the owners of the Company amounting to RUB350,833 thousand (USD6,140 thousand), which corresponds to RUB4.67 (USD0.08) per share. The dividends were paid on 24 October 2017.

On 22 March 2019 the Board of Directors recommended the payment of RUB800,081 thousand as final dividends for the year 2018 which corresponds to RUB10.65 per share.

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

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

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

During 2018 the Group has acquired additional 30% share in LLC Mother and Child Ugo-Zapad and LLC FimedLab, 26% share in LLC Velum, 20% share in LLC Clinica Zdorovia and 15% share in LLC Capital Group, LLC Mother and Child Perm, LLC Mother and Child Ufa, LLC Mother and Child Saint-Petersburg for RUB790,231 thousand (USD12,335 thousand).

The Group has one of the largest nationwide private healthcare regional networks for its core services and is expanding into new services. It has significant experience in the provision of full-service private maternity healthcare services. The Group has secured leading positions in the Russian private healthcare market across a range of services including obstetrics and gynaecology, fertility and IVF treatments, and paediatrics. It has also been diversifying its offering by adding other medical services for all family members, such as surgery, urology, traumatology, cardiology, and oncology, etc. The recently opened facilities have been multi-disciplinary from the very beginning.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

DIRECTORS' INTEREST

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2018, 31 December 2017 and as at the date of signing these consolidated financial statements are as follows:

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

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

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

FUTURE DEVELOPMENTS

The Group's goal is to continually diversify its medical services by expanding its range of services, maintaining its leading position in the field of high-quality women's health and paediatrics, as well as addressing the increasing demand for private healthcare services in Russia and beyond.

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

SHARE CAPITAL

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

BOARD OF DIRECTORS

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

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

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

THE BOARD COMMITTEES

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

<u>Audit Committee</u>

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

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

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

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

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

<u>Internal audit</u>

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

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

<u>Nomination Committee</u>

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

THE BOARD COMMITTEES *(continued)*

Nomination Committee (continued)

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

Remuneration Committee

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

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

CORPORATE GOVERNANCE

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

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

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

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

INTERNAL CONTROL IN RELATION TO THE FINANCIAL REPORTING PROCESS

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

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

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

MD MEDICAL GROUP INVESTMENTS PLC

MEETINGS OF SHAREHOLDERS

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

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

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

All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. In the general meeting, on a poll, every share gives the holder the right to cast one vote, whereas, on a show of hands, each member has one vote. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at any meeting of the Company.

BRANCHES

MD Medical Group Investments Plc has a branch in Moscow.

TREASURY SHARES

During the year ended 31 December 2018, the Company distributed the GDRs earlier acquired by the Company to the participants of Long-term Management Incentive Plan (LTIP) signed in 2014. No additional treasury shares were acquired.

EVENTS AFTER THE REPORTING PERIOD

In March 2019 the Group opened a new clinic in Vladivostok.

INDEPENDENT AUDITORS

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

By order of the Board of Directors,

Mark Kurtser
Managing Director, member of the Board of Directors
Moscow, 22 March 2019

MD MEDICAL GROUP INVESTMENTS PLC

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of MD Medical Group Investments Plc (the "Company'') and its subsidiaries (together with the Company, referred to as "the Group") which are presented on pages 14 to 48 and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

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

Key audit matters

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

Goodwill	
Please refer to Note 14 of the consolidated financial statements (RUB2,032,320 thousand).	
The key audit matter	***How the matter was addressed in our audit***
As a result of the Group's expansion, a significant amount of goodwill arising from business combinations has been recognised over the years. The management of the Group reviews goodwill for impairment purposes on an annual basis. Inherent uncertainty and subjectivity is involved in forecasting and discounting future cash flows, which are the basis of the assessment of the recoverability of the goodwill and hence its carrying value recorded in the consolidated financial statements. It is for this reason that this is one of the key judgmental areas that our audit is concentrated on.	Our audit procedures included among others the following: - Assessing the reasonableness of the assumptions and appropriateness of the methodologies used by the management of the Group based on which the forecasted cash flows were prepared. Particular attention was given to the assumptions relating to terminal growth, after-tax profitability and discount rates. Our own valuation specialists were also utilised within this process. - Comparing the Group's assumptions on revenue growth and after-tax profitability margins with equivalent medical centers of the Group in nearby regions, externally derived data as well as our own assessment in relation to key inputs into the models. - Preparing our own sensitivity analysis around the key assumptions. - Assessing whether the disclosures in Note 14 of the consolidated financial statements relating to key inputs in the impairment assessment model are consistent with those employed in the model.

Revenue recognition	
Please refer to Note 4 of the consolidated financial statements (RUB14,937,366 thousand).	
The key audit matter	***How the matter was addressed in our audit***
The Group has a number of revenue streams with different revenue recognition policies. The majority of the revenue is generated from individual patients who receive medical care either based on concluded contracts or based on daily tickets for one-off visits. Contracts may last for longer periods. Generally, patients prepay for the whole amount of the contracts and visit doctors within the period of the contract. The number of visits in all medical centers of the Group is significant. Therefore, the Group relies	Our audit procedures included among others the following: - Testing of general IT controls and IT application controls relevant to revenue recognition, including segregation of duties for inputs and modification of data in the medical IT system, allocation of cash receipts and visits of patients for each individual contract, accuracy of data transfers from cash registers to the medical IT system through to the accounting system.

on automation within the medical IT system for complete and accurate revenue recognition through interface with the accounting system. Given the number of different revenue streams, the volume of transactions and related reliance on the medical IT system, we consider that a risk exists in relation to revenue being recorded in the correct period at the correct amount, including related deferred income in the consolidated statement of financial position. As such, revenue recognition is an area that our audit is focused on.	- Assessing the design and implementation, and testing of the operating effectiveness of controls over daily cash movements and the completeness of the daily encashment to the bank accounts of the Group. - Evaluating controls over approval and authorisation of prices and discounts for individual agreements with patients. - Obtaining external confirmations from banks and compared annual cash receipts and cash balances on bank accounts to the data recorded in the accounting systems. - Performing substantive analytical procedures to assess deferred revenue recognised in the year (prepayments).

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report, the corporate governance statement and the corporate social responsibility statement, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to the corporate social responsibility statement we have nothing to report.

With regards to the management report and the corporate governance statement, our report is presented in the "*Report on other legal and regulatory requirements*" section.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

- *Date of our appointment and period of engagement*
  We were first appointed auditors of the Group by the General Meeting of the Company's members on 10 July 2012. Our appointment has been renewed annually by shareholders' resolution. Our total uninterrupted period of engagement is 10 years covering the periods ended 31 December 2009 to 31 December 2018.

- *Consistency of the additional report to the Audit Committee with the Independent Auditors' Report*
  Our audit opinion is consistent with the additional report presented to the Audit Committee, dated 22 March 2019.

- *Provision of non-audit services ("NAS")*
  We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

Pursuant to the additional requirements of law L. 53(I)/2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the consolidated management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.

- In the light of the knowledge and understanding of the Group's business and its environment obtained in the course of the audit, we have not identified material misstatements in the consolidated management report.

- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.

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

- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L. 53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

No. 11, June 16th 1943 Street,
3022 Limassol,
Cyprus.

22 March 2019

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	**2018**	**2017**
		RUB'000	*RUB'000*
Revenue	4	14,937,366	13,755,167
Cost of sales	5	(9,387,499)	(8,358,369)
Gross profit		**5,549,867**	**5,396,798**
Other income	8	26,831	104,808
Administrative expenses	6	(2,415,615)	(2,254,079)
Other expenses		(36,895)	(21,407)
Operating profit		**3,124,188**	**3,226,120**
Finance income	9	173,685	97,321
Finance expenses	9	(546,514)	(492,084)
Net foreign exchange transactions gain / (loss)	9	105,823	(50,201)
Net finance expenses	*9*	*(267,006)*	*(444,964)*
Profit before tax		**2,857,182**	**2,781,156**
Income tax expense	10	(26,139)	(76,906)
Profit for the year		**2,831,043**	**2,704,250**
Total comprehensive income for the year		**2,831,043**	**2,704,250**
Profit for the year attributable to:			
Owners of the Company		2,671,350	2,488,812
Non-controlling interests		159,693	215,438
		2,831,043	**2,704,250**
Total comprehensive income for the year attributable to:			
Owners of the Company		2,671,350	2,488,812
Non-controlling interests		159,693	215,438
		2,831,043	**2,704,250**
Earnings per share (RUB)	11	**35.61**	**33.23**

The Notes on pages 20 to 48 are an integral part of these consolidated financial statements.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	31 December 2018 *RUB'000*	31 December 2017 *RUB'000*
ASSETS			
Property, plant and equipment	13	18,157,678	15,323,649
Intangible assets	14	2,258,513	2,335,477
Trade, other receivables and deferred expenses	15	592,416	889,933
Deferred tax assets	10	232,159	243,165
Total non-current assets		**21,240,766**	**18,792,224**
Inventories		666,122	525,356
Trade, other receivables and deferred expenses	15	455,768	421,203
Other assets		-	28,568
Cash and cash equivalents	16	2,715,481	2,504,602
Total current assets		**3,837,371**	**3,479,729**
Total assets		**25,078,137**	**22,271,953**
EQUITY			
Share capital	17	180,585	180,585
Share premium	18	5,243,319	5,243,319
Reserves	18	(659,049)	(659,896)
Retained earnings	18	10,932,291	9,377,710
Total equity attributable to the owners of the Company		**15,697,146**	**14,141,718**
Non-controlling interests	26	301,802	425,947
Total equity		**15,998,948**	**14,567,665**
LIABILITIES			
Loans and borrowings	19	4,586,532	3,585,213
Trade and other payables	21	435,809	277,320
Deferred tax liabilities	10	272,565	250,504
Contract liabilities	20	143,773	144,860
Total non-current liabilities		**5,438,679**	**4,257,897**
Loans and borrowings	19	1,078,743	985,234
Trade and other payables	21	1,385,628	1,332,364
Contract liabilities	20	1,176,139	1,128,793
Total current liabilities		**3,640,510**	**3,446,391**
Total liabilities		**9,079,189**	**7,704,288**
Total equity and liabilities		**25,078,137**	**22,271,953**

On 22 March 2019 the Board of Directors of MD Medical Group Investments Plc approved and authorised these consolidated financial statements for issue.

Vladimir Mekler	Mark Kurtser	Andrey Khoperskiy
Chairman of the Board of Directors	Managing Director	Chief Financial Officer

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

		Attributable to owners of the Company						Non-controlling interests	Total equity
	Note	Share capital	Treasury shares	Share premium	Other reserves	Retained earnings	Total		
		RUB'000	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*
Balance at 1 January 2018		**180,585**	**(4,544)**	**5,243,319**	**(655,352)**	**9,377,710**	**14,141,718**	**425,947**	**14,567,665**
Adjustment on initial application of IFRS 9 (net of tax)	3B	-	-	-	-	(30,935)	(30,935)	(2,956)	(33,891)
Adjusted balance at 1 January 2018*		**180,585**	**(4,544)**	**5,243,319**	**(655,352)**	**9,346,775**	**14,110,783**	**422,991**	**14,533,774**
Profit and other comprehensive income for the year		-	-	-	-	2,671,350	2,671,350	159,693	2,831,043
Contributions by and distributions to owners									
Equity-settled share-based payment		-	847	-	-	-	847	-	847
Other movements		-	-	-	-	(15,545)	(15,545)	-	(15,545)
Dividends declared	12	-	-	-	-	(450,750)	(450,750)	(110,190)	(560,940)
Total transactions with owners		**-**	**847**	**-**	**-**	**(466,295)**	**(465,448)**	**(110,190)**	**(575,638)**
Changes in ownership interests									
Acquisition of non-controlling interests without a change in control	18	-	-	-	-	(619,539)	(619,539)	(170,692)	(790,231)
Total changes in ownership interests		**-**	**-**	**-**	**-**	**(619,539)**	**(619,539)**	**(170,692)**	**(790,231)**
Balance at 31 December 2018		**180,585**	**(3,697)**	**5,243,319**	**(655,352)**	**10,932,291**	**15,697,146**	**301,802**	**15,998,948**

Share premium is not available for distribution.

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. For more details refer to Note 3.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

		Attributable to owners of the Company						Non-controlling interests	Total equity
	Note	**Share capital** *RUB'000*	**Treasury shares** *RUB'000*	**Share premium** *RUB'000*	**Other reserves** *RUB'000*	**Retained earnings** *RUB'000*	**Total** *RUB'000*	*RUB'000*	*RUB'000*
Balance at 1 January 2017		**180,585**	**(18,737)**	**5,243,319**	**(655,352)**	**7,597,472**	**12,347,287**	**422,850**	**12,770,137**
Profit and other comprehensive income for the year		-	-	-	-	2,488,812	2,488,812	215,438	2,704,250
Contributions by and distributions to owners									
Equity-settled share-based payment		-	34,754	-	-	-	34,754	-	34,754
Closing of motivation program		-	(20,561)	-	-	20,561	-	-	-
Dividends declared	12	-	-	-	-	(688,896)	(688,896)	(199,580)	(888,476)
Total transactions with owners		**-**	**14,193**	**-**	**-**	**(668,335)**	**(654,142)**	**(199,580)**	**(853,722)**
Changes in ownership interests									
Acquisition of non-controlling interests without a change in control	18	-	-	-	-	(40,239)	(40,239)	(12,761)	(53,000)
Total changes in ownership interests		**-**	**-**	**-**	**-**	**(40,239)**	**(40,239)**	**(12,761)**	**(53,000)**
Balance at 31 December 2017		**180,585**	**(4,544)**	**5,243,319**	**(655,352)**	**9,377,710**	**14,141,718**	**425,947**	**14,567,665**

Share premium is not available for distribution.

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	2018	2017
		RUB'000	*RUB'000*
Cash flows from operating activities			
Profit for the year		2,831,043	2,704,250
Adjustments for:			
Depreciation of property, plant and equipment	13	1,089,720	938,621
Amortisation of intangible assets	14	100,275	97,219
Equity-settled share-based payment transaction		847	34,754
(Gain) / loss from the sale of property, plant and equipment		(152)	418
Write-off of property, plant and equipment		5,711	9,602
Gain under Escrow Agreement	8	-	(96,592)
Write-off of accounts payable		-	(3,916)
Finance income	9	(173,685)	(97,321)
Finance expenses (excluding impairment)	9	524,062	477,732
Impairment of assets	9	22,452	14,352
Net foreign exchange transactions (gain) / loss	9	(105,823)	50,201
Income tax expense	10	26,139	76,906
		4,320,589	4,206,226
Increase in inventories		(140,766)	(80,173)
Increase in trade and other receivables		(158,822)	(118,056)
Increase in trade and other payables		33,501	40,143
Increase in contract liabilities		125,222	141,868
Cash flows from operations		**4,179,724**	**4,190,008**
Tax paid		(8,945)	(4,138)
Net cash flows from operating activities		**4,170,779**	**4,185,870**
Cash flows from investing activities			
Payment for acquisition/construction of property, plant and equipment		(3,669,078)	(3,445,028)
Proceeds from disposal of property, plant and equipment		36,389	4,136
Payment for acquisition of intangible assets		(25,011)	(17,530)
Proceeds from escrow agreement		-	96,592
Short-term deposits		-	(2,700)
Interest received		76,701	57,572
Net cash flows used in investing activities		**(3,580,999)**	**(3,306,958)**

MD MEDICAL GROUP INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2018

	Note	2018	2017
		RUB'000	*RUB'000*
Cash flows from financing activities			
Proceeds from loans and borrowings		2,055,583	2,332,688
Repayment of loans and borrowings		(955,202)	(1,078,923)
Proceeds from the reimbursed VAT		307,043	124,246
Finance expenses paid		(479,137)	(353,115)
Increase in ownership in subsidiary	18	(768,235)	(53,000)
Repayment of reimbursed VAT		(64,338)	(53,205)
Dividends paid to the owners of the Company		(494,339)	(680,791)
Dividends paid to non-controlling interests		(109,759)	(199,445)
Net cash flows (used in) / from financing activities		**(508,384)**	**38,455**
Net increase in cash and cash equivalents		81,396	917,367
Cash and cash equivalents as at the beginning of the year	16	2,504,602	1,642,944
Effect of exchange rate changes on cash and cash equivalents		129,483	(55,709)
Cash and cash equivalents as at the end of the year	16	**2,715,481**	**2,504,602**

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

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

Name	Country of incorporation	Activities	31 December 2018 Effective holding %	31 December 2017 Effective holding %
CJSC MD PROJECT 2000	Russian Federation	Medical services	95	95
LLC Khaven	Russian Federation	Medical services	100	100
LLC Velum	Russian Federation	Medical services	90	64
LLC Capital Group	Russian Federation	Pharmaceutics retail	95	80
LLC FimedLab	Russian Federation	Medical services	90	60
LLC Clinic Mother and Child	Russian Federation	Holding of trademarks	100	100
LLC Clinica Zdorovia	Russian Federation	Medical services	80	60
LLC Ivamed	Russian Federation	Medical services	100	100
LLC Dilamed	Russian Federation	Medical services	100	100
CJSC Listom	Russian Federation	Service company	100	100
LLC Ustic-ECO	Russian Federation	Medical services	70	70
LLC Mother and Child Perm	Russian Federation	Medical services	95	80
LLC Mother and Child Ufa	Russian Federation	Medical services	95	80
LLC Mother and Child Saint-Petersburg	Russian Federation	Medical services	85	70
LLC MD PROJECT 2010	Russian Federation	Medical services	100	100
LLC Mother and Child Ugo-Zapad	Russian Federation	Medical services	90	60
LLC MD Service	Russian Federation	Pharmaceutics retail	95	95
LLC Mother and Child Nizhny Novgorod	Russian Federation	Medical services	100	100
LLC Mother and Child Yekaterinburg	Russian Federation	Medical services	100	100
LLC Mother and Child Tyumen	Russian Federation	Medical services	100	100
CJSC MK IDK	Russian Federation	Medical services	100	100
LLC Apteka IDK	Russian Federation	Pharmaceutics retail	100	100
LLC CSR	Russian Federation	Medical services	100	100
LLC MD Assistance	Russian Federation	Assistance services	100	100
LLC Mother and Child Yaroslavl	Russian Federation	Medical services	80	80
LLC Mother and Child Kostroma	Russian Federation	Medical services	80	80
LLC Mother and Child Vladimir	Russian Federation	Medical services	80	80
LLC MD Management	Russian Federation	Management company	100	100
LLC Mother and Child Ryazan	Russian Federation	Medical services	100	100
LLC Mother and Child Kazan	Russian Federation	Medical services	100	100
Ivicend Holding Ltd	Cyprus	Holding of investments	100	100
JSC MC Avicenna	Russian Federation	Medical services	100	100
LLC H&C Medical Group	Russian Federation	Medical services	100	100
LLC Centre of Reproductive Medicine	Russian Federation	Medical services	100	100

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Name	Country of incorporation	Activities	31 December 2018 Effective holding %	31 December 2017 Effective holding %
LLC Medica-2	Russian Federation	Medical services	100	100
LLC Mother and Child Siberia	Russian Federation	Medical services	100	100
LLC Krasnoyarskii center of Reproductive Medicine	Russian Federation	Medical services	100	100
LLC Novosibirskii center of Reproductive Medicine	Russian Federation	Medical services	100	100
LLC Omskii center of Reproductive Medicine	Russian Federation	Medical services	100	100
LLC Barnaulskii center of Reproductive Medicine	Russian Federation	Medical services	100	100
LLC Nika	Russian Federation	Holding of land	100	100
LLC Stroy Vector Pluss	Russian Federation	Rental services	100	100
LLC Mother and Child Vladivostok	Russian Federation	Medical services	100	100
LLC Irkutsk Clinical Hospital	Russian Federation	Medical services	100	100
LLC Mother and Child Volga	Russian Federation	Management company	100	-
LLC Siberia service company	Russian Federation	Service company	-	-
LLC TechMedCom	Russian Federation	Service company	-	-
LLC Service Hospital Company	Russian Federation	Service company	-	-
LLC Elleprof	Russian Federation	Service company	-	-
LLC Medtechnoservice	Russian Federation	Service company	-	-

As at 31 December 2018, 67.9% of the Company's share capital is owned by MD Medical Holding Limited, a company beneficially owned by Dr. Mark Kurtser. The 32.1% of the Company's share capital is owned by Guarantee Nominee Limited, who holds the shares on behalf of the GDR holders.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and were authorised for issue on 22 March 2019.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

These consolidated financial statements of the Group are presented in RUB, rounded to the nearest thousand.

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements

Preparing these consolidated financial statements in accordance with IFRSs requires management to exercise their judgement to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

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

The estimates and underlying assumptions are reviewed and where necessary revised on an ongoing basis. Revisions to estimates are recognised prospectively.

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

- Impairment of intangible assets and property, plant and equipment

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

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

- Impairment of goodwill

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

- Other

Information about judgements, assumptions and estimation uncertainties regarding revenue recognition, deferred taxes assets, provisions, leasses and ECL allowance for trade receivables and contract assets as at 31 December 2018 is described in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these consolidated financial statements are consistent with those followed in the Group's consolidated financial statements as at 31 December 2017 and for the year then ended, except for initial application of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

Other new standards and amendments applied for the first time in 2018 did not impact these consolidated financial statements of the Group.

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

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

Acquisitions from entities under common control

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

Non-controlling interests

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

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

Loss of control

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

Transactions eliminated on consolidation

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

Revenue

Revenue is measured based on the consideration specified in a contract with a customer and comprises the invoiced amount for the sale of goods and services net of rebates and discounts. The Group recognises revenue when it transfers control over a good or service to a customer.

The Group has two main types of revenue: rendering of services and sales of goods.

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers and the effect of initially applying IFRS 15 are provided in Note 3A.

Finance income

Finance income include:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance expenses

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

Foreign currency translation

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

Tax

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

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

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

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

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

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

Dividends declared

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is deducted in reporting from the related expense. When the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognised in profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

No depreciation is provided on land.

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

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

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

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

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

Intangible assets

(i) Goodwill

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

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

(ii) Patents and trademarks

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

(iii) Software and web site costs

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

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

Inventories

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

Provisions

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

Financial instruments

Recognition

The Group recognises financial assets and financial liabilities when, and only when, it becomes a party of the contractual provisions of the financial instrument.

Classification

The Group classifies financial assets on the basis of both: the Group`s business model for managing financial assets, as well as the contractual cash flow characteristics of the financial assets.

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

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

Measurement

Financial assets and financial liabilities are initially measured at fair value plus any directly attributable transaction costs.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of non-derivative financial assets
At each balance sheet date the Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost.

The loss allowance for financial assets at amortised cost is recognised in profit or loss in respondance with a balance sheet account reducing the carrying amount of the financial asset. Expected credit losses are determined based on historical data of relevant probability of default.

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

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

The Group has initially applied IFRS 9 from 1 January 2018. Information about the Group's accounting policies relating to new impairment model applied to financial assets measured at amortised cost and contract assets and the effect of initially applying IFRS 9 are provided in Note 3B.

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

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

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

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

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

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

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Adoption of new and revised International Financial Reporting Standards and Interpretations

New currently effective requirements

The Group has initially applied IFRS 15 (refer to Note 3A) and IFRS 9 (refer to Note 3B) from 1 January 2018. A number of other new pronouncements are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables and contract assets (refer to Note 3B).

The effect of initially applying these standards is mainly attributed to the following:

- allocation of financing component from stem cells contracts (refer to Note 3A below);
- increase of impairment losses over financial assets (refer to Note 3B below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Under IFRS 15, revenue is recognised in the moment when the service is provided to the customer. Determining the timing of the services rendering – at a point in time or over time – requires judgement. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Rendering of services (except storage of stem cells)	Sales of services are recognised at point in time in which the services are rendered by reference to completion of the actual service provided.	IFRS 15 did not have an impact on the Group's accounting policies.
Sales of goods	Sales of goods are recognised when control over the goods have been transferred to the customer, which is usually when the Group has sold or delivered goods to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured.	IFRS 15 did not have an impact on the Group's accounting policies.
Storage of stem cells	Nature of service is long-term safekeeping of biological materials comprising stem cells concentrate. Standard terms of contract include predetermined period of contract from 1 to 30 years paid in advance by the customer in full amount. Revenue from contract consists of two parts – revenue from blood collection and stem cells isolation (charged at the moment of the appropriate services rendered) and revenue from storage of stem cells. Inflated revenue from storage is accrued monthly during the whole period of contract, with recognition of interest expenses and net-off of advances received, receivables from revenue recognised and payables from interest expenses accrual in the moment of the contract expiration.	Previously revenue from stem cells contracts was accrued on straight-line basis. Advances received from customers were recognised as short-term and long-term deferred income, depending of their maturity. With adoption of IFRS 15 approach was amended: advances from customers are inflated to current date using effective interest rate, dividing financing component of contract and recognised as contract liabilities. As a result, at the moment of initial application, advances received as at that date divided into contract liabilities to customers and financial liabilities, representing this financing component of the contract. To show effect of time value of money for reporting period revenue following the initial application is inflated to recognise both additional finance expense for active contracts and additional revenue from storage.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A. IFRS 15 Revenue from Contracts with Customers (continued)

The new standard did not have a material impact on the Group's consolidated financial position, consolidated financial results and consolidated cash flows as at 1 January 2018.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings and non-controlling interests (for a description of the transition method refer to ((iii)) below).

	Impact of adopting IFRS 9 as at 1 January 2018
	RUB'000
Retained earnings	
Recognition of expected credit losses under IFRS 9	(32,436)
Related tax	1,501
Impact at 1 January 2018	**(30,935)**
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	(2,956)
Related tax	-
Impact at 1 January 2018	**(2,956)**

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
			RUB'000	*RUB'000*
Trade and other receivables	Loans and receivables	Amortised cost	305,563	270,171
Cash and cash equivalents	Loans and receivables	Amortised cost	2,504,602	2,504,602
Total financial assets			**2,810,165**	**2,774,773**

Group classified financial assets as measured at amortised cost, as their contractual cash flows give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 Financial Instruments (continued)

(ii) Impairment of financial assets

An increase of RUB35,392 thousand in the allowance for impairment over trade and other receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Trade receivables and contract assets

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past two years. The Group performed the calculation of ECL rates separately for patients, legal entities and insurance companies, meanwhile ECL rates for the insurance companies were calculated based on their ratings (as presented below).

The following table provides information about the exposure to credit risk and ECLs for trade receivables for patients as at 1 January 2018:

	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
		RUB'000	*RUB'000*	
0-30 days past due	14%	8,402	(1,160)	partly
31-60 days past due	27%	2,214	(596)	partly
61-90 days past due	32%	2,153	(698)	partly
more than 91 days past due	85%	70,695	(60,331)	partly
TOTAL		**83,464**	**(62,785)**	

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables for legal entities except insurance companies as at 1 January 2018:

	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
		RUB'000	*RUB'000*	
0-30 days past due	3%	26,058	(892)	partly
31-60 days past due	17%	10,325	(1,774)	partly
61-90 days past due	50%	3,297	(1,649)	partly
more than 91 days past due	85%	28,481	(24,198)	partly
TOTAL		**68,161**	**(28,513)**	

Based on the analysis of the historical data for accounts receivable from insurance companies no provision was accrued as at 1 January 2018.

Cash and cash equivalents

Based on the analysis of the historical data for cash and cash equivalents in the credit institutions with the rating of Ba3 (per Moody's Investors Service Ltd.) and more, no provision is accrued.

As at 1 January 2018 no impairment provision for cash and cash equivalents was accrued.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 Financial Instruments (continued)

(iii) Transition

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and non-controlling interests as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Standards and Interpretations adopted by the EU as at 1 January 2019:

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

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019);

Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).

Standards and Interpretations not adopted by the EU as at 1 January 2019:

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);

Annual Improvements to IFRS Standarts 2015–2017 Cycle (effective for annual periods beginning on or after 1 January 2019);

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);

Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020);

Amendments to IFRS 3: Business Combinations (effective for annual periods beginning on or after 1 January 2020);

Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after 1 January 2020).

Management expects that the adoption of these standards in future periods will not have a material effect on the consolidated financial statements of the Group, except for effect of initial application of IFRS 16 Leases (as disclosed below) and Annual Improvements to IFRS Standarts 2015–2017 Cycle, which might have influence on interest expenses capitalisation in part of IAS 23 Borrowing Costs. The Management of the Group is evaluating the effect on the consolidated financial statements of the Group.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of clinics and land plots. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of approximately RUB330 milion as at 1 January 2019. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the revised maximum leverage threshold loan covenant.

The Group used a recognition examption for leases for which the underlying asset is of low value and didn't account assets and liabilities for such lease contracts.

Leases in which the Group is a lessor

No significant impact is expected for other leases in which the Group is a lessor.

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach with the cumulative effect of initially applying the Standard without any effects on retained earnings in accordance with paragraph C5 (b). The Group will recognise a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Group will measure that lease liability at the present value of the remaining lease payments, discounted using the lessee`s incremental borrowing rate at the date of initial application. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of assets and liabilities at 1 January 2019, with no restatement of comparative information.

4. REVENUE

	2018	**2017**
	RUB'000	*RUB'000*
In vitro fertilisation (IVF)	3,487,749	3,257,639
Deliveries	2,211,035	2,235,825
Obstetrics and gynaecology out-patient treatments	1,827,137	1,768,001
Other out-patient medical services	1,552,796	1,194,798
Other medical services	1,366,391	1,201,968
Paediatrics out-patient treatments	1,322,959	1,306,107
Other in-patient medical services	1,048,047	818,720
Obstetrics and gynaecology in-patient treatments	1,027,306	965,261
Paediatrics in-patient treatments	484,977	431,749
Sales of goods	290,013	302,282
Storage of stem cells	138,240	136,845
Other income	180,716	135,972
	14,937,366	**13,755,167**

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

4. REVENUE (continued)

Disaggregation of revenue

The Group renders the services on the territory of the Russian Federation. The Group's operations and main revenue streams are those described in the table above.

The majority of the Group's customers are physical persons (87% of total revenue); some services are rendered to the governmental and non-governmental insurance companies and legal entities. All the contracts are fixed-price and short-term except for the contracts for the storage of stem cells.

All the Group's revenue except for the revenue from the storage of stem cells is recognised at the point in time when the services are provided; the revenue from the storage of stem cells is recognised over the time of the contract.

The contract liabilities primarily relate to the advance consideration received from customers. The amount of RUB757,285 thousand recognised in short-term contract liabilities at the beginning of the year has been recognised as revenue during the period ended 31 December 2018. The amount of RUB30,210 thousand was returned to the customers and the amount of RUB172,450 was transferred to the other contracts.

Other medical services include but are not limited to laboratory examinations, diagnostics, surgery, cardiology and oncology. The increase of other medical services revenue is mainly represented by continuing ramp-up of Lapino, Novosibirsk and Ufa hospitals.

5. COST OF SALES

	2018	**2017**
	RUB'000	*RUB'000*
Payroll and related social taxes	5,118,404	4,517,572
Materials and supplies used	2,514,088	2,292,818
Depreciation	946,862	803,504
Medical services	256,301	244,461
Energy and utilities	183,167	147,916
Property tax	129,321	129,869
Repair and maintenance	110,491	97,733
Other expenses	128,865	124,496
	9,387,499	**8,358,369**

6. ADMINISTRATIVE EXPENSES

	2018	**2017**
	RUB'000	*RUB'000*
Payroll and related social taxes	1,375,815	1,269,232
Utilities and materials	269,230	225,294
Other professional services	231,253	238,117
Depreciation	142,858	135,117
Amortisation	100,275	97,219
Advertising	96,256	128,661
Communication costs	33,902	31,112
Independent auditors' remuneration	21,259	23,096
Other expenses	144,767	106,231
	2,415,615	**2,254,079**

The remuneration of the independent auditors includes an amount of RUB20,522 thousand regarding audit services, RUB375 thousand regarding audit related services and an amount of RUB362 thousand regarding tax services.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

7. STAFF COSTS

	2018	2017
	RUB'000	*RUB'000*
Wages and salaries	5,140,455	4,598,610
Social insurance contributions and other taxes	1,353,764	1,188,194
Total staff costs	**6,494,219**	**5,786,804**

The number of employees as at 31 December 2018 was 7,349 (31 December 2017: 6,801).

8. OTHER INCOME

During 2017 the Group received other income of RUB104,808 thousand. This income arose mostly from the Escrow Deed approved on 26 September 2014, under which the Group received RUB96,592 thousand (USD1,575 thousand) from Escrow Agent in March 2017 as a result of negotiations with the seller of Ivicend Holding Ltd.

9. NET FINANCE EXPENSES

	Note	2018	2017
		RUB'000	*RUB'000*
Interest income			
Initial recognition of other payables to tax authorities at market rate		96,984	38,656
Bank interest received		76,308	58,052
Interest from loans to third parties		393	613
Finance income		**173,685**	**97,321**
Interest expense			
Interest on bank loans		(323,586)	(261,253)
Unwinding of discount on other payables to tax authorities		(42,713)	(29,704)
Other interest expenses		(18,484)	(229)
Other finance expense			
Bank charges		(139,279)	(125,301)
Other impairment provision		(11,421)	(27,261)
Impairment of trade and other receivables	15	(11,031)	(33,984)
Impairment of goodwill	14	-	(14,352)
Finance expenses		**(546,514)**	**(492,084)**
Net foreign exchange transactions gain / (loss)		**105,823**	**(50,201)**
Net finance expenses		**(267,006)**	**(444,964)**

10. INCOME TAX

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

Reconciliation between profit before taxation and income tax expense:

	2018	2017
	RUB'000	*RUB'000*
Profit before taxation	2,857,182	2,781,156
Less profit before taxation of non-taxable subsidiaries	(3,221,948)	(3,332,468)
Loss before taxation excluding not-taxable subsidiaries	**(364,766)**	**(551,312)**
Tax using the Group's domestic tax rate	72,953	110,262
Effect of subsidiaries taxable at lower tax rates	717	455
Non-deductible expenses	(6,879)	(4,781)
Reversal of tax provision	19,354	-
Current-year losses for which no deferred tax asset is recognised	(83,868)	(57,411)
Recognised temporary differences mostly relating to property, plant and equipment on non-taxable medical subsidiaries expected to be utilised after 1 January 2020 at 20% corporate income tax rate	(28,416)	(125,431)
Total income tax expense	**(26,139)**	**(76,906)**

10. INCOME TAX (continued)

The Group recognised tax expense of RUB26,139 thousand in the reporting period mostly due to the temporary differences relating to property, plant and equipment (especially differences on the new hospital located in Samara).

Deferred tax assets of RUB232,159 thousand as at 31 December 2018 and RUB243,165 thousand as at 31 December 2017 were mostly recognised on tax losses related to LLC MD Project 2010. According to Russian tax rules such tax losses will not expire.

Deferred tax liabilities of RUB272,565 thousand as at 31 December 2018 and RUB250,504 thousand as at 31 December 2017 were mostly recognised on temporary differences relating to property, plant and equipment. These temporary differences are expected to be utilised after 1 January 2020 at 20% corporate income tax rate when the currently enacted tax concession with 0% corporate income tax rate will expire.

As at 31 December 2018 deferred tax assets relating to tax losses carried forward in the amount of RUB191,428 thousand (31 December 2017: RUB107,560 thousand) have not been recognised. Deferred tax assets have not been recognised in respect of these tax losses because it is not probable that future taxable profit will be available for utilisation against the benefits therefrom.

As at 31 December 2018, there were temporary differences (before calculating tax effect) of RUB6,123,534 thousand (31 December 2017: RUB4,921,266 thousand) related to investments in subsidiaries. Deferred tax liabilities related to these temporary differences were not recognised because the Group controls the dividend policy of its subsidiaries and, therefore, controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

11. EARNINGS PER SHARE

	2018	**2017**
Basic and fully diluted earnings attributable to the owners of the Company (RUB'000)	2,671,350	2,488,812
Weighted average number of ordinary shares in issue during the year	75,022,526	74,895,010
Basic and fully diluted earnings per share (RUB)	**35.61**	**33.23**

12. DIVIDENDS

On 16 March 2018 the Board of Directors declared final dividends for the year 2017 attributable to the owners of the Company amounting to RUB450,750 thousand (USD7,905 thousand), which corresponds to RUB6.0 (USD0.11) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 17 April 2018. The dividends were paid on 22 May 2018.

On 17 March 2017 the Board of Directors declared final dividends for the year 2016 attributable to the owners of the Company amounting to RUB338,063 thousand (USD5,804 thousand), which corresponds to RUB4.5 (USD0.08) per share. The dividend distribution was approved by the Annual General Meeting of the shareholders on 21 April 2017. The dividends were paid on 23 May 2017.

On 8 September 2017 the Board of Directors declared interim dividends for the six months ended 30 June 2017 attributable to the owners of the Company amounting to RUB350,833 thousand (USD6,140 thousand), which corresponds to RUB4.67 (USD0.08) per share. The dividends were paid on 24 October 2017.

On 22 March 2019 the Board of Directors recommended the payment of RUB800,081 thousand as final dividends for the year 2018 which corresponds to RUB10.65 per share.

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Property under construction	Plant and equipment	Total
	RUB'000	*RUB'000*	*RUB'000*	*RUB'000*
Initial cost				
Balance at 1 January 2017	**10,483,310**	**1,367,230**	**4,913,780**	**16,764,320**
Additions	395,218	2,046,445	425,278	2,866,941
Disposals	(5,632)	(2,346)	(30,733)	(38,711)
Transfer from construction in progress	818,299	(1,117,393)	299,094	-
Balance at 31 December 2017	**11,691,195**	**2,293,936**	**5,607,419**	**19,592,550**
Additions	694,390	2,251,427	1,013,072	3,958,889
Disposals	(27,357)	(454)	(45,942)	(73,753)
Impairment loss	(3,891)	-	-	(3,891)
Transfer from construction in progress	1,569,305	(2,177,235)	607,930	-
Balance at 31 December 2018	**13,923,642**	**2,367,674**	**7,182,479**	**23,473,795**
Depreciation				
Balance at 1 January 2017	**(949,666)**	-	**(2,404,201)**	**(3,353,867)**
Depreciation during the year	(241,099)	-	(697,522)	(938,621)
Accumulated depreciation on disposals	567	-	23,020	23,587
Balance at 31 December 2017	**(1,190,198)**	-	**(3,078,703)**	**(4,268,901)**
Depreciation during the year	(302,981)	-	(786,739)	(1,089,720)
Accumulated depreciation on disposals	4,567	-	37,937	42,504
Balance at 31 December 2018	**(1,488,612)**	-	**(3,827,505)**	**(5,316,117)**
Carrying amounts				
Balance at 1 January 2017	**9,533,644**	**1,367,230**	**2,509,579**	**13,410,453**
Balance at 31 December 2017	**10,500,997**	**2,293,936**	**2,528,716**	**15,323,649**
Balance at 31 December 2018	**12,435,030**	**2,367,674**	**3,354,974**	**18,157,678**

The amount of borrowing costs capitalised during the year ended 31 December 2018 was RUB160,027 thousand (RUB110,009 thousand for the year ended 31 December 2017). Capitalisation rate for loans varied from 8.25% to 10.15% for the year ended 31 December 2018 (from 10.15% to 11.75% for the year ended 31 December 2017).

As at 31 December 2018 construction in progress mainly includes construction costs of Tyumen hospital amounted RUB1,713,291 thousand and Lapino hospital amounted RUB382,830 thousand.

The total net book value of property, plant and equipment which is held as collateral for the loans and borrowings is RUB8,756,360 thousand as at 31 December 2018 (31 December 2017: RUB8,249,162 thousand).

14. INTANGIBLE ASSETS

	Goodwill	Patents and trademarks	Software and website	Total
	RUB'000	*RUB'000*	*RUB'000*	*RUB'000*
Initial cost				
Balance at 1 January 2017	**2,046,672**	**564,783**	**66,838**	**2,678,293**
Additions	-	29	5,851	5,880
Disposals	(14,352)	-	(1,130)	(15,482)
Balance at 31 December 2017	**2,032,320**	**564,812**	**71,559**	**2,668,691**
Additions	-	-	23,311	23,311
Balance at 31 December 2018	**2,032,320**	**564,812**	**94,870**	**2,692,002**
Amortisation				
Balance at 1 January 2017	**-**	**(209,493)**	**(27,214)**	**(236,707)**
Amortisation during the year	-	(84,772)	(12,447)	(97,219)
Accumulated amortisation on disposals	-	-	712	712
Balance at 31 December 2017	**-**	**(294,265)**	**(38,949)**	**(333,214)**
Amortisation during the year	-	(74,675)	(25,600)	(100,275)
Balance at 31 December 2018	**-**	**(368,940)**	**(64,549)**	**(433,489)**
Carrying amounts				
Balance at 1 January 2017	**2,046,672**	**355,290**	**39,624**	**2,441,586**
Balance at 31 December 2017	**2,032,320**	**270,547**	**32,610**	**2,335,477**
Balance at 31 December 2018	**2,032,320**	**195,872**	**30,321**	**2,258,513**

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

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
JSC MC Avicenna	1,055,593	1,055,593
A group of 4 cash generating units located in Krasnoyarsk, Omsk, Novosibirsk and Barnaul (acquired in January 2016)	360,154	360,154
LLC Medica-2	248,250	248,250
CJSC MK IDK	211,303	211,303
LLC Centre of Reproductive Medicine	142,193	142,193
Subsidiaries acquired in 2011	14,827	14,827
	2,032,320	**2,032,320**

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

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

The recoverable amount of each CGU group is based on the sum of the enterprise values of the subsidiaries included in each CGU and is measured at value in use. The calculation of the enterprise values of each subsidiary is based on the current and estimated future after-tax profitability. The management has projected cash flows for the period of the five years based on the approved financial forecasts. The growth rate in terminal period is estimated to be 4%. Discount after-tax rate applied to the cash flow projections is 14%.

14. INTANGIBLE ASSETS (continued)

No impairment of goodwill was recognised in 2018, in 2017 the impairment of goodwill of RUB14,352 thousand was recognised. For all cash generating units management believes that any reasonable possible change in the key assumptions would not cause carrying amounts of these units to exceed their recoverable amounts materially.

15. TRADE, OTHER RECEIVABLES AND DEFERRED EXPENSES

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
CAPEX prepayments	592,416	889,933
Trade receivables	279,644	287,140
Advances paid to suppliers	99,818	87,311
Deferred expenses	10,777	8,061
Other receivables	65,529	38,691
	1,048,184	**1,311,136**
Non-current portion	592,416	889,933
Current portion	455,768	421,203
	1,048,184	**1,311,136**

CAPEX prepayments represent capital expenditure prepayments under contracts for construction works and acquisition of plant and equipment.

Ageing analysis of trade receivables:

	Gross amount 31 December 2018	Impairment 31 December 2018	Gross amount 31 December 2017	Impairment 31 December 2017
	RUB'000	*RUB'000*	*RUB'000*	*RUB'000*
Not past due	259,657	-	287,140	-
Past due	115,366	(95,379)	55,906	(55,906)
	375,023	**(95,379)**	**343,046**	**(55,906)**

In addition to the bad debt provision accrued as at 31 December 2018 the accounts receivable in the amount of RUB5,449 thousand were written-off during the year ended 31 December 2018 (year ended 31 December 2017: RUB10,945).

The Group performed the calculation of ECL rates separately for patients, legal entities and insurance companies, meanwhile ECL rates for the insurance companies were calculated based on their ratings.

The following table provides information about the exposure to credit risk and ECLs for trade receivables for patients as at 31 December 2018.

	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
		RUB'000	*RUB'000*	
0-30 days past due	22%	15,740	(3,450)	partly
31-60 days past due	25%	3,687	(924)	partly
61-90 days past due	29%	3,251	(954)	partly
more than 91 days past due	88%	75,011	(66,347)	partly
TOTAL		**97,689**	**(71,675)**	

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables for legal entities except insurance companies as at 31 December 2018.

	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
		RUB'000	*RUB'000*	
0-30 days past due	2%	21,694	(473)	partly
31-60 days past due	11%	9,898	(1,057)	partly
61-90 days past due	12%	1,759	(211)	partly
more than 91 days past due	86%	25,685	(21,963)	partly
TOTAL		**59,036**	**(23,704)**	

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

Based on the analysis of the historical data for accounts receivable from insurance companies no provision is accrued as at 31 December 2018.

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

16. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
Cash at bank and in hand	476,530	350,827
Bank deposits with maturity less than 3 months	2,238,951	2,153,775
	2,715,481	**2,504,602**

Currency:

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
RUB	2,307,350	1,559,268
USD	406,983	944,313
EUR	1,148	1,021
	2,715,481	**2,504,602**

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

17. SHARE CAPITAL

	Number of shares	Nominal value	Share capital	Share capital
		USD	*RUB'000*	*USD'000*
Authorised	125,250,000	0.08	-	10,020
Issued and fully paid ordinary shares 1 January / 31 December	75,125,010	0.08	180,585	6,010

18. SHARE PREMIUM, RESERVES AND RETAINED EARNINGS

Share premium

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

Retained earnings

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

During 2018 the Group has acquired additional 30% share in LLC Mother and Child Ugo-Zapad and LLC FimedLab, 26% share in LLC Velum, 20% share in LLC Clinica Zdorovia and 15% share in LLC Capital Group, LLC Mother and Child Perm, LLC Mother and Child Ufa, LLC Mother and Child Saint-Petersburg for USD12,335 thousand which corresponds to RUB790,231 thousand as at the date of the transfer of shares and RUB768,235 thousand as at the date of the payment. As a result non-controlling interest in these subsidiaries decreased by RUB170,692 thousand. The difference of RUB619,539 thousand between the value of investments as at the ownership`s transfer date and non-controlling interest acquired was accounted as an equity transaction.

In 2017 the Company acquired 15% share in a subsidiary, which it controls, for RUB33,000 thousand. As a result non-controlling interest in this subsidiary decreased by RUB5,433 thousand. The difference of RUB27,567 thousand between consideration paid to a minority shareholder and the amount of non-controlling interest acquired was accounted as an equity transaction.

18. SHARE PREMIUM, RESERVES AND RETAINED EARNINGS (continued)

Retained earnings (continued)

In 2017 the Company acquired 10% share in a subsidiary, which it controls, for RUB20,000 thousand. As a result non-controlling interest in this subsidiary decreased by RUB7,328 thousand. The difference of RUB12,672 thousand between consideration paid to a minority shareholder and the amount of non-controlling interest acquired was accounted as an equity transaction.

Other reserves

Other reserves include common control transactions reserve, capital contribution reserve and treasury shares.

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

There were no significant changes during 2018.

19. LOANS AND BORROWINGS

	31 December 2018 *RUB'000*	31 December 2017 *RUB'000*
Long-term liabilities		
Bank loans	4,586,532	3,585,213
Short-term liabilities		
Bank loans	1,078,743	985,234
Total loans and borrowings	**5,665,275**	**4,570,447**

Maturity of loans and borrowings:

	31 December 2018 *RUB'000*	31 December 2017 *RUB'000*
Within one year	1,078,743	985,234
Between one and five years	4,306,546	3,071,796
More than 5 years	279,986	513,417
	5,665,275	**4,570,447**

The total net book value of property, plant and equipment which is held as collateral for the bank loans is disclosed in Note 13.

The terms and debt repayment schedule of loans are as follows:

	Currency	Effective interest rate	Maturity	31 December 2018 Face value *RUB'000*	31 December 2018 Carrying amount *RUB'000*	31 December 2017 Face value *RUB'000*	31 December 2017 Carrying amount *RUB'000*
Secured bank loan	RUB	8.45%	2023	2,482,210	2,482,210	2,075,780	2,075,780
Secured bank loan	RUB	9.15%	2024	1,940,094	1,940,094	351,664	351,664
Secured bank loan	RUB	8.25%	2022	989,831	989,831	1,050,350	1,050,350
Secured bank loan	RUB	8.25%	2026	38,954	38,954	-	-
Secured bank loan	RUB	9%	2018	-	-	393,369	393,369
Unsecured bank loan	RUB	8.45%	2019	189,150	189,150	658,446	658,446
Unsecured bank loan	RUB	9.15%	2020	16,084	16,084	19,980	19,980
Unsecured bank loan	RUB	14.20%	2019	8,952	8,952	20,858	20,858
				5,665,275	**5,665,275**	**4,570,447**	**4,570,447**

The contractual cash flows and the exposure of the Group to liquidity risk in relation to loans and borrowings is reported in Note 23 of these consolidated financial statements.

20. CONTRACT LIABILITIES (DEFERRED INCOME)

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
Patient advances	**1,319,912**	**1,273,653**
including:		
Contract liabilities after more than one year	143,773	144,860
Contract liabilities within one year	1,176,139	1,128,793

Contract liabilities that relate to long term client advances represent money received from patients on stem cells storage contracts lasting from 1 to 30 years. Contract liabilities that relate to short term client advances represent money received from patients on stem cells storage contracts, childbirth management contracts lasting from 1 to 9 months, and children care contracts valid up to 1 year.

21. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
Other payables to tax authorities	526,548	336,061
Accruals	390,810	353,487
Payables to employees	320,940	291,555
Trade payables	285,042	318,727
Taxes payable	159,591	142,301
CAPEX payables	101,933	125,306
Income tax liability	2,191	21,879
Other payables	34,382	20,368
	1,821,437	**1,609,684**
Non-current portion	435,809	277,320
Current portion	1,385,628	1,332,364
	1,821,437	**1,609,684**

The contractual cash flows (except income tax liability) and the exposure of the Group to liquidity risk in relation to trade and other payables is reported in Note 23 of these consolidated financial statements.

22. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

22.1. Operations with key management personnel

The remuneration of the members of the key management personnel and non-executive directors for the year ended 31 December 2018 was RUB74,416 thousand (31 December 2017: RUB56,791 thousand).

The remuneration of the members of the key management personnel which remained unpaid as at 31 December 2018 was RUB16,475 thousand (31 December 2017: RUB15,911 thousand).

The Group provided medical informational services to related parties amounted to RUB1,345 thousand for the 31 December 2018 (for the year ended 31 December 2017: nil).

The payables for medical informational services which remained unprovided as at 31 December 2018 was RUB939 thousand (31 December 2017: nil).

The Group provided advertising services to the key management personnel for the year ended 31 December 2018 amounted to RUB1,329 thousand (for the year ended 31 December 2017: RUB762 thousand).

The receivables for advertising services which remained unpaid as at 31 December 2018 was RUB336 thousand (31 December 2017: RUB762 thousand).

22. RELATED PARTY TRANSACTIONS (continued)

22.2. Directors' interests

The direct and indirect interests of the members of the Board in titles of the Company as at 31 December 2018, 31 December 2017 and as at the date of signing these consolidated financial statements are as follows:

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

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

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

22.3. Dividends declared to related parties

Dividends declared to the parent company MD Medical Holding Limited amounted to RUB306,140 thousand for the year ended 31 December 2018 (31 December 2017: RUB467,885 thousand).

23. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

- Credit risk
- Liquidity risk
- Market risk

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

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

(i) Credit risk

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

Exposure to credit risk

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

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
Trade and other receivables	345,578	326,541
Other assets	-	2,700
Cash and cash equivalents excluding cash in hand	2,703,965	2,494,320
	3,049,543	**2,823,561**

Trade and other receivables

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

MD MEDICAL GROUP INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

23. FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Cash and cash equivalents

The Group held cash and cash equivalents excluding cash in hand of RUB2,703,965 thousand as at 31 December 2018 (31 December 2017: RUB2,494,320 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are mostly held with bank and financial institution counterparties, which are rated Baa3-A3, based on rating agency Moody's Investors Service ratings.

(ii) Liquidity risk

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

31 December 2018	**Note**	**Carrying amounts**	**Contractual cash flows**	**2 months or less**	**Between 2-12 months**	**Between 1-2 years**	**Between 2-5 years**	**More than 5 years**
		RUB'000	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*
Bank loans	19	5,665,275	6,996,964	243,630	1,285,544	1,470,690	3,706,346	290,754
CAPEX payables	21	101,933	101,933	67,473	34,460	-	-	-
Trade payables	21	285,042	285,042	285,042	-	-	-	-
Other payables and accrued expenses		1,432,271	1,630,945	644,298	344,702	97,752	341,517	202,676
		7,484,521	**9,014,884**	**1,240,443**	**1,664,706**	**1,568,442**	**4,047,863**	**493,430**

31 December 2017		**Carrying amounts**	**Contractual cash flows**	**2 months or less**	**Between 2-12 months**	**Between 1-2 years**	**Between 2-5 years**	**More than 5 years**
		RUB'000	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*	*RUB'000*
Bank loans	19	4,570,447	5,803,410	339,332	1,028,436	1,220,585	2,671,631	543,426
CAPEX payables	21	125,306	125,306	118,184	7,122	-	-	-
Trade payables	21	318,727	318,727	318,727	-	-	-	-
Other payables and accrued expenses		1,143,772	1,290,250	513,879	342,708	67,315	201,912	164,436
		6,158,252	**7,537,693**	**1,290,122**	**1,378,266**	**1,287,900**	**2,873,543**	**707,862**

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

(iii) Market risk

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

23. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

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

As at the reporting date the interest rate profile of interest bearing financial instruments was as follows:

	31 December 2018	31 December 2017
	RUB'000	*RUB'000*
Fixed rate instruments		
Financial assets	2,238,951	2,156,475
Financial liabilities	(5,665,275)	(4,570,447)
	(3,426,324)	**(2,413,972)**

In particular, fixed-rate financial liabilities include fixed rate bank loans amounted to RUB5,665,275 thousand for which the banks have the option to revise the interest rate following the change of key rate set by the CBR and the Group has an option to either accept the revised rate or redeem the loan at par without penalty.

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

Currency risk

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

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

	31 December 2018			31 December 2017		
	USD`000	*EUR`000*	*GBP`000*	*USD`000*	*EUR`000*	*GBP`000*
Assets						
Cash in bank	406,983	1,148	-	944,313	1,021	-
Trade and other receivables	1,904	168	-	2,431	1,375	-
Liabilities						
CAPEX payables	(1,227)	(1,080)	-	(1,899)	-	-
Trade and other payables and accruals	(634)	(2,732)	(373)	(91)	(127)	-
Net exposure	**407,026**	**(2,496)**	**(373)**	**944,754**	**2,269**	**-**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	*2017*	*2018*	*2017*
USD	62.7078	58.3529	69.4706	57.6002
EUR	73.9546	65.9014	79.4605	68.8668
GBP	83.5756	75.2379	88.2832	77.6739

Sensitivity analysis

A 10% weakening of the Russian Ruble against the above currencies will result in the increase in profit and equity of RUB40,416 thousand as at 31 December 2018 (31 December 2017: RUB94,702 thousand). A 10% strengthening of the Russian Ruble would have an opposite impact.

23. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

Capital management

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

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

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

	Note	**31 December 2018**	**31 December 2017**
		RUB'000	*RUB'000*
Financial liabilities	19	5,665,275	4,570,447
Less: cash and cash equivalents	16	(2,715,481)	(2,504,602)
Net debt		2,949,794	2,065,845
Total equity		15,998,948	14,567,665
Net debt to equity ratio		**18.44%**	**14.18%**

24. FAIR VALUES

As at 31 December 2018 and 31 December 2017 the Group had no significant financial assets or liabilities measured at fair value.

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

25. CONTINGENT LIABILITIES

(a) Insurance

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

(b) Russian business environment

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

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

25. CONTINGENT LIABILITIES (continued)

(b) Russian business environment (continued)

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

(c) Russian tax environment

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

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

26. NON-CONTROLLING INTERESTS

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

Most of the turnovers are cash based.

	2018	**2017**
	RUB'000	*RUB'000*
Revenue	3,082,997	3,242,383
Profit and other comprehensive income	1,218,074	1,388,957
Profit and other comprehensive income allocated to non-controlling interests	60,904	69,448
Dividends paid to non-controlling interests	40,000	62,500
Non-controlling interests percentage	**5%**	**5%**

	31 December 2018	**31 December 2017**
	RUB'000	*RUB'000*
Non-current assets	3,799,467	3,521,804
Current assets	735,668	620,589
Non-current liabilities	(164,094)	(144,860)
Current liabilities	(667,382)	(674,196)
Net assets	**3,703,659**	**3,323,337**
Carrying amount of non-controlling interests	185,183	166,167
Other non-controlling interests	116,619	259,780
	301,802	**425,947**

27. OPERATING LEASES

Historically, the Group has developed business in own premises. However, in 2018 and 2017 the Group has acquired and incorporated some new entities that lease their premises. Lease agreements are cancellable with notification period of one to six months.

The future minimum lease payments for premises under lease agreements are payable as follows:

	2018	2017
	RUB'000	*RUB'000*
Within one year	116,957	92,611
Between one and five years	172,601	135,153
More than five years	62,033	19,642
	351,591	**247,406**

The Group also lease land plots under several hospitals and clinics. Lease agreements maturity for land plots are either 49 years or infinite.

28. CAPITAL COMMITMENTS

Capital commitments mostly comprise of the obligations under construction contracts in the amount of RUB3,808,490 thousand as at 31 December 2018 (31 December 2017: RUB2,020,427 thousand).

29. SEGMENT REPORTING

The Group has one primary reporting segment: provision of medical services. The Group evaluates the performance and makes investments and strategic decisions based upon a review of profitability for the Group as a whole and does not group subsidiaries by geography and service lines during the analysis of their performance.

30. EVENTS AFTER THE REPORTING PERIOD

In March 2019 the Group opened a new clinic in Vladivostok.