

# NOTES to the consolidated financial statements

for the year ended 31 December in thousands of euros

## 1. Reporting entity

ESPERITE N.V. ('the Group') is a public Group incorporated under the laws of The Netherlands. The address of its registered office and principal place of business is Piet Heinstraat 11A, 7204 JN Zutphen, The Netherlands.

The consolidated financial statements of the Group as at and for the year ended 31 December 2014 comprise the Group and its subsidiaries ('the Group') and the Group's interest in equity accounted investees and jointly controlled entities. All intragroup balances and transactions are eliminated.

The Group's principal activity is the collection, processing and storage of human adult stem cells collected from the umbilical cord blood, and the umbilical cord itself, at birth.

Genoma is the Group's second business unit active in the fields of proteomics and genomic predictive medicine. This business has been introduced end 2014.

The Group's R&D division, The Cell Factory, is the third business unit of the Group. The Cell Factory implements its own proprietary new technology for clinical grade production of autologous mesenchymal and stromal stem cells.

As provided in section 402 of The Netherlands Civil Code, Book 2, the income statement of ESPERITE N.V. includes only the after-tax results of subsidiaries and other income after tax, as ESPERITE N.V.'s figures are included in the consolidated financial statements.

## 2. Basis of preparation

### a. Statement of compliance

The consolidated financial statements of the Group have been prepared on going concern principles and in accordance with International Financial Reporting Standards (IFRS) prevailing per 31 December 2014, as adopted by the International Accounting Standards Board (IASB) and as endorsed for use in the European Union by the European Commission as at 31 December 2014. They also comply with the financial reporting requirements included in Section 9 of Book 2 of The Netherlands Civil Code, as far as applicable.

The consolidated financial statements were authorized for issue by the Board of Directors on 30 April 2015. The financial statements as presented in this report are subject to adoption by the Annual General Meeting of Shareholders, to be held on 17 June 2015.

### b. Going concern assumption

In the annual General Meeting of Shareholders mid May 2014, the Company announced its vision and strategy for 2014 onwards. The new business model has materialized in three separate synergetic business units attacking new

markets with a diversified offer, transforming a mono-product business model into a biotech multiservice company. The three distinct business units are (i) CryoSave, (ii) Genoma and (iii) The Cell Factory.

The business unit **CryoSave** suffered the last years of macro-economic headwinds in the main countries of its operations, fierce competition, price pressure and temporary regulatory blocks in several countries. The decrease of volume affected the occupancy rate in the processing and storage facilities and as a consequence increased the costs per sample. Together with the relatively high operational expenses, this adverse affected the financial performance of CryoSave.

In order to stop the declining trend and stabilize its performance, the Company, amongst other, performed two acquisitions in 2014, which allows the Company to market dual branding via its Salveo brand name, next to the CryoSave brand name in several countries. Furthermore, the Company invested in the integration of the businesses in order to create synergies.

The business unit **Genoma** was established in the last quarter of 2014 and offers multiple services. Genoma wants to become the European leader of proteomics and genetic predictive medicine. Genoma is developing highly-profitable products and has assembled the best technology and leading scientists in genetic analysis, diagnostic tests and consultancy to build a unique portfolio of exclusive new-generation genetic tests.

In order to establish the Genoma business units, investments were made in the Swiss processing and storage facility as well in staffing, marketing, design, collaboration agreements et cetera. Management did not expect that the Genoma business was profitable and/or cash generating in 2014.

Following the significant declining trend of the cash position of the Company in 2014, additional information and insights are disclosed in this paragraph to support the going concern assumption as applied in the financial statements for the year ended 2014.

For the Group to operate as a going concern, it is clear that Genoma should bring strong revenue growth and related cash inflows. Extensive efforts have been put into evaluating budgets and forecasts on the most recent available market information. The budgets and forecasts underlying the going concern assessment anticipate a slight growth in the stem cell market and a strong growth in proteomics and genetic predictive medicine. Management anticipates a recovery of the profitability in both segments from Q2 2015 onwards.

The Company committed to realize €36 mio. of revenue of which €29 mio. relate to the stem cell business and €7 mio. to Genoma business in 2015. Management has confidence to meet those expectations. This outcome however is

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uncertain as a major part of the anticipated revenues are not yet confirmed. We also refer to note 20 in the financial statements on Intangible Assets and impairment testing which describes the impact of the aforementioned uncertainties relating to the strong revenue growth for mainly Genoma on the valuation on Intangible Assets.

Next to the expected revenue growth, the Company will improve its competitor advantage by its intensified program which consists of the items below (not limitative):

- Integration of the laboratories
- Downsize global workforce across CryoSave and laboratories
- Sustainable lower overhead
- Consolidation of operations
- Centralization of administrative services
- Integrate sales and marketing strategies
- Reduce complexity

As per 31 December 2014, the Company had €2.1 million cash and cash equivalents of which €0.8 million was provided as collateral for a bank guarantee. In order to execute on the new strategy of the Company, management acknowledge that the free available cash is not sufficient at the moment.

To support its going concern assessment, the board of directors has obtained a funding statement of Salveo Holding S.A. ("Salveo"), a company controlled by Mr. Frederic Amar, in which Salveo has declared that, if during a period of one year after the date of the signing of the 2014 audited consolidated financial statements and of the auditor's report contained therein the Company establishes that it is unable to fund its operations and that other sources of cash income are unavailable, Salveo will be prepared to provide the Company debt and/or equity funding on market terms for an amount up to €2 million. However the timely availability of this funding is still uncertain.

Together with this funding statement, the Company expects to be able to deliver the expected revenue growth and achieve on its strategy and turnaround plan. Furthermore, it expects to be able to redeem the outstanding debts to its main suppliers during 2015. For some suppliers, the Company has agreed payment plans in order to reduce its debt.

Going concern is mainly dependent on meeting budgets and forecasts, especially for the segment Genoma and the timely availability of the support from Salveo. Whether these budgets and forecasts will be achieved is largely dependent on the timely implementation of the measures as described

above and the market appetite of the new services offered by Genoma. Notwithstanding the specified uncertainties management is of the opinion though that the application of the going concern assumption for the 2014 financial statements is appropriate, based on the following facts and circumstances:

- Although current revenues are below budget, management still expects sufficient liquidity and guarantee facilities to operate the business without interruption.
- In a scenario that future performance and cash flow developments are less favorable than current business forecasts, management believes the Company has various and sufficient options available to (if successful) address such adverse circumstances.
- These options include but are not limited to renegotiating creditor terms and conditions and attract external financing. As the latter is subject to external factors, it is uncertain if these measures can be implemented timely

## c. Functional and presentation currency

These consolidated financial statements are presented in Euro ("€"), which is the Group's functional currency. The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates and translated to the reporting currency of the Group (its functional currency). All financial information presented in euro has been rounded to the nearest thousand, unless otherwise stated.

## d. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The critical accounting estimates and judgments in preparing the consolidated financial statements are explained in note 4.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## e. Change in accounting estimates and accounting policies

### *Change in accounting estimates*

Besides the regular changes as part of the impairment review

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process, as disclosed in note 4, no significant changes in accounting estimates occur.

## Change in accounting policies

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements.

## IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities – Non-monetary Contributions by Venturers'. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

The application of IFRS 11 has impacted the Group's accounting of its interest in joint venture CryoSave S.A. (Pty) Ltd. (see Note 23). The Group has a 50% interest in joint venture CryoSave S.A. (Pty) Ltd.

Prior to the transition to IFRS 11, joint venture CryoSave S.A. (Pty) Ltd was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest in joint venture CryoSave S.A. (Pty) Ltd to be classified as a joint venture and it is accounted for using the equity method.

The transition has been applied retrospectively as required by IFRS 11 and the comparative information for the immediately preceding period (2013) has been restated. The effect of applying IFRS 11 on the Group's financial statements was as follows:

## Impact on consolidated statement of income

	2013
Revenue	(751)
Cost of sales	279
Gross profit	(472)
Operating expense	482
Operating result	10
Net finance (costs)/income	22
Share of result of an associate	(23)
Result before tax	9
Income tax gain	(9)
Result and total comprehensive income for the year	–

The transition did not have any impact on either other comprehensive income for the period or the Group's basic or diluted earnings per share.

## Impact on equity

	31 December 2013	1 January 2013
Property, plant & equipment	(163)	(197)
Deferred tax assets	(47)	(44)
Investment in equity-accounted investees	29	64
Total non-current assets	(181)	(177)
Inventories and cash and bank balances (current)	(9)	(19)
Trade and other receivables	(164)	(122)
Cash and cash equivalents	(27)	(7)
Total assets	(381)	(324)
Trade and other payables	(377)	(317)
Current tax liabilities	(4)	(7)
Total liabilities	(381)	(324)
Net impact on equity	–	–

Given the fact that the amounts involved are considered to be not material the company has not presented an adjusted opening balance as per 1 January 2013 on the face of the balance sheet.

## Impact on statement of cash flows

	2013
Operating	(39)
Investing	19
Financing	14
Exchange differences on cash and cash equivalents	6
Net increase in cash and cash equivalents	–

## f. Reclassifications

No reclassifications have been made.

## 3. Significant accounting policies

The accounting policies detailed below have been applied consistently to all periods presented in these consolidated financial statements, and by all subsidiaries, except as explained in note 2<sup>e</sup>, which addresses changes in accounting policies.

### Basis of consolidation

#### Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through

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its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events (earn outs or deferred acquisition payments), the Group will recognise the contingent consideration to be transferred by the acquirer at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

In business combinations, identifiable assets and liabilities, and contingent liabilities are recognized at their fair values at the acquisition date. Determining the fair value requires significant judgments on future cash flows to be generated. The fair value of brands, customer relationships, contracts with insurers and distributors and order backlog acquired in a business combination is estimated on generally accepted valuation methods. The fair value of property, plant and equipment acquired in a business combination is based on estimated market values.

Initially the fair values are determined provisionally, and will then be subject to change based on the outcome of the purchase price allocation which takes place within 12 months window from the acquisition date.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred

or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at their acquisition date. The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

## Equity-accounted investees

Equity-accounted investees are all entities over which the Group has significant influence but not control over the financial and operating policies. Investments in equity accounted investees are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's investment in equity accounted investees includes goodwill identified on acquisition net of any accumulated impairment losses. Equity accounted investees are recognized from the date on which the Group has significant influence, and recognition ceases from the date the Group has no significant influence over an equity accounted investee. The Group's share of its equity accounted investees post acquisition profits or loss is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

If the Group's share of losses in an equity accounted investee equals or exceeds its interest in the equity accounted investee, including any other long-term interests, the Group discontinues recognizing its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity accounted investee. Unrealized gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the equity accounted investees. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## Joint arrangements

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the income and expenses of the joint arrangement for the period that the Group has control, whereby the result is determined using the Group's accounting principles. Loans to joint arrangements are carried at amortized cost less impairment losses.

The results from joint arrangements consist of the Group's proportionate share in the results of these companies, interest on loans granted to them and the transaction results on divestments of joint arrangements. Unrealized gains and losses arising from transactions with joint arrangements are eliminated to the Group's interest in the investee.

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Join arrangements over which the Group has no control, are recognized as equity accounted investees

## Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination, and the non-controlling interests' share of changes in equity, since the date of the combination. Losses applicable to the minority in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group only to the extent that the minority is able to make an additional investment to cover the losses.

## Foreign currencies

### Foreign currency transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded, on initial recognition at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences, arising on the settlement of monetary items and on the re-translation of monetary items, are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve through the other comprehensive income, and recognized in profit or loss on disposal of the net investment.

The following exchange rates against the euro have been used in these financial statements:

	Statement of financial position 31 Dec 2014	Statement of income 2014	Statement of financial position 31 Dec 2013	Statement of income 2013
Bulgarian leva	1,96	1,96	1,96	1,96
Hungarian forint	314,97	308,43	296,75	296,71
Indian rupees	n/a	n/a	85,00	77,27
Serbian dinar	121,38	116,98	114,52	113,02
Swiss franc	1,22	1,22	1,23	1,23
South African rand	14,05	14,34	14,52	12,85
United States dollar	1,22	1,33	1,38	1,33

## Financial statements of Group companies

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Euro's using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's currency translation reserve. Such exchange differences are recycled through profit or loss in the period in which the foreign operation is disposed of.

## Net investment in foreign operations

Net investment in foreign operations includes equity financing and long-term interGroup loans for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange rate differences arising from the translation of the net investment in foreign operations are taken to the currency translation reserve in Shareholders' equity directly.

When a foreign operation is disposed of, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on disposal.

## Intangible assets

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary, equity accounted investees or joint venture at the date of acquisition. Goodwill recognized for acquisitions represents the consideration made by the Group in anticipation of the future economic benefits from assets that are not capable of being individually identified and separately recognized. These future economic benefits relate to, for example, opportunities with regard to cost efficiencies such as sharing of infrastructure.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of equity accounted investees is included in investments in equity accounted investees. Such goodwill is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity that is sold.

Goodwill acquired in a business combination is not amortized. Instead, the goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is allocated to the cash-generating units for the purpose of impairment testing. The allocation is made to

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those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Identified intangible assets

Identified intangible assets on investments in group companies, such as customer relationship, brand name, contracts with insurers and distributors, order backlog and re-acquired rights are initially valued against fair value. Subsequent to initial recognition these assets are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization of identified intangible assets is charged to the income statement, over their estimated useful life, using the straight-line method on the following bases:

Brand name	20 years - unlimited
Customer relationship	3-7 years
Contracts with insurers and distributors	3-9 years
Re-acquired rights	4-5 years

## Internally generated intangible assets

Internally generated intangible assets relate to the development costs of new product, and represent the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria under IFRS. These expenditures comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. These costs are mainly costs of materials and services used or consumed in generating the intangible asset, and costs of employee benefits arising from the generation of the intangible asset.

Internally generated intangible assets are stated at cost less accumulated amortization and any impairment losses. The amortization method applied is the straight-line method. Amortization begins when the assets are available for use. The estimated useful life of internally generated intangible assets is three years.

An intangible asset arising from development or from the development phase of an internal project is recognized only if the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale and comply with the following other requirements: the intention to complete the development project; the ability to sell or use the product; demonstration of how the product will yield probable future economic benefits; the availability of adequate technical, financial, and other resources to complete the project; and the ability to reliably measure the expenditure attributable to the project.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic

benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

No intangible asset from research or from the research phase of an internal project is recognized. Expenditure on research or the research phase of an internal project is recognized as an expense when incurred.

## Other intangible assets

This includes items such as capitalized software and software license. Amortization is recognized as a cost and calculated on a straight-line basis over the asset's expected useful life. The amortization period is three years.

## Property, plant and equipment

Property, plant and equipment, consisting of land and buildings, lab equipment, and other assets such as computer and office equipment and vehicles, is valued at cost less accumulated depreciation and any impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation of property, plant and equipment is charged to the income statement, over their estimated useful life, using the straight-line method on the following bases:

Buildings	30 years
Office equipment	10 years
Laboratory equipment	5-10 years
Vehicles	5 years
Computer equipment	3 years
Land	unlimited

The 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 recognized in profit or loss.

## Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs of

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disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss in respect of goodwill is not reversed.

## Leases

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

Upon initial recognition the finance leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## Financial assets

Investments are recognized and derecognized on a trade

date where the purchase or sale of an investment is under a contract which terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets at fair value through profit or loss, which are initially measured at fair value.

## Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Such assets are recognized initially at fair value plus directly attributable transaction costs. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Trade and other receivables are initially carried at their fair value and subsequently measured at cost less any impairment. The impairment is based on both collective and individual basis.

Trade and other receivables which are not expected to be realized within 12 months after the balance sheet date are classified as non-current assets.

## Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

## Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is

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reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a gain in the statement of income. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## Inventories

Inventories are assets in the form of materials or supplies to be consumed in the collection and extraction process or in the rendering of services. Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

## Deferred revenue

Deferred revenue represents the part of the amount invoiced to customers that has not yet met the criteria for revenue recognition. Deferred revenue is recognized at its fair value. The fair value is determined by using the net present value of the future storage costs (taking into account future inflation and interest) including a reasonable profit margin (i.e. cost plus margin method).

Deferred revenue that relates to services which are not expected to be rendered within 12 months after the balance sheet date are classified as non-current liabilities.

## Trade and other payables

Initially these liabilities are recognized at fair value plus directly attributable transaction costs. Subsequently these financial liabilities are measured at amortized cost using the effective interest method.

## Taxation

Income tax expense represents the sum of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the income statement 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 balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognized 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. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and equity accounted investees, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of

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deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited in the other comprehensive income, in which case the tax is also recognized in the other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

## Borrowings

Borrowings are recognized initially at fair value less transaction costs, if material. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial lease liabilities are recorded under borrowings.

Borrowings payable within one year are classified as current liabilities.

## Deferred consideration

Deferred considerations are based on contracts between ESPERITE N.V. and the former Shareholders of the acquired entity and/or acquired activities, and valued at the net present value using the discounted cash flow method. The unwinding of the discount is recognized in profit or loss as finance costs. Differences between the estimated and actual deferred considerations are recognized in profit or loss as financial result.

## Shareholders' equity

When share capital recognized as equity is repurchased (treasury shares), the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity.

Dividends are recognized as a liability upon being declared.

## Non-controlling interest

Non-controlling interest is the portion of the profit or loss and net assets attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Group.

## Defined contribution plans

The pension contribution of defined contribution plans is recognized as an expense in the income statement as it is incurred.

## Defined benefit plans

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability / (asset). The Group recognises the following changes in the net defined benefit obligation under 'cost of defined benefit plans' in consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements:
- Net interest expense or income

## Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for deferred income, rebates and other similar allowances.

## Revenue stem cell storage

Revenue in respect of fees charged for stem cell extraction is recognized on the day of extraction. Revenue in respect of fees charged for the subscription of the service is recognized upon enrolment. Revenue earned in respect of stem cell storage is recognized evenly over the storage period, over which time an appropriate margin is also recognized.

# NOTES to the consolidated financial statement

## Revenue Genoma

Revenue in respect of fees charged for Genoma services is recognized on delivery of the service. No deferred revenue is recognized for the Genoma services.

## Revenue other

Other revenue relate to income from other types of products and services than the extraction and storage of stem cells. Revenue from services rendered is recognized in the statement of income in proportion to the percentage of completion of the transaction at reporting date.

## Government grants

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are deducted from those expenses incurred. Government grants related to an asset, are presented in the balance sheet by setting up the grant as deferred income, and are released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

## Cost of sales

Cost of sales comprises the directly attributable costs of goods and services sold and delivered. These costs include such items as the cost of collection of the cord blood and cord tissue, service fees to business partners, transportation and laboratory materials.

## Marketing and sales expenses

Marketing and sales expenses include all costs that are directly attributable to marketing and sales activities. Examples of directly attributable costs are costs of employee benefits and costs of marketing materials and services used or consumed.

## Research and development expenses

Research and development expenses, the latter as far as not capitalized, include all costs that are directly attributable to research and development activities for new products and services and to contributions to third parties' research projects. Directly attributable costs are for example costs of employee benefits, costs of materials and services used or consumed in generating the new product or service. Expense on research or the research phase of an internal project is recognized as an expense when incurred.

## General and administrative expenses

General and administrative expenses include costs which are neither directly attributable to cost of sales nor to marketing and sales and research and development expenses. General and administrative expenses include amongst other costs of employee benefits of staff working in the processing and storage facilities.

## Share-based payments

The Group's share option scheme qualifies as equity settled share-based payment. The fair value of share options awarded is recognized as an expense with a corresponding increase in equity. The fair value is measured at the grant date and spread equally over the period during which the employees become unconditionally entitled to the shares. The fair value of the share options is measured using a binomial option valuation model, taking into account the terms and conditions upon which the share options were awarded. The amount recognized as an expense is adjusted to reflect the actual forfeitures due to participants' resignation before the vesting date.

## Finance income and costs

Finance income and costs comprise interest receivable on deposits, interest receivable on funds invested calculated using the effective interest rate method, interest from payment plans, foreign exchange gains and losses, unwinding of the discount of deferred considerations, adjustments of deferred considerations, expenses related to the stock listing and bank costs.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

## Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the equity holders of the Group by the weighted average number of shares outstanding during the period, excluding the average temporarily repurchased shares. Diluted earnings per share is calculated using the weighted average number of shares, options outstanding during the period and the shares involved in the convertible loan, as far as the exercise price of these options and loan is lower than the share price.

## Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses. All operating segments' operating results are reviewed regularly by the Board and are based on internal management reporting to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available.

Performance is mainly measured based on EBITA (earnings before interest, tax, amortization of identified intangible assets). Management believes this is the most relevant measure in evaluating the operating results of the segments.

Segment capital expenditure is the total expenses incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

# NOTES to the consolidated financial statement

## Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale or distribution within the next 12 months rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's other accounting policies. The assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit and loss. Once classified as held-for-sale, assets are no longer amortized or depreciated.

## 4. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Goodwill

An impairment test of goodwill is carried out at least once a year or when required because of changed circumstances. Any test of impairment inevitably involves factors that have to be estimated. The recoverable amounts are influenced by factors such as the prognosis for future economic conditions and expectations regarding market developments and operations. The estimates for these factors may change over time, which could lead to an impairment adjustment being recognized in profit or loss. The recoverable amounts also depends on the discount rate used, which is the estimate of weighted average costs of capital for the cash generating unit concerned.

The key assumptions used and sensitivity analyses are provided in Note 20.

### Identified intangible assets

Intangible assets such as brand name, customer relationship, contracts with insurers, distributions contracts, re-acquired rights and backlog are identified as intangible assets at the acquisition date. The fair value of these intangible assets is determined using estimates, the most significant being the expected cash flows attributable to the brand name, customer relationship, contracts, re-acquired rights and the discount rate used.

The expected future cash flows are based on the most recent long-term forecast from the perspective of the purchased entity. The discount rate used is the estimated weighted average cost of capital for the unit concerned. The estimates and assumptions might not sustain in the future. The key assumptions used and sensitivity analyses are provided in

Note 20.

### Useful life and impairment of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of useful lives and residual values involves management's estimation. The Group assesses annually the residual value and the useful life of its property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the period when the estimate is changed and in future periods.

The Group assesses regularly whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

### Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such differences will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

### Deferred revenue

The amount of deferred revenue per sample processed and stored is based on certain assumptions, like costs and the chance of future release of samples. Changes in these assumptions might have a significant impact on the amount of deferred revenue.

The discount rate is consistently based on the 20 or 25 years AAA-rates euro area government bonds interest rate plus a liquidity premium of 1%.

### Income taxes

A deferred tax asset shall be recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against the unused tax losses and unused tax credits can be utilized. Management assesses the probability that taxable profit will be available against the unused tax losses or unused tax credits which can be utilized.

Corporate taxation is calculated on the basis of income before taxation, taking into account the relevant local tax rates and regulations. For each operating entity, the current income tax expense is calculated and differences between

# NOTES to the consolidated financial statements

the accounting and tax base are determined resulting in deferred tax assets or liabilities.

The calculation of the tax position is based in part on the interpretations of applicable tax laws in the jurisdictions in which the Group operates. Although the Group believes the tax estimates are reasonable, there is no assurance that the final determination of the tax position will not be materially different from what is reflected in the statement of income and balance sheet. Should additional taxes be assessed these could have a material effect on the Group's results or financial position.

## Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about pension obligations are given in note 33.

## 5. Application of new or revised International Financial Reporting Standards

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not been endorsed by the European Union. The Group has introduced standards and

interpretations that became effective in 2014 or were early adopted.

The following new or amended standards were applied for the first time in 2014.

IFRS 10, 'Consolidated Financial Statements', establishes a single control model that applies to all entities, including special purpose entities. ESPERITE has determined which entities meet the new criteria for control and therefore have to be consolidated. The new standard did not have a material impact on The Group's financial position or performance.

IFRS 11, 'Joint Arrangements', removed the option to apply proportionate consolidation for joint ventures and mandates the use of the equity method for jointly controlled entities that meet the new definition of a joint venture. The introduction of this new standard significantly changed The group's financial position and reported performance because the equity method replaced proportionate consolidation for joint ventures. Information on joint ventures that are affected is provided in note 2e: Interests in joint ventures. The standard was applied retrospectively.

IFRS 12, 'Disclosure of Interests in Other Entities', provides disclosure requirements with respect to interests in subsidiaries, joint arrangements, associates and structured entities. It is the complement of the two new standards discussed in the preceding paragraphs and has been applied for the first time in 2014.

## Amendments to IAS 32, 'Offsetting Financial Assets and Financial Liabilities'

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

## Amendments to IAS 36, 'Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets'

These amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 'Impairment of Assets' was originally changed as a consequence of IFRS 13 'Fair Value Measurement', the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. However, as written, an entity was required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendments. The standard was applied retrospectively.

# NOTES to the consolidated financial statements

No new or amended standards were adopted early and applied in 2014.

IFRS accounting standards adopted as from 2015 and onwards

The following standards and amendments to existing standards have been published and are mandatory for the Group beginning on or after 1 January 2015 or later periods, but the Group has not early adopted them:

IFRS 14, 'Regulatory Deferral Accounts', establishes requirements for accounting by entities that are subject to rate regulation. The new standard is effective for annual reporting periods beginning on or after 1 January 2016 but will not impact ESPERITE, since none of the reporting entities of ESPERITE operate in a market that is subject to rate regulation.

IFRS 15, 'Revenue from Contracts with Customers', establishes a new five step approach to revenue recognition that applies to all entities. The new standard is effective for annual reporting periods beginning on or after 1 January 2017. The impact of this new standard on the financial position of ESPERITE and performance is currently being investigated.

IFRS 9, 'Financial Instruments' In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

The new IFRIC interpretations are not expected to have a material effect on the consolidated financial statements.