HMS Hydraulic Machines & Systems Group plc

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2014

Contents

Board of Directors

Mr. Nikolai N. Yamburenko
Chairman of the Board of Directors
Non-executive Director
Chairman of the Strategy and Investments Committee
Member of the Remuneration Committee

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Yury N. Skrynnik
Executive Director
Member of the Strategy and Investments Committee

Mr. Philippe Delpal
Non-executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee

Mr. Gary S. Yamamoto
Non-executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Strategy and Investments Committee

Mr. Andreas S. Petrou
Non-executive Director

Board support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

Company Secretary

Cyproservus Co Limited
284 Arch. Makarios III Avenue
FORTUNA COURT, Block B
3rd Floor, Flat/ Office 32
3105 Limassol, Cyprus

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2014. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal business activities of the Company and its subsidiaries (the "Group") are the manufacture and repair of a wide range of pumps and pumping units, compressors, modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad.

Review of developments, position and performance of the Group's business

The main drivers behind the Group's performance in 2014 were the Oil & gas equipment business segment with the EPC business segment. The Group's revenue stood almost flat year-on-year and amounted to RR 32,351 million. EBITDA grew by 0.6% yoy to RR 5,272 million. As a result, EBITDA margin for 12 months 2014 stayed almost unchanged at 16.3% versus 16.2% last year.

The Group's operating profit dropped significantly and totalled RR 855 million versus RR 4,179 million in 2013. Operating margin stood at 2.6% in the reporting period. In 2013, the Group posted RR 439 million impairment of the construction business and RR 955 million extra gain from the bargain M&A, which contributed RR 516 million to the Group's operating profit. In contrary, in 2014 the Group recognised RR 2,186 million impairment of goodwill, which reflected worsened economic conditions in Russia.

Loss for the year from continuing operations reached RR 1,575 million, mainly due to increased finance costs, including the effect of foreign exchange loss, and impairment of goodwill.

Principal risks and uncertainties

The Group's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 37 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 35 to the consolidated financial statements.

The Board has a process to identify, evaluate and manage significant risks faced by the Group.

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group in the foreseeable future. The Group's strategic objective is to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Group also intends to enhance its research and development capabilities leveraging the experience and knowledge base of its existing teams to develop upgrades and new solutions, as well as more energy efficient pumps.

Results

The Group's results for the year ended 31 December 2014 are set out on page 10 of the consolidated financial statements.

Dividends

Pursuant to its Articles of Association, the Company may pay dividends out of its profits. To the extent the Company declares and pays dividends, the Company's shareholders on the relevant record date will be entitled to receive such dividends, while owners of global depository receipts (GDRs) on the relevant record date will be entitled to receive the dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by the subsidiaries is contingent, among other things, upon the sufficiency of their earnings, cash flows and distributable reserves and, in the case of Russian subsidiaries, is restricted to the total accumulated retained earnings of the relevant subsidiary, determined in accordance with Russian law.

At the Annual General Meeting in June 2014 the Company's shareholders approved the final dividend in respect of the year ended 31 December 2013 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 393,323 thousand. These dividends were paid in June-July 2014.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2014.

The Board of Directors does not recommend any payment of dividends in respect of the year ended 31 December 2014.

Share capital

At 31 December 2014, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 25 of the consolidated financial statements.

The Company does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital. The Company's Articles of Association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

The role of the Board of Directors

The Group is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Group. The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Group's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2014 and at the date of this report are shown on page 1.

In accordance with the Company's Articles of Association one third of Directors or, if their number is not three or a multiple of three, then the number nearest one-third shall retire by rotation and are entitled to run for re-election. Kirill V. Molchanov, Yury N. Skrynnik and Andreas Petrou shall retire by rotation and will be entitled to run for re-election on the Company's Annual General Meeting.

There were no significant changes in the assignment of responsibilities of the Board of Directors.

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2014 and at the date of approval of these consolidated financial statements are shown below:

Director	Interest in the share capital of the Company at 31 December 2014	Interest in the share capital of the Company at 22 April 2015
Artem V. Molchanov	6.1%	6.1%
Yury N. Skrynnik	3.0%	3.0%
Kirill V. Molchanov	1.8%	1.8%
Philippe Delpal	0.017%	0.017%

The above stated interests do not include the effect of treasury shares held by the Group both at the reporting date and the date of approval of these consolidated financial statements.

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 39 to the consolidated financial statements.

The Board Committees

The Group has established three committees: the audit committee, the remuneration committee and strategy and the investments committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee. The audit committee comprises two directors, both independent, and expects to meet at least two times each year. Currently the audit committee is chaired by Philippe Delpal and the other member is Gary S. Yamamoto. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Group's financial statements, including its annual and interim financial statements, and the effectiveness of the Group's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Group of financial information and a number of other audit-related issues.

Remuneration Committee. The remuneration committee comprises three directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Nikolai N. Yamburenko and Philippe Delpal are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Group's remuneration policies. The remuneration of independent directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Strategy and Investments Committee. In 2014, the Board of Directors established a Strategy and Investments Committee. Nikolai N. Yamburenko, Gary Yamamoto and Yury N. Skrynnik were elected as members of the committee and Nikolai N. Yamburenko was appointed as chairman. The strategy and investments committee is responsible for considering, amongst other matters: (i) strategic business combinations; (ii) acquisitions, mergers, dispositions, divestitures and similar strategic transactions involving the Group together with (iii) fundamental investments of the Group.

Corporate governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. The Company's and the Group's corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit and remuneration committees, ethical conduct, securities dealings and disclosure.

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2014 amounted to RR 17,024 thousand (2013: RR 8,769 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 83,293 thousand for the year ended 31 December 2014 (2013: RR 115,067 thousand). See also Note 34.

Branches

The Company did not operate through any branches during the year ended 31 December 2014.

Treasury shares

On 21 May 2012, the Board unanimously resolved that it is in the best interest of the Company to buy back GDRs from the market for the total amount of up to USD 25 million. During the year ended 31 December 2013, a wholly-owned subsidiary of the Group acquired 1,641,139 GDRs of the Company from the market for a cost of RR 177,331 thousand representing 1.40% of its issued share capital. The voting and dividend rights of these GDRs are suspended. During 2014, there was no buy back of GDRs of the Company.

During 2014, there were no sales of GDRs of the Company (2013: 66,080 GDRs of the Company for a total consideration of RR 7,511 thousand representing 0.06% of its issued share capital).

At 31 December 2014, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (31 December 2013: 1,819,444) of its own GDRs with the total cost of RR 201,205 thousand (31 December 2013: RR 201,205 thousand).

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2015, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

The Independent Auditors, Deloitte Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Artem V. Molchanov
Director
Limassol
22 April 2015

Directors' responsibility statement

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 9 to 63) give a true and fair view of the financial position of HMS Hydraulic Machines & Systems Group plc and its subsidiaries (together with the Company, the "Group") at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

Further, each of the Directors confirms to the best of his or her knowledge that:

- proper books of account have been kept by the Company;
- the Company's consolidated financial statements are in agreement with the books;
- the consolidated financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required; and
- the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

By order of the Board

Artem V. Molchanov	Kirill V. Molchanov
Director	Director
22 April 2015	22 April 2015

Deloitte.

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Independent auditor's report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the 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 International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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Independent auditor's report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on other legal requirements

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

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

Other matter

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

Comparative figures

The financial statements of the Group for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on 24 April 2014.

Nicos Charalambous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus

Limassol, 22 April 2015

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets:			
Property, plant and equipment	7	14,371,174	14,215,280
Other intangible assets	8	1,229,009	1,447,716
Goodwill	9	3,300,399	5,145,730
Investments in associates	11	117,839	127,423
Deferred income tax assets	26	365,063	199,132
Other long-term receivables	15	44,755	375,123
Investment property	16	269,534	-
Total non-current assets		**19,697,773**	**21,510,404**
Current assets:			
Inventories	13	5,984,976	5,476,236
Trade and other receivables and other financial assets	14	11,712,382	9,438,936
Current income tax receivable		156,915	122,805
Cash and cash equivalents	12	4,534,953	1,584,222
Restricted cash		7,588	8,055
Total current assets		**22,396,814**	**16,630,254**
TOTAL ASSETS		**42,094,587**	**38,140,658**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	25	48,329	48,329
Share premium	25	3,523,535	3,523,535
Treasury shares	25	(201,205)	(201,205)
Other reserves		(191,585)	(191,585)
Currency translation reserve		430,519	(170,541)
Retained earnings		4,783,043	6,692,152
Equity attributable to the shareholders of the Company		**8,392,636**	**9,700,685**
Non-controlling interests		**3,550,667**	**3,543,343**
TOTAL EQUITY		**11,943,303**	**13,244,028**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	18	13,234,507	11,521,956
Finance lease liability		205	1,799
Deferred income tax liability	26	1,572,440	1,807,980
Pension liability	19	375,605	442,326
Provisions for liabilities and charges	24	98,366	58,450
Other long-term payables	23	95,000	372,643
Total non-current liabilities		**15,376,123**	**14,205,154**
Current liabilities:			
Trade and other payables	21	9,207,720	8,079,792
Short-term borrowings	18	3,732,401	1,164,640
Provisions for liabilities and charges	24	306,934	200,997
Redemption liability	38	178,862	-
Finance lease liability		2,460	9,489
Pension liability	19	69,428	69,869
Current income tax payable		284,700	212,434
Other taxes payable	22	992,656	954,255
Total current liabilities		**14,775,161**	**10,691,476**
TOTAL LIABILITIES		**30,151,284**	**24,896,630**
TOTAL EQUITY AND LIABILITIES		**42,094,587**	**38,140,658**

Approved for issue and signed on behalf of the Board of Directors on 22 April 2015.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Continuing operations			
Revenue	27	32,350,780	32,358,148
Cost of sales	28	(23,511,060)	(23,372,825)
Gross profit		**8,839,720**	**8,985,323**
Distribution and transportation expenses	29	(1,237,028)	(1,352,222)
General and administrative expenses	30	(4,339,694)	(3,859,610)
Other operating expenses, net	31	(221,754)	(109,813)
Impairment of goodwill	9	(2,186,331)	(16,757)
Impairment of assets of construction business, other than goodwill	9	-	(422,362)
Excess of fair value of net assets acquired over the cost of acquisition	10	-	954,814
Operating profit		**854,913**	**4,179,373**
Finance income	32	220,495	160,320
Finance costs	33	(2,148,085)	(1,740,990)
Share of results of associates	11	(303)	(2,269)
(Loss)/profit before income tax		**(1,072,980)**	**2,596,434**
Income tax expense	26	(502,339)	(523,564)
(Loss)/profit for the year from continuing operations		**(1,575,319)**	**2,072,870**
Discontinued operations			
Loss for the year from discontinued operations	17	-	(917,355)
(Loss)/profit for the year		**(1,575,319)**	**1,155,515**
Shareholders of the Company		(1,595,510)	1,041,801
Non-controlling interests		20,191	113,714
(Loss)/profit for the year		**(1,575,319)**	**1,155,515**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		50,751	31,424
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		700,706	217,297
Currency translation differences of associates	11	(9,281)	4,729
Other comprehensive income for the year		**742,176**	**253,450**
Total comprehensive (loss)/income for the year		**(833,143)**	**1,408,965**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(960,264)	1,237,709
Non-controlling interest		127,121	171,256
Total comprehensive (loss)/income for the year		**(833,143)**	**1,408,965**
Total comprehensive (loss)/income attributable to shareholders of the Company			
Continuing operations		(960,264)	2,141,912
Discontinued operations	17	-	(904,203)
		(960,264)	**1,237,709**
Basic and diluted (loss)/earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	25	**(13.83)**	**8.99**
From continuing operations		(13.83)	16.79
From discontinued operations		-	(7.80)

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
(Loss)/profit before income tax		(1,072,980)	2,596,434
Adjustments for:			
Depreciation and amortisation	7,8	1,481,669	1,340,568
Loss from disposal of property, plant and equipment and intangible assets	31	5,767	6,774
Finance income	32	(220,495)	(160,320)
Finance costs	33	2,148,085	1,740,990
Change in retirement benefits obligations	19	38,217	3,033
Change in warranty provision	28	35,257	16,851
Change in provision for impairment of trade and other receivables and other financial assets	30	277,244	98,709
Change in provision for obsolete inventories	28	64,894	78,456
Change in provision for VAT receivable	30	(71)	(8,663)
Change in provision for legal claims	31	(29,437)	(80,040)
Impairment of goodwill	9	2,186,331	16,757
Impairment of assets of construction business, other than goodwill	9	-	422,362
Excess of fair value of net assets acquired over the cost of acquisition	10	-	(954,814)
Foreign exchange loss/(income), net	31	67,484	(4,259)
Gain on revaluation of redemption liability	31	(119,418)	(50,354)
Net monetary effect on non-operating items		(73,023)	(5,080)
Change in provision for tax risks	30	95,691	(16,243)
Share of results of associates	11	303	2,269
Operating cash flows before working capital changes		**4,885,518**	**5,043,430**
(Increase)/decrease in inventories		(536,844)	1,013,976
Increase in trade and other receivables		(1,740,686)	(572,388)
(Decrease)/increase in taxes payable		(4,413)	266,639
Increase in accounts payable and accrued liabilities		562,719	1,157,969
Decrease in restricted cash		467	48,330
Cash from operations		**3,166,761**	**6,957,956**
Income tax paid		(804,573)	(801,604)
Interest paid		(1,402,522)	(1,428,345)
Net cash from operating activities – continuing operations		959,666	4,728,007
Net cash used in operating activities – discontinued operations		-	(204,945)
Net cash from operating activities		**959,666**	**4,523,062**
Cash flows from investing activities			
Repayment of loans advanced		44,327	31,202
Loans advanced		(36,371)	(242,480)
Loans provided to discontinued operations		-	(614,012)
Proceeds from sale of property, plant and equipment and intangible assets		81,640	93,996
Interest received		21,134	91,346
Proceeds from government grant	23	35,000	60,000
Dividends received		-	1,399
Purchase of property, plant and equipment		(1,157,127)	(1,466,308)
Cash disposed from disposal of subsidiary		-	(9,975)
Acquisition of intangible assets		(65,962)	(86,702)
Acquisitions of subsidiaries, net of cash acquired	10	-	(278,465)
Net cash used in investing activities – continuing operations		(1,077,359)	(2,419,999)
Net cash from investing activities – discontinued operations		-	45,000
Net cash used in investing activities		**(1,077,359)**	**(2,374,999)**
Cash flows from financing activities			
Repayments of borrowings		(6,610,548)	(20,929,874)
Proceeds from borrowings		10,091,492	19,898,643
Payment for finance lease		(10,748)	(7,580)
Buy back of issued shares	25	-	(177,331)
Proceeds from the sale of treasury shares	25	-	7,511
Dividends paid to non-controlling shareholders of subsidiaries		(80,697)	(72,003)
Dividends paid to the shareholders of the Company	25	(393,323)	(791,637)
Net cash from/(used in) financing activities – continuing operations		2,996,176	(2,072,271)
Net cash from financing activities – discontinued operations		-	154,662
Net cash from/(used in) financing activities		**2,996,176**	**(1,917,609)**
Net increase in cash and cash equivalents – continuing operations		**2,878,483**	**235,737**
Net decrease in cash and cash equivalents – discontinued operations		-	**(5,283)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**72,248**	**7,686**
Cash and cash equivalents at the beginning of the year		**1,584,222**	**1,346,082**
Cash and cash equivalents at the end of the year		**4,534,953**	**1,584,222**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2012		**48,329**	**3,523,535**	**(31,507)**	**(191,463)**	**(347,264)**	**6,667,165**	**9,668,795**	**3,870,032**	**13,538,827**
Effect of hyperinflation on opening retained earnings		-	-	-	-	-	(7,810)	(7,810)	(6,045)	**(13,855)**
Balance at 1 January 2013		**48,329**	**3,523,535**	**(31,507)**	**(191,463)**	**(347,264)**	**6,659,355**	**9,660,985**	**3,863,987**	**13,524,972**
Profit for the year		-	-	-	-	-	1,041,801	1,041,801	113,714	**1,155,515**
Other comprehensive income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	19,185	19,185	12,239	**31,424**
Change in cumulative currency translation reserve		-	-	-	-	171,994	-	171,994	45,303	**217,297**
Share of comprehensive income from associates	11	-	-	-	-	4,729	-	4,729	-	**4,729**
Total comprehensive income for the period		-	-	-	-	**176,723**	**1,060,986**	**1,237,709**	**171,256**	**1,408,965**
Buy back of issued shares	25	-	-	(177,331)	-	-	-	(177,331)	-	**(177,331)**
Sale of treasury shares		-	-	7,633	(122)	-	-	7,511	-	**7,511**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(72,080)	**(72,080)**
Dividends declared to the shareholders of the Company	25	-	-	-	-	-	(791,637)	(791,637)	-	**(791,637)**
Total distributions to owners of the Company		-	-	(169,698)	(122)	-	(791,637)	(961,457)	(72,080)	(1,033,537)
Business combinations	10	-	-	-	-	-	-	-	187,502	**187,502**
Acquisition of non-controlling interest in subsidiary	10	-	-	-	-	-	(260,924)	(260,924)	(638,865)	**(899,789)**
Effect of the Group restructuring on non-controlling interest	10	-	-	-	-	-	24,372	24,372	(24,372)	**-**
Disposal of subsidiary	17	-	-	-	-	-	-	-	55,915	**55,915**
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**(169,698)**	**(122)**	**-**	**(1,028,189)**	**(1,198,009)**	**(491,900)**	**(1,689,909)**
Balance at 31 December 2013		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**(170,541)**	**6,692,152**	**9,700,685**	**3,543,343**	**13,244,028**
Effect of hyperinflation on opening retained earnings		-	-	-	-	-	5,268	5,268	5,881	**11,149**
Balance at 1 January 2014		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**(170,541)**	**6,697,420**	**9,705,953**	**3,549,224**	**13,255,177**
(Loss)/profit for the year		-	-	-	-	-	(1,595,510)	(1,595,510)	20,191	**(1,575,319)**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	34,186	34,186	16,565	**50,751**
Change in cumulative currency translation reserve		-	-	-	-	610,341	-	610,341	90,365	**700,706**
Share of comprehensive income from associates	11	-	-	-	-	(9,281)	-	(9,281)	-	**(9,281)**
Total comprehensive income/(loss) for the period		-	**-**	**-**	**-**	**601,060**	**(1,561,324)**	**(960,264)**	**127,121**	**(833,143)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(85,408)	**(85,408)**
Dividends declared to the shareholders of the Company	25	-	-	-	-	-	(393,323)	(393,323)	-	**(393,323)**
Effect of the Group restructuring on non-controlling interest	10	-	-	-	-	-	40,270	40,270	(40,270)	**-**
Total transactions with owners, recognised directly in equity		**-**	**-**	**-**	**-**	**-**	(353,053)	(353,053)	(125,678)	**(478,731)**
Balance at 31 December 2014		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**430,519**	**4,783,043**	**8,392,636**	**3,550,667**	**11,943,303**

1 General Information

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010. The Company's registered office is at 13 Karaiskaki, 3032, Limassol, Cyprus.

The principal business activities of the Company and its subsidiaries (the "Group") are the manufacture and repair of a wide range of pumps and pumping units, compressors, modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk, Ulyanovsk, Tumen regions and the Republic of Tatarstan of the Russian Federation, Sumy in Ukraine, Minsk and Bobruisk in Belorussia, Goessnitz (Thuringia) in Germany.

At 31 December 2014, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2013: 71.51%), including shares in form of GDRs. At 31 December 2014 and 2013, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Group

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

Ukraine's operating environment. In 2014, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia has devalued against major foreign currencies. The National Bank of Ukraine introduced a range of measures aimed at limiting outflow of customer deposits from the banking system, improving liquidity of banks, and supporting the exchange rate of the Ukrainian Hryvnia. Significant external financing is required to support the economy. Stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

One of the Group's subsidiaries, Nasosenergomash OJSC, is located in Sumy, Ukraine, and specializes in pumps manufacturing for oil and gas, thermal and nuclear power, water supply and utilities. Pumps produced by Nasosenergomash OJSC are primarily sold to Russian customers. For the years ended 31 December 2014 and 2013, the revenue of Nasosenergomash OJSC approximated 10% and 13% of consolidated revenue of the Group, respectively. Though by the moment of issuance of these consolidated financial statements, neither sanctions, imposed by the US and EU, nor political environment in Ukraine directly impacted operating activities of Nasosenergomash OJSC, the Group's management believes that certain customers of the Group may take conservative and cautious position when considering the purchase of products from EU and Ukraine. Due to these risks as well as due to high-level capacity utilisation of Nasosenergomash OJSC, the Group has speeded up the previously developed project aimed at building up the respective competencies within Russian subsidiaries of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

3 Summary of Significant Accounting Policies (continued)

Consolidated financial statements. These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, Financial Instruments: recognition and measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3 Summary of Significant Accounting Policies (continued)

Business combinations. Acquisitions of subsidiaries are accounted for using the acquisition method (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

When acquisition does not meet the definition of a business, the Group allocates the cost of such acquisition between the individual identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Goodwill. Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units (“CGUs”), or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

Associates. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Functional and presentation currency. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's subsidiaries and associates are Russian Roubles ("RR"), Ukrainian Hryvnas ("UAH"), Belorussian Roubles ("BYR") and Euro ("EUR"); and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities, denominated in foreign currencies, are translated into the subsidiary's functional currency at the official exchange rate of the country in which the subsidiary operates at the respective transaction or statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each subsidiary's functional currency at year-end official exchange rates are recognised in profit or loss.

Monetary assets and liabilities of each subsidiary are translated into the Group's presentation currency at the official exchange rate of the Central Bank of the Russian Federation at the respective statement of financial position date.

The results and financial position of all of the Group entities (except for Belorussian subsidiaries of the Group, which have a currency of a hyper-inflationary economy – Belorussian Rouble) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2014 and 2013, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2014	31 December 2013	2014	2013
1 USD = RR	56.2584	32.7292	38.6025	31.9063
1 EUR = RR	68.3427	44.9699	50.9928	42.4001
1 UAH = RR	3.5564	3.9720	3.2383	3.9110
1 BYR = RR	0.00388	0.00343	0.00374	0.00358

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

Accounting for the effect of inflation. Since the fourth quarter of 2011, the Belorussian economy has been considered to be hyperinflationary. IAS 29, Financial Reporting in Hyperinflationary Economies, has been applied to restate the financial statements of the Group's subsidiaries based in Belorussia before they are included in these consolidated financial statements. The restatement has been calculated by means of conversion factors derived from the Belorussia Consumer Price Index (CPI) complied by the National Statistical Committee of the Republic of Belarus. The conversion factors used to restate the accompanying financial statements at 31 December 2014 were as follows:

Date	Conversion factors
31 December 2013	1.1622
31 December 2014	1.0000

The significant guidelines followed in restating the financial statements of the Belorussian subsidiaries of the Group are:

(i) all amounts are stated in terms of the measuring unit current at 31 December 2014;

(ii) monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2014;

(iii) non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2014), equity components are restated by applying the relevant conversion factors;

(iv) property, plant and equipment are restated by applying the change in the index from the date of the transaction or, if applicable, from the date of the acquisition of subsidiary by the Group to 31 December 2014. Depreciation is based on the restated amounts;

(v) income statement transactions, except for the depreciation charges explained above, are restated by applying the change in the index from the quarter of transaction to the date of the statement of financial position date;

(vi) all items in the cash flow statement are expressed in terms of the measuring unit current at 31 December 2014;

(vii) the effect of inflation on the net monetary position is included in the consolidated statement of profit or loss and other comprehensive income as a net monetary gain or loss.

The effect of applying IAS 29 is summarized as follows: revenue increased by RR 48,451 (2013: RR 56,845), net monetary loss recognised of RR 4,272 (2013: gain RR 16,698) (Note 31), loss for the period increased by RR 84,757 (2013: RR 32,876). Also, the restatement led to the positive effect on opening retained earnings in amount of RR 11,149 (31 December 2013: negative effect of RR 13,855).

The results and financial position of Belorussian entities of the Group are translated into the presentation currency as follows:

(i) assets, liabilities, equity items, income and expenses are translated at the closing rate at the date of the statement of financial position;

(ii) comparative amounts are those that were presented as current year amounts in the relevant prior year consolidated financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

Current and non-current assets and liabilities. The classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months from the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months of the reporting date. In the case of construction contracts, an asset or liability is classified as non-current when the item is realised or settled respectively beyond the Group's normal operating cycle; and as a current asset or liability when the item is realised or settled in the Group's normal operating cycle. Accordingly, there are amounts due to/due from customers under construction contracts, inventories, advances to suppliers and subcontractors, which may not be realised within twelve months after the reporting date, that have been classified as current.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

3 Summary of Significant Accounting Policies (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Years
Buildings	2-80
Plant and equipment	5-30
Transport	5-15
Other	3-7

Land and construction in progress are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investment property. Investment property is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at historical cost less accumulated depreciation. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised.

Other intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences. Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives, with the exception of customer relationships and order backlog, which are amortised as the economic benefits from these assets are consumed by the Group. Estimated useful lives of the Group's intangible assets are as follows:

	Years
Patents and project documentation	5-20
Licensed technology	1-18
Acquired software licenses	1-7
Customer relationships and order backlog	2-9
Trademarks	5-16
Websites	2-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Non-current assets or disposal groups held for sale. Non-current assets and disposal groups are classified in the consolidated statement of financial position as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

If a non-current asset (or disposal group) no longer meets the criteria of classification, it ceases to be classified as held for sale. This asset is measured at the lower of its carrying amount before the asset (disposal group) was reclassified, adjusted for any depreciation, amortisation or revaluations that would be have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decisions not to sell the asset. Any required adjustment to the carrying amount is included in profit or loss in the period when the reclassification criteria are no longer met.

3 Summary of Significant Accounting Policies (continued)

Discontinued operations. Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification. The comparative statement of profit or loss and other comprehensive income is presented as if the operation had been discontinued from the beginning of the comparative period. Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the statement of financial position.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 38.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

3 Summary of Significant Accounting Policies (continued)

Financial assets. All financial assets of the Group fall into one measurement category: loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, other long-term receivables and cash and cash equivalents in the statement of financial position.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade or other receivable is impaired. The amount of the provision 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 asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less or deposits with original maturity of more than three months which could be withdrawn on demand. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are included in other non-current assets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities. Financial liabilities of the Group consist of symmetrical put/call option and other financial liabilities, which include trade and other payables, borrowings and finance lease liabilities.

The forwards or symmetrical put/call options. The forward or symmetrical put/call options on shares in an existing subsidiary that are held by non-controlling interests and which should be exercised in future at fair value of the underlying non-controlling interest are recognised as financial liability (redemption liability) at present value of the estimated redemption amount with corresponding amount recognised in statement of changes in equity within other reserves. All subsequent changes to the redemption liability are recognised in profit or loss.

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

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 Summary of Significant Accounting Policies (continued)

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance leases. Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income, primarily the Russian Federation. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount receivable, including VAT.

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss for the year over the period necessary to match them with the costs that they are intended to compensate.

3 Summary of Significant Accounting Policies (continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small. 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.

Uncertain tax positions. Management assesses, based on its interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. The assessment is based on the interpretation of law tax that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liability for penalties, interest and taxes other than on income is recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Post-employment and other long-term employee benefits. Group companies operate unfunded post-employment benefits plans and also provide other long-term benefits to employees. Typically, defined benefit plans define an amount of benefit that an employee will receive on retirement or on other certain events, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position date. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Russian government bonds that have terms to maturity approximating to the terms of the related liability.

Remeasurements of defined benefit obligations are actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions. Actuarial gains and losses resulting from increases or decreases in the present value of the defined benefit obligation in respect of post-employment payments are charged or credited to equity in other comprehensive income. Remeasurements of the defined benefit obligation related to other long-term employee benefits are recognised in profit and loss in the period in which they arise.

Past service costs are recognised immediately in profit and loss.

Short-term employee benefits. Wages, salaries, contributions to the state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation for which the Group has no realistic alternative but to make the payment and a reliable estimate of the obligation can be made.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity.

Treasury shares. Where the Group companies purchase the Company's GDRs, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. Where such GDRs are subsequently sold, any consideration received net of income taxes is included in equity. The cost of re-sold treasury shares is calculated using weighted average cost method. Income/loss from re-sale of treasury shares is recorded within other reserves.

Dividends. Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

3 Summary of Significant Accounting Policies (continued)

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, risks and rewards of ownership of the goods have been transferred and it is probable that future economic benefits will flow to the entity. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Construction contracts. Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that has been agreed with the customer and the amounts are capable of being reliably measured.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the statement of financial position date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within trade accounts receivable.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with revenue, result or assets exceeding ten percent of the respective total amount for all segments are reported separately.

Changes in presentation. During 2014, the Group made certain presentational changes in an effort to provide more relevant financial information. In particular, amounts of VAT related to advances received/paid were disclosed on net basis (Notes 14, 21, 22), whereas in the past the Group presented these amounts grossed up in its consolidated statement of financial position. Both approaches on presentation of VAT related to advances received/paid are deemed acceptable under IFRS and the Group has determined that the net basis is the preferable approach.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

To ensure comparability of the consolidated financial statements with the prior year comparative figures at 31 December 2013 the following reclassifications were made:

	Notes	2013 (before reclassification)	VAT related to advances paid/received	2013 (after reclassification)
Trade and other receivables and other financial assets, incl.:	14	**10,367,771**	**(928,835)**	**9,438,936**
Prepayments and advances to suppliers and subcontractors	14	1,172,729	(94,482)	1,078,247
VAT receivable	14	1,419,227	(834,353)	584,874
Trade and other payables, incl.:	21	**8,880,799**	**(801,007)**	**8,079,792**
Advances from customers and prepayments	21	2,553,279	(148,856)	2,404,423
VAT on advances from customers included in receivables due from/payables due to customers for construction work	21	652,151	(652,151)	-
Other taxes payable, incl.:	22	**1,082,083**	**(127,828)**	**954,255**
VAT	22	861,546	(127,828)	733,718

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Assessment of construction revenue and receivables related to construction contracts

The Company accounts for construction projects, design and engineering projects and certain other long-term contracts using the 'percentage-of-completion method'. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the year ended 31 December 2014, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 9,268,900 (2013: RR 7,010,678) (Note 20).

In addition, receivables related to construction contracts and certain other contracts accounted for under the 'percentage-of-completion method' are subject to credit risk. In other words, although some revenue continues to be contractually bound, the customer can still refuse to pay or to pay in time. Where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, any provision against the amount due is recognised as an expense.

In December 2013, the Group signed a RR 5.7 billion contract to deliver technological integrated solution for a major Siberian gasfield. The scope of contract includes development of design documentation, manufacturing, delivery, supervision and testing of a complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components for providing complex integrated systems such as deethanising compressor station, methanol regenerating unit etc. The project implementation time is two years.

The Group applied the percentage of completion method in accounting for this project. The total amount of advances received in relation to this project at 31 December 2014 amounted to RR 1,507,464, net of VAT. For the year ended 31 December 2014, the Group recognised revenue of RR 730,792 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 775,672 was included in payables due to customers for construction work.

During the year ended 31 December 2014, the Group signed a contract to deliver complex equipment for processing of liquid hydrocarbons for large oil-gas-and-condensate fields in Siberia. The scope of contract includes manufacturing and delivery of a complex technological facility, including block-modular process pump stations, block-modular head pump stations, block-modular main pump stations, block-modular retaining pump stations, buildings of oil system and other components of the major process equipment. Total budgeted revenue for this contract at 31 December 2014 amounted to RR 6,444,947. The contract will be fulfilled by the end of 2015.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

The Group applied percentage of completion method in accounting for this project. At 31 December 2014, the total amount of advances received in relation to this project equaled to RR 3,277,185, net of VAT. For the year ended 31 December 2014, the Group recognised revenue of RR 3,106,678 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 170,507 was included in payables due to customers for construction work.

(b) Provisions for claims received and legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements. Refer to Note 35.

(c) Assessment of useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

If the management's estimates on useful lives differ by 10%, the impact on depreciation for the year ended 31 December 2014 would be either increased or decreased by RR 107,726 (2013: RR 105,180).

(d) Estimated impairment of property, plant and equipment and goodwill

At 31 December 2014, the Group performed an impairment tests for each CGU. The recoverable amount of each CGU, except for Tomskgazstroy, was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the period of 5 to 10 years. In preparing budgets, management considers past performance as well as its projections on the respective CGU's future development and performance, including synergy effects. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs.

The key assumptions to which the calculation of value-in-use is most sensitive include WACC, revenue growth rates, operating margin rates and the working capital turnover period through the budgeted period. If the key assumptions, used in value-in-use calculations, do not prove to be correct, certain assets, including goodwill, allocated to the respective CGU, may be subject to impairment. For more details relating to the key assumptions used as well as sensitivity analysis information refer to Note 9.

(e) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 35.

(f) Related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions with related parties are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (Note 34).

(g) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

5 New Standards, Amendments and Interpretations

Certain new standards, amendments and interpretations became effective for the Group from 1 January 2014:

IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, and IAS 27, Separate Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date, annual periods beginning on or after 1 January 2014), provide for the following:

- A revised definition of control for the purposes of determining which arrangements should be consolidated, including guidance on participating and protective rights;
- A reduction in the types of joint ventures to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;
- Elimination of the policy choice of proportional consolidation for joint ventures; and
- Introduction for new requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly control or significantly influences its interests in other entities.

These standards did not have any classification and measurement impact on the Group's financial position or operations. The application of IFRS 12, Disclosure of Interests in Other Entities, results in additional disclosures in these consolidated financial statements (Note 6).

The following new standards, amendments and interpretations were adopted by the Group from 1 January 2014, but had no impact on the consolidated financial statements:

- *IAS 28, Investments in Associates and Joint Ventures*
- *Amendments to IAS 32*, *Offsetting Financial Assets and Financial Liabilities*
- *Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12*
- *Amendments to IFRS 10, IFRS 12 and IAS 27*
- *IFRIC 21, Levies*
- *Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting*.

Certain new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 and which the Group has not early adopted (items marked with * have not been endorsed by the EU; the Group will only be able to apply new standards and interpretations when they are endorsed by the EU).

IFRS 9, Financial Instruments: Classification and Measurement*. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

5 New Standards, Amendments and Interpretations (continued)

Amendments to IAS 19, Defined Benefit Plans: Employee Contributions* (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 14, Regulatory Deferral Accounts* (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The Group does not expect the new standard to have any material effect on its consolidated financial statements.

Amendments to IFRS 11, Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

5 New Standards, Amendments and Interpretations (continued)

The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 16, Property, Plant and Equipment and IAS 41, Agriculture (issued in June 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments distinguish bearer plants from other biological assets as bearer plants are solely used to grow produce over their productive lives. Bearer plants are seen as similar to an item of machinery in a manufacturing process and therefore will be classified as property, plant and equipment and accounted for under IAS 16. The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

Amendments to IAS 27, Separate Financial Statements (issued in August 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

Annual Improvements to IFRSs 2014* (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively. The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively. The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are fist applied. The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements. The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss in recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated. The Group does not expect that the adoption of these amendments will have any material impact on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect these consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

Details of the Group's material subsidiaries at 31 December 2014 and 31 December 2013 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held by the Group at 31 December, % 2014	2013
Segment "Industrial pumps"				
HMS Livhydromash OJSC	Manufacture of pumps	Russia	100.00	100.00
Livnynasos OJSC	Manufacture of pumps	Russia	100.00	100.00
Nasosenergomash OJSC	Manufacture of pumps	Ukraine	83.33	83.33
HYDROMASHSERVICE CJSC	Trading company	Russia	100.00	100.00
Plant Promburvod OJSC	Manufacture of pumps	Belorussia	51.38	51.38
Bobruisk Machine Building Plant OJSC	Manufacture of pumps	Belorussia	56.95	56.95
Dimitrovgradkhimmash OJSC	Manufacture of pumps and oil & gas equipment	Russia	51.00	51.00
Apollo Goessnitz GmbH	Manufacture of pumps	Germany	75.00	75.00
Nizhnevartovskremservis CJSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Institute Rostovskiy Vodokanalproekt OJSC	Engineering services	Russia	85.70	85.70
Segment "Oil and gas equipment"				
HMS Neftemash OJSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash OJSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
EPF "SIBNA" Inc. OJSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompessormash OJSC	Manufacture of compressors	Russia	89.86	89.38
NIITurbokompressor named after V.B.Shnepp CJSC	Development of project documentation	Russia	98.39	95.36
Segment "Engineering, procurement and construction"				
Tomskgazstroy OJSC	Construction services	Russia	80.78	80.78
Giprotyumenneftegaz OJSC	Engineering services	Russia	45.34	45.88
Noyabrskneftegazproekt LLC	Engineering services	Russia	45.34	45.88

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2014						
Segment "Industrial pumps"						
Nasosenergomash OJSC	Ukraine	16.67	16.67	60,644	339,166	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	8,443	115,675	-
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(117,409)	102,522	-
Dimitrovgradkhimmash OJSC	Russia	49.00	49.00	120,228	979,169	60,079
Apollo Goessnitz GmbH	Germany	25.00	25.00	13,258	241,268	-
Institute Rostovskiy Vodokanalproekt OJSC	Russia	14.30	14.30	(1,524)	12,893	407
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	(77,556)	369,642	461
NIITurbokompressor named after V.B.Shnepp CJSC	Russia	1.61	1.40	(2,541)	17,642	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy OJSC	Russia	19.22	23.89	435	(70,617)	-
Giprotyumenneftegaz OJSC	Russia	54.66	48.99	83,521	1,362,584	19,187
Noyabrskneftegazproekt LLC	Russia	54.66	0.00	(67,951)	45,449	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	643	35,274	-

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interests	Accumulated non-controlling interests in the subsidiary	Dividends paid to non-controlling interests during the year
Year ended 31 December 2013						
Segment "Industrial pumps"						
Nasosenergomash OJSC	Ukraine	16.67	16.67	118,264	315,927	13
Plant Promburvod OJSC	Belorussia	48.62	48.62	15,136	92,356	974
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(50,666)	179,239	-
Dimitrovgradkhimmash OJSC	Russia	49.00	49.00	176,366	902,352	70,170
Apollo Goessnitz GmbH	Germany	25.00	25.00	(11,342)	151,201	-
Institute Rostovskiy Vodokanalproekt OJSC	Russia	14.30	14.30	4,450	14,416	-
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.62	5.73	1,614	465,510	107
NIITurbokompressor named after V.B.Shnepp CJSC	Russia	4.64	4.32	(2,828)	54,210	3
Segment "Engineering, procurement and construction"						
Tomskgazstroy OJSC	Russia	19.22	23.89	(160,542)	(71,052)	-
Giprotyumenneftegaz OJSC	Russia	54.12	48.99	46,018	1,290,658	935
Noyabrskneftegazproekt LLC	Russia	54.12	0.00	(22,999)	112,950	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	243	35,396	-

At 31 December 2014 and 2013, the summarised financial information about financial position of these subsidiaries, represented before inter-company eliminations and consolidation adjustments, including goodwill on acquisitions, was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Balance at 31 December 2014				
Segment "Industrial pumps"				
Nasosenergomash OJSC	2,615,396	1,677,978	(2,132,173)	(126,265)
Plant Promburvod OJSC	125,609	160,219	(30,190)	(17,704)
Bobruisk Machine Building Plant OJSC	253,970	625,868	(324,886)	(316,796)
Dimitrovgradkhimmash OJSC	1,210,701	1,285,576	(349,648)	(149,324)
Apollo Goessnitz GmbH	1,111,324	813,623	(826,129)	(133,746)
Institute Rostovskiy Vodokanalproekt OJSC	32,393	98,922	(26,080)	(15,089)
Segment "Compressors"				
Kazankompessormash OJSC	1,734,847	4,916,212	(2,208,522)	(796,723)
NIITurbokompressor named after V.B.Shnepp CJSC	153,058	1,346,277	(311,325)	(95,359)
Segment "Engineering, procurement and construction"				
Tomskgazstroy OJSC	683,221	319,216	(1,362,310)	(7,482)
Giprotyumenneftegaz OJSC	1,846,455	1,712,436	(732,194)	(334,069)
Noyabrskneftegazproekt LLC	19,044	151,268	(56,916)	(30,254)
Balance at 31 December 2013				
Segment "Industrial pumps"				
Nasosenergomash OJSC	2,636,088	1,917,126	(2,498,587)	(159,120)
Plant Promburvod OJSC	122,754	120,740	(39,279)	(14,247)
Bobruisk Machine Building Plant OJSC	229,012	539,427	(241,275)	(110,799)
Dimitrovgradkhimmash OJSC	1,146,726	1,161,870	(281,488)	(185,205)
Apollo Goessnitz GmbH	517,157	585,914	(383,373)	(110,896)
Institute Rostovskiy Vodokanalproekt OJSC	44,559	101,973	(30,286)	(15,447)
Segment "Compressors"				
Kazankompessormash OJSC	1,479,119	5,203,002	(1,318,046)	(979,159)
NIITurbokompressor named after V.B.Shnepp CJSC	163,340	1,452,992	(132,131)	(316,498)
Segment "Engineering, procurement and construction"				
Tomskgazstroy OJSC	506,776	357,184	(1,227,864)	(5,714)
Giprotyumenneftegaz OJSC	2,006,970	1,380,923	(648,470)	(354,792)
Noyabrskneftegazproekt LLC	156,999	272,229	(165,256)	(55,284)

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

The summarised financial information about transactions and cash flows for the years ended 31 December 2014 and 2013 of these subsidiaries before inter-company eliminations was as follows:

	Revenue	Profit/ (loss)	Total compre-hensive income/ (loss)*	Net cash inflow/ (outflow) from operating activities	Net cash inflow/ (outflow) from investing activities	Net cash inflow/ (outflow) from financing activities
Year ended 31 December 2014						
Segment "Industrial pumps"						
Nasosenergomash OJSC	3,268,863	363,855	(176,662)	75,118	(2,011)	78,855
Plant Promburvod OJSC	379,758	17,367	10,559	25,613	(11,702)	(13,578)
Bobruisk Machine Building Plant OJSC	485,048	(272,736)	(208,211)	(3,122)	(19,613)	41,180
Dimitrovgradkhimmash OJSC	2,319,174	244,627	278,172	298,851	(160,665)	(111,163)
Apollo Goessnitz GmbH	1,309,654	53,032	436,059	22,462	(38,744)	1,576
Institute Rostovskiy Vodokanalproekt OJSC	32,542	(10,654)	(10,654)	(11,906)	-	3,800
Segment "Compressors"						
Kazankompessormash OJSC	2,574,551	(749,952)	(739,102)	(475,382)	(70,810)	704,291
NIITurbokompressor named after V.B.Shnepp CJSC	284,734	(81,448)	(75,052)	(18,715)	(12,942)	7,765
Segment "Engineering, procurement and construction"						
Tomskgazstroy OJSC	1,089,181	2,263	2,263	72,911	(13,631)	(21,500)
Giprotyumenneftegaz OJSC	2,217,662	152,788	151,893	271,484	(148,976)	(46,464)
Noyabrskneftegazproekt LLC	49,729	-	-	575	5,797	-
Year ended 31 December 2013						
Segment "Industrial pumps"						
Nasosenergomash OJSC	4,078,559	709,561	385,885	505,843	(588,739)	122,421
Plant Promburvod OJSC	328,628	31,134	(13,093)	(2,823)	(5,737)	1,587
Bobruisk Machine Building Plant OJSC	476,955	(117,695)	(127,658)	(3,353)	(87,532)	(37,017)
Dimitrovgradkhimmash OJSC	2,131,790	359,931	381,583	236,537	(33,205)	(143,806)
Apollo Goessnitz GmbH	812,087	(45,368)	30,421	(72,767)	(29,252)	-
Institute Rostovskiy Vodokanalproekt OJSC	67,464	19,563	19,563	13,437	-	1,740
Segment "Compressors"						
Kazankompessormash OJSC	4,180,655	69,730	79,228	288,322	21,244	(280,195)
NIITurbokompressor named after V.B.Shnepp CJSC	182,634	(47,333)	(53,493)	36,303	(1,337)	(14,337)
Segment "Engineering, procurement and construction"						
Tomskgazstroy OJSC	598,882	(835,149)	(835,149)	(289,205)	(19,911)	309,630
Giprotyumenneftegaz OJSC	2,134,440	(22,999)	89,590	182,377	(28,839)	(154,718)
Noyabrskneftegazproekt LLC	143,669	85,023	(42,541)	(229,226)	477,909	(240,574)

* Total comprehensive income/(loss) includes profit/(loss) for the year and amounts of change in cumulative currency translation reserve and remeasurements of post-employment benefit obligations.

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2013	**1,442,507**	**8,320,476**	**4,910,988**	**302,567**	**617,176**	**1,293,572**	**16,887,286**
Additions	15,520	172,867	460,536	30,018	93,018	698,486	1,470,445
Transfers	-	381,629	635,723	-	32,052	(1,049,404)	-
Acquisitions through business combinations (Note 10)	24,936	122,860	32,706	2,394	7,386	6,274	196,556
Effect of hyperinflation on profit or loss	-	21,855	50,366	1,636	7,542	-	81,399
Disposal of subsidiaries (Note 17)	(38,333)	(427,069)	(387,786)	(31,044)	(25,947)	(1,290)	(911,469)
Disposals	(2,203)	(69,993)	(94,763)	(19,059)	(42,350)	(30,185)	(258,553)
Translation to presentation currency	3,727	27,008	46,414	638	5,527	22,510	105,824
Balance at 31 December 2013	**1,446,154**	**8,549,633**	**5,654,184**	**287,150**	**694,404**	**939,963**	**17,571,488**
Additions	4,635	120,022	522,308	24,717	114,618	440,348	1,226,648
Transfers	-	165,716	337,327	-	3,296	(506,339)	-
Effect of hyperinflation on profit or loss	-	34,749	81,265	2,398	10,785	-	129,197
Disposals	(5,450)	(35,939)	(69,967)	(24,404)	(36,318)	(31,174)	(203,252)
Translation to presentation currency	7,247	35,312	17,267	(96)	21,628	(11,694)	69,664
Balance at 31 December 2014	**1,452,586**	**8,869,493**	**6, 542,384**	**289,765**	**808,413**	**831,104**	**18,793,745**
Accumulated depreciation and impairment							
Balance at 1 January 2013	**-**	**(677,176)**	**(1,338,579)**	**(152,344)**	**(303,175)**	**(507)**	**(2,471,781)**
Effect of hyperinflation on profit or loss	-	(2,408)	(12,688)	(413)	(2,174)	-	(17,683)
Eliminated on disposals	-	9,641	59,310	8,169	33,448	393	110,961
Depreciation expense	-	(343,595)	(558,556)	(38,302)	(111,348)	-	(1,051,801)
Impairment charge	(7,993)	(63,781)	(146,286)	(1,593)	(4,534)	-	(224,187)
Disposal of subsidiaries (Note 17)	-	102,283	175,115	16,440	16,892	-	310,730
Translation to presentation currency	-	(2,896)	(7,519)	(312)	(1,720)	-	(12,447)
Balance at 31 December 2013	**(7,993)**	**(977,932)**	**(1,829,203)**	**(168,355)**	**(372,611)**	**(114)**	**(3,356,208)**
Effect of hyperinflation on profit or loss	-	(4,831)	(24,813)	(958)	(4,384)	-	(34,986)
Eliminated on disposals	-	5,218	39,485	16,456	21,973	114	83,246
Depreciation expense	-	(332,323)	(596,230)	(34,124)	(114,584)	-	(1,077,261)
Impairment reverse	-	465	1,643	-	263	-	2,371
Translation to presentation currency	-	(9,318)	(22,574)	(159)	(7,682)	-	(39,733)
Balance at 31 December 2014	**(7,993)**	**(1,318,721)**	**(2,431,692)**	**(187,140)**	**(477,025)**	**-**	**(4,422,571)**
Carrying amount							
Carrying amount at 1 January 2013	**1,442,507**	**7,643,300**	**3,572,409**	**150,223**	**314,001**	**1,293,065**	**14,415,505**
Carrying amount at 31 December 2013	**1,438,161**	**7,571,701**	**3,824,981**	**118,795**	**321,793**	**939,849**	**14,215,280**
Carrying amount at 31 December 2014	**1,444,593**	**7,550,772**	**4,110,692**	**102,625**	**331,388**	**831,104**	**14,371,174**

At 31 December 2014, the Group's property, plant and equipment for a total of RR 514,579 had been pledged as security for certain borrowings (31 December 2013: RR 579,916), including RR nil related to undrawn credit facilities (31 December 2013: RR 164,882) (Note 18).

Construction-in-progress includes advances for capital expenditures for a total of RR 112,140 at 31 December 2014 (31 December 2013: RR 148,456).

At 31 December 2014, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 526,005 (31 December 2013: RR 270,915).

At 31 December 2014 and 2013 the Group performed a review of the carrying amounts of its property, plant and equipment to determine whether there was any indication that those assets had suffered an impairment loss. Where those indicators were identified the recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period from five to ten years. Cash flows beyond this period are extrapolated using the estimated growth rates stated in Note 9. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment (continued)

Based on the results of these calculations, the Group concluded that no impairment charge was required at 31 December 2014 and for the year then ended. At 31 December 2013 the Group recognised an impairment of property, plant and equipment of Tomskgazstroy OJSC in the amount of RR 224,187.

8 Other Intangible Assets

	Patents and project documen-tation	Licensed technology	Acquired software licenses	Customer relationships and order backlog	Trademarks	Websites	Total
Cost							
Balance at 1 January 2013	**109,820**	**35,275**	**134,388**	**914,004**	**197,131**	**1,277**	**1,391,895**
Additions	14,573	27,403	44,584	-	56	86	86,702
Acquisitions through business combinations (Note 10)	417,760	14,889	-	281,282	-	-	713,931
Disposal of subsidiaries (Note 17)	-	-	(58)	-	-	-	(58)
Disposals	(4,066)	(7,816)	(35,859)	-	-	(69)	(47,810)
Translation to presentation currency	11,811	962	921	26,436	487	(1)	40,616
Balance at 31 December 2013	**549,898**	**70,713**	**143,976**	**1,221,722**	**197,674**	**1,293**	**2,185,276**
Additions	8,891	18,789	42,889	-	155	-	70,724
Disposals	(9,309)	(8,253)	(33,556)	-	-	-	(51,118)
Translation to presentation currency	57,640	(3,878)	(997)	130,477	(951)	6	182,297
Balance at 31 December 2014	**607,120**	**77,371**	**152,312**	**1,352,199**	**196,878**	**1,299**	**2,387,179**
Accumulated amortisation and impairment							
Balance at 1 January 2013	**(11,760)**	**(12,041)**	**(43,871)**	**(331,285)**	**(36,987)**	**(504)**	**(436,448)**
Amortisation on disposals	1,504	6,971	34,610	-	2,556	69	45,710
Amortisation expense	(66,563)	(9,958)	(43,943)	(187,553)	(30,942)	(142)	(339,101)
Disposal of subsidiaries (Note 17)	-	-	31	-	-	-	31
Translation to presentation currency	(1,863)	(209)	(298)	(5,271)	(112)	1	(7,752)
Balance at 31 December 2013	**(78,682)**	**(15,237)**	**(53,471)**	**(524,109)**	**(65,485)**	**(576)**	**(737,560)**
Amortisation on disposals	11,865	3,776	33,271	-	(2,556)	-	46,356
Amortisation expense	(114,696)	(11,616)	(50,789)	(200,963)	(26,223)	(121)	(404,408)
Translation to presentation currency	(20,372)	376	59	(42,829)	214	(6)	(62,558)
Balance at 31 December 2014	**(201,885)**	**(22,701)**	**(70,930)**	**(767,901)**	**(94,050)**	**(703)**	**(1,158,170)**
Carrying amount							
Carrying amount at 1 January 2013	**98,060**	**23,234**	**90,517**	**582,719**	**160,144**	**773**	**955,447**
Carrying amount at 31 December 2013	**471,216**	**55,476**	**90,505**	**697,613**	**132,189**	**717**	**1,447,716**
Carrying amount at 31 December 2014	**405,235**	**54,670**	**81,382**	**584,298**	**102,828**	**596**	**1,229,009**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill

Movements in goodwill and the composition of the goodwill balance are as follows:

	2014	2013
Gross book value	5,184,604	5,305,991
Accumulated impairment	(38,874)	(116,998)
Carrying amount at 1 January	**5,145,730**	**5,188,993**
Disposal of subsidiaries (Note 17)	-	(95,691)
Impairment loss	(2,186,331)	(16,757)
Effect of translation to presentation currency	341,000	69,185
Carrying amount at 31 December	**3,300,399**	**5,145,730**
Gross book value	5,525,604	5,184,604
Accumulated impairment	(2,225,205)	(38,874)
Carrying amount at 31 December	**3,300,399**	**5,145,730**

Goodwill is allocated to CGUs, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment for segment reporting purposes as follows:

	31 December 2014	31 December 2013
Kazankompressormash OJSC (Note 10)	1,239,809	2,242,341
Giprotyumenneftegaz OJSC (“GTNG”)	370,360	1,481,442
Apollo Goessnitz GmbH	997,111	656,111
Sibneftemash OJSC	511,784	511,784
EPF “SIBNA” Inc. OJSC	117,308	117,308
Institute Rostovskiy Vodokanalproekt OJSC	-	72,717
Dimitrovgradkhimmash OJSC	64,027	64,027
Total carrying amount of goodwill	**3,300,399**	**5,145,730**

For the purpose of impairment testing, the recoverable amount of each CGU was determined based on value-in-use calculations, with the exception of Tomskgazstroy OJSC CGU, for which the recoverable amount was determined based on the fair value less costs to sell (see details below). These calculations use cash flow projections based on financial budgets approved by management covering a period from five to ten years. A period of more than five years is used if it is considered that the fifth year of a forecast is not indicative of expected long-term future performance of a CGU as operations may not have reached maturity, which may be the case in developing markets such as Russian Federation or/and when the Group’s formal long-term strategy for the CGU covers longer period. Cash flows beyond this period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. Management determined budgeted revenue increase rates, operating margin rates and working capital turnover period based on past performance as well as on its projections on the respective CGU’s future development and performance, including synergy effects. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Assumptions used for value-in-use calculations are summarised in the table below:

	31 December 2014	31 December 2013
For Apollo Goessnitz GmbH CGU:		
Forecast period	8 years	8 years
Growth rate beyond 8 years	2.0%	2.0%
Pre-tax discount rate	14.1%	14.1%
For other CGUs:		
Forecast period	5-10 years	5 years
Growth rate beyond forecast period	3.0%	3.0%
Pre-tax discount rate	21.2-23.3%	19.4-19.8%

9 Goodwill (continued)

At 31 December 2014, the Group tested goodwill in relation to the acquisition of its subsidiary Kazankompressormash OJSC, part of reportable segment "Compressors", and concluded that goodwill in the amount of RR 1,002,532 had to be impaired. This impairment resulted primarily from adjustment in disount rate, reflecting recent changes in the economic environment in the Russian Federation.

The projected cash flow of Kazankompressormash OJSC is based on the Group's long-term strategy of developing compressor business, aimed at providing an increase in the company's revenues and margins, earned from the market of gas pumping units.

If actual revenue is 10% lower than budgeted amounts or operating margins are 10% lower than their budgeted level, the additional impairment loss, related to the goodwill, may reach up to RR 1 billion.

At 31 December 2014, the Group also tested goodwill in relation to the acquisition of its subsidiary Giprotyumenneftegaz OJSC, part of reportable segment "Engineering, procurement and construction", and concluded that the full amount of goodwill relating to this CGU in the amount of RR 1,111,082 had to be impaired. This impairment resulted primarily from changes of the future growth and profitability assumptions in order to bring them in line with expected market developments, past performance of the business and from adjustment in discount rate, reflecting recent changes in the economic environment in the Russian Federation. Management concluded that the reasonably possible deviations of assumptions underlying cash flow projection of Giprotyumenneftegaz OJSC did not materially affect the recoverable amount of this CGU. The goodwill of RR 370,360 that arose on acquisition of GTNG and remained unimpaired at 31 December 2014 relates to Oil and gas equipment segment of the Group where no impairment was identified at the year-end.

The Group also fully impaired goodwill relating to its subsidiary Institute Rostovskiy Vodokanalproekt OJSC, part of Industrial pumps segment, due to changes of the future growth and profitability assumptions and adjustment in discount rate. Management concluded that the reasonably possible deviations of assumptions underlying cash flow projection of Institute Rostovskiy Vodokanalproekt OJSC did not materially affect the recoverable amount of this CGU.

At 31 December 2013, as a result of the impairment test, the Group recognised the impairment of assets of its subsidiary, Tomskgazstroy OJSC, which is mainly involved in construction and repair of gas pipelines and which belongs to the reportable segment "Engineering, procurement and construction" of the Group. This impairment was basically caused by a significant deterioration of the oil and gas construction market in 2014, through continuing decrease in margins and decrease in volume of the oil and gas construction works available for the independent contractors. The fair value less costs to sell was determined as a recoverable amount of this CGU and was calculated by reference to an active market of relevant assets of the CGU. Based on the results of these calculations, the Group impaired goodwill related to Tomskgazstroy OJSC for RR 16,757 and recognised impairment charge in relation to its property, plant and equipment for RR 224,187 (Note 7). Additionally, the Group recognised impairment of inventory of Tomskgazstroy OJSC for RR 75,869 and wrote off the accumulated deferred tax asset in amount of RR 122,306. At 31 December 2013, the recoverable amount of this CGU was approximately RR 500 million.

10 Business Combinations

Acquisition of NIITurbokompressor named after V.B.Shnepp CJSC

During March-June 2013, the Group concluded a number of agreements to acquire 95.36% of the shares (95.68% of the voting shares) in NIITurbokompressor named after V.B.Shnepp CJSC ("NIITK") for a total cash consideration of RR 320,574, obtaining control in April 2013. NIITK, located in Kazan, is the leading Russian project and design institute, focused on compressor technologies. NIITK also holds 15.77% (16.47% of the voting shares) of Kazankompressormash OJSC ("KKM") share capital.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at its respective share in the fair value of the acquired entity's identifiable net assets at the date of acquisition.

(in thousands of Russian Roubles, unless otherwise stated)

10 Business Combinations (continued)

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis. The purchase price allocation was finalised at 31 December 2013 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition	Final value at the date of acquisition
Property, plant and equipment	164,343	164,343
Other intangible assets	14,889	432,649
Investment in Kazankompressormash OJSC (a controlled subsidiary of the Group)	899,789	899,789
Other long-term receivables	4,685	4,685
Inventories	39,548	39,548
Trade and other receivables and other financial assets	113,276	113,276
Cash and cash equivalents	5,203	5,203
Long-term borrowing from Group's subsidiary	(199,548)	(199,548)
Deferred income tax liability	(24,551)	(108,103)
Pension liability – non-current portion	(12,953)	(12,064)
Trade and other payables	(57,430)	(57,430)
Short-term borrowings	(40,134)	(40,134)
Other taxes payable	(13,230)	(13,230)
Pension liability – current portion	(7,818)	(7,774)
Fair value of net assets	**886,069**	**1,221,210**
Less: Non-controlling interest	(44,038)	(56,695)
Fair value of acquired interest in net assets	**842,031**	**1,164,515**
Excess of fair value of net assets acquired over the cost of acquisition	(521,457)	(843,941)
Total purchase consideration	**320,574**	**320,574**
Less: cash and cash equivalents acquired in a business combination	(5,203)	(5,203)
Outflow of cash and cash equivalents on acquisition	**315,371**	**315,371**

The acquired company contributed revenue of RR 88,278 and loss after income tax of RR 27,450 to the Group for the period from the date of acquisition to 31 December 2013. Had the acquisition occurred on 1 January 2013, the revenue from the acquired business would have been RR 172,700 and profit after income tax would have been RR 3,988 for the year ended 31 December 2013.

A gain of RR 843,941, representing the amount of the Group's share in the fair value of net assets acquired in excess of the acquisition cost, has been recorded in the consolidated statement of profit or loss and other comprehensive income. This excess amount resulted from the Group's strong negotiating position with the selling shareholders, which, among other factors, was due to the Group's dominant position as a main customer of the acquired company.

In March 2013, the Group issued long-term loan to NIITK in the amount of RR 199,548 with a 9.5% market interest rate. Upon the acquisition of NIITK by the Group, this loan was eliminated on consolidation as intra-group loan.

Acquisition of Noyabrskneftegazproekt LLC

In June 2013, GTNG, the Group's subsidiary, acquired 100% of the shares in Noyabrskneftegazproekt LLC for RR 9,500 paid in cash. The acquired entity's activity is rendering design and engineering services for oil and gas companies located mainly in Tyumen Region.

The acquired company contributed revenue of RR 143,669 and loss after income tax of RR 42,451 to the Group for the period from the date of acquisition to 31 December 2013. Had the acquisition occurred on 1 January 2013, the revenue from the acquired business would have been RR 183,913 and loss after income tax would have been RR 173,122 for the year ended 31 December 2013.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at its respective share in the fair value of the acquired entity's identifiable net assets at the date of acquisition.

(in thousands of Russian Roubles, unless otherwise stated)

10 Business Combinations (continued)

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis. The purchase price allocation was finalised at 31 December 2013 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Final value at the date of acquisition
Property, plant and equipment	32,212
Other intangible assets	281,282
Inventories	1,396
Trade and other receivables and other financial assets	57,837
Cash and cash equivalents	46,406
Deferred income tax liability	(56,256)
Pension liability – non-current portion	(20,797)
Trade and other payables	(69,200)
Short-term provisions for liabilities and charges	(6,205)
Other taxes payable	(12,573)
Pension liability – current portion	(2,922)
Fair value of net assets	**251,180**
Less: Non-controlling interest	(130,807)
Fair value of acquired interest in net assets	**120,373**
Excess of fair value of net assets acquired over the cost of acquisition	(110,873)
Total purchase consideration	**9,500**
Less: cash and cash equivalents acquired in a business combination	(46,406)
Inflow of cash and cash equivalents on acquisition	**(36,906)**

A gain of RR 110,873, representing the amount of the Group's share in the fair value of net assets acquired in excess of the acquisition cost, has been recorded in the consolidated statement of profit or loss and other comprehensive income. This gain resulted from the Group's experience, expertise and strong market position in design and engineering service business which allowed the Group to enter into long term contractual arrangements upon acquisition of Noyabrskneftegazproekt LLC.

In December 2014, the Group acquired additional ordinary share issue of NIITK, as a result non-controlling interests in NIITK and Kazankompressormash OJSC were decreased by RR 53,593. During 2014, ordinary shares of GTNG were transferred between subsidiaries of the Group, which led to the increase of non-controlling interest by RR 13,323. Both transactions were presented as the effect of the Group restructuring on non-controlling interest in consolidated statement of changes in equity.

In December 2013, as a result of minor Group restructuring non-controlling interest decreased by RR 24,372.

11 Investments in Associates

The Group's investments in associates are as follows:

	2014	**2013**
Carrying amount at 1 January	**127,423**	**124,963**
Share of after tax results of associates	(303)	(2,269)
Effect of other changes, including translation to presentation currency	(9,281)	4,729
Carrying amount at 31 December	**117,839**	**127,423**

At 31 December 2014, the Group owned 47.69% in its associate VNIIAEN OJSC (at 31 December 2013: 47.47%), located in Ukraine. VNIIAEN OJSC is a research and development centre, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

In April 2014, the Group acquired 0.22% of ordinary shares in VNIIAEN OJSC for RR 34 paid in cash, increasing its share in associate from 47.47% to 47.69%.

(in thousands of Russian Roubles, unless otherwise stated)

11 Investments in Associates (continued)

The table below summarises financial information of VNIIAEN OJSC:

	At 31 December 2014 and for the year then ended	At 31 December 2013 and for the year then ended
Total non-current assets	157,747	180,400
Total current assets	19,316	18,051
Total non-current liabilities	(12,238)	(14,103)
Total current liabilities	(8,172)	(8,421)
Revenue	67,955	76,402
Loss after tax	(636)	(4,780)
Other comprehensive (loss)/income	(19,461)	9,962

At 31 December 2013, after the disposal of the controlling share in Trest Sibkomplektmontazhnaladka OJSC, the Group retained an effective interest of 15.01% which was achieved through an ownership of 32.71% in share capital of this entity by one of the Group's subsidiaries. As of 31 December 2013, the Group's management impaired this remaining interest in Trest Sibkomplektmontazhnaladka OJSC in full amount, as the management concluded that no economic benefits would be obtained by the Group from this investment.

12 Cash and Cash Equivalents

	31 December 2014	31 December 2013
Cash on hand	2,664	1,539
RR denominated balances with banks	714,882	513,404
Foreign currency denominated balances with banks	296,874	462,934
RR denominated bank deposits	3,347,770	477,273
Foreign currency denominated bank deposits	151,858	114,791
Other cash equivalents	20,905	14,281
Total cash and cash equivalents	**4,534,953**	**1,584,222**

At 31 December 2014, the closing balance of short-term bank deposits denominated in RR comprised short-term bank deposits in five banks with 2.6-26.9% annual interest rate (31 December 2013: 3.0-10.5% – three banks).

At 31 December 2014, the closing balance of short-term bank deposits denominated in foreign currency comprised short-term bank deposits in two banks (31 December 2013: one bank). Annual interest rate of short-term bank deposits denominated in UAH was 10.0-20.0% (31 December 2013: 14.0-17.0% in UAH).

Restricted cash. Restricted cash of RR 7,588 (31 December 2013: RR 8,055) represents minimum balances for settlement of the Group's corporate plastic cards accounts.

13 Inventories

	31 December 2014	31 December 2013
Raw materials and supplies	3,003,196	2,536,327
Work in progress	2,101,319	1,675,233
Finished goods and goods for resale	1,202,825	1,578,425
Provision for obsolete inventories	(322,364)	(313,749)
Total inventories	**5,984,976**	**5,476,236**

At 31 December 2014, inventories of RR 26,810 were pledged as collateral for certain borrowings (31 December 2013: RR 65,273) (Note 18).The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 28.

(in thousands of Russian Roubles, unless otherwise stated)

14 Trade and Other Receivables and Other Financial Assets

	31 December 2014	31 December 2013
Trade receivables	8,822,821	5,705,736
Less: provision for impairment of trade receivables	(303,988)	(192,459)
Short-term loans issued	153,130	107,228
Less: provision for impairment of short-term loans issued	(36,647)	-
Bank deposits	109,411	285,526
Other receivables	156,955	420,544
Less: provision for impairment of other receivables	(56,881)	(10,095)
Receivables due from customers for construction work (Note 20)	754,109	1,487,658
Financial assets, net	**9,598,910**	**7,804,138**
Prepayments and advances to suppliers and subcontractors	1,488,492	1,078,247
Less: provision for impairment of advances to suppliers and subcontractors	(42,860)	(38,697)
VAT receivable (Note 3)	650,639	584,874
Less: provision for VAT receivable	(6,177)	(6,987)
Other taxes receivable	23,378	17,361
Non-financial assets, net	**2,113,472**	**1,634,798**
Total trade and other receivables and other financial assets	**11,712,382**	**9,438,936**

VAT receivable balance relates to export sales which is normally offset against VAT payable after appropriate confirmation is received from the tax authorities. Such confirmation is expected to be received subsequent to the reporting date.

At 31 December 2014, the closing balance of short-term bank deposits denominated in RR comprised short-term bank deposits in four banks with 3.0-9.5% annual interest rate (31 December 2013: 2.0-23.5% – six banks). At 31 December 2014, the closing balance of short-term bank deposit denominated in foreign currency comprised short-term bank deposit in four banks (31 December 2013: three banks). Annual interest rate of short-term bank deposit denominated in USD were 0.8-5.5% (31 December 2013: 0.8%). Annual interest rates of short-term bank deposits denominated in EUR were 1.0-22.0% (31 December 2013: 1.0-35.0%).

At 31 December 2014, short-term bank deposits and trade receivables arising from certain sales contracts in the amount of RR 11,618 (31 December 2013: RR 7,645) and RR 338,913 (31 December 2013: RR 218,600), respectively, were pledged as collateral for certain borrowings (Note 18).

At 31 December 2014, trade receivables of RR 303,988 (31 December 2013: RR 192,459) and other financial receivables of RR 93,528 (31 December 2013: RR 10,095) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

Movements in the provision for impairment of financial assets within trade and other receivables and non-financial assets within other receivables are presented below:

	Provision for impairment of trade receivables	Provision for impairment of other financial receivables	Provision for impairment of non-financial assets
At 1 January 2013	**121,928**	**107,249**	**92,213**
Provision for receivables impairment	132,550	10,468	95,737
Unused amounts reversed	(32,863)	(4,993)	(15,021)
Receivables written off during the year as uncollectible	(11,006)	(375)	(3,868)
Disposal of subsidiaries	(18,167)	(102,254)	(125,101)
Effect of translation to presentation currency	17	-	1,724
At 31 December 2013	**192,459**	**10,095**	**45,684**
Provision for receivables impairment	196,001	82,349	40,983
Unused amounts reversed	(28,332)	(634)	(13,194)
Receivables written off during the year as uncollectible	(56,221)	(288)	(21,982)
Effect of translation to presentation currency	81	2,006	(2,454)
At 31 December 2014	**303,988**	**93,528**	**49,037**

The creation and release of provision for receivables impairment have been included in the Change in provision for impairment of accounts receivable (Note 30). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Information related to aging of receivables past due but not impaired was disclosed in Note 37.

(in thousands of Russian Roubles, unless otherwise stated)

14 Trade and Other Receivables and Other Financial Assets (continued)

The carrying amounts of the Group's financial assets within trade and other receivables and other financial assets are denominated in the following currencies:

	31 December 2014	31 December 2013
RR	8,683,836	7,118,259
USD	472,696	392,841
EUR	402,504	261,741
BYR	26,618	20,698
UAH	13,256	10,599
Financial assets, net	**9,598,910**	**7,804,138**

15 Other Long-term Receivables

	31 December 2014	31 December 2013
Long-term loans issued	35,956	337,630
Long-term bank deposits	100	30,300
Financial assets	**36,056**	**367,930**
Other non-current assets	8,699	7,193
Non-financial assets	**8,699**	**7,193**
Total other long-term receivables	**44,755**	**375,123**

16 Investment Property

In February 2014, the Group received certain buildings and land plots with an estimated fair value of RR 286,370 as repayment for certain loans from Trest Sibkomplektmontazhnaladka OJSC, a former subsidiary of the Group, sold in December 2013. The excess of the fair value of the assets received over the carrying amount of the loan, amounting to RR 44,327, was recognised within Finance income (Note 32).

As the Group plans to hold these assets to earn rentals or for capital appreciation, these buildings are accounted as investment property. The fair value of investment property was determined using Level 3 inputs. At 31 December 2014, the fair value of investment property approximates its carrying amount.

17 Discontinued Operations

In December 2013, as part of its strategy to dispose of construction business, the Group sold a 67.29% share in Trest Sibkomplektmontazhnaladka OJSC for a total consideration of RR 6. The performance of Trest Sibkomplektmontazhnaladka OJSC represented significant part of the operating segment "Engineering, procurement and construction". Consequently, operating results of disposed subsidiary as well as loss from its disposal were presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

The results of discontinued operations were as follows:

	2013
Revenue	1,647,208
Expenses	(1,861,305)
Loss before income tax	**(214,097)**
Income tax expense	42,732
Loss net of tax	**(171,365)**
Net loss on disposal	(745,990)
Loss for the period	**(917,355)**
Attributable to:	
Shareholders of the Company	(904,203)
Non-controlling interest	(13,152)

(in thousands of Russian Roubles, unless otherwise stated)

17 Discontinued Operations (continued)

A summary of assets and liabilities of Trest Sibkomplektmontazhnaladka OJSC at the date of disposal is presented below:

	Carrying value at the date of disposal
Property, plant and equipment	600,739
Other intangible assets	27
Deferred income tax assets	180,769
Other long-term receivables	127
Inventories	203,125
Trade and other receivables and other financial assets	897,111
Cash and cash equivalents	9,981
Short-term borrowings	(1,285,784)
Trade and other payables	(813,901)
Short-term provisions for liabilities and charges	(12,970)
Other taxes payable	(23,331)
Net liabilities disposed off	**(244,107)**
Less: Non-controlling interest	55,915
Goodwill	95,691
Impairment of intragroup loans issued	858,628
Consideration received in cash	(6)
Loss on disposal before income tax	**766,121**
Income tax effect on loss of disposal	(20,131)
Loss on disposal after income tax	**745,990**
Consideration received in cash	(6)
Less: cash and cash equivalents of subsidiary disposed of	9,981
Net outflow of cash and cash equivalents on disposal	**9,975**

(in thousands of Russian Roubles, unless otherwise stated)

18 Borrowings

	Interest rate	Denomi-nated in	31 December 2014	31 December 2013
Long-term unsecured bank loans and bonds:				
Bonds 1	10.75%	RR	2,099,199	2,992,403
Bonds 2	10.10%	RR	2,994,383	2,992,598
Unsecured bank loans	9.95% - 13.33%	RR	8,959,165	3,886,800
Unsecured bank loans	from EURIBOR+3.82% to 5%	EUR	1,802,316	1,183,870
Unsecured bank loans	11.00%	USD	8,873	550,437
			15,863,936	**11,606,108**
Long-term secured bank loans:				
Secured loans	EURIBOR+2.84% - EURIBOR+6%	EUR	381,108	210,567
Secured loans	10.00% - 11.50%	USD	40,423	47,489
			421,531	**258,056**
Less: current portion of long-term borrowings			(3,050,960)	(342,208)
Total long-term borrowings			**13,234,507**	**11,521,956**
Short-term unsecured loans:				
Unsecured bank loans	17.00%	RR	39,000	519,938
Unsecured bank loans	-	EUR	-	24
			39,000	**519,962**
Short-term secured bank loans:				
Secured loans	15.00% - 23.00%	RR	309,874	15,106
Secured loans	2.77%	EUR	68,383	-
Secured loans	11.50%	USD	46,747	34,257
Secured loans	48.00%	BYR	-	3,419
			425,004	**52,782**
Current portion of long-term borrowings			3,050,960	342,208
Interest payable			217,437	249,688
Total short-term borrowings			**3,732,401**	**1,164,640**

The Group's borrowings are denominated in the following currencies:

	31 December 2014	31 December 2013
RR	14,618,077	10,655,288
EUR	2,252,781	1,394,941
USD	96,043	632,834
BYR	7	3,533
Total borrowings	**16,966,908**	**12,686,596**

Bonds 1. In February 2012, HYDROMASHSERVICE CJSC, the Group's subsidiary, issued RR 3,000,000 of bonds through RTS-MICEX, bearing semi-annual coupon at 10.75% per annum, repayable in February 2015. HMS Hydraulic Machines & Systems Group plc, the parent company of the Group, and HMS Livhydromash OJSC, the subsidiary of the Group, issued guarantees in respect of these bonds. At the beginning of September 2014, the Group purchased RR 900,000 of such bonds from the holders at par value. The bonds buy-back was financed by an unsecured non-revolving credit line, provided by a major Russian bank at the end of August 2014 for two years. At 31 December 2014, the outstanding amount was RR 2,099,199 (31 December 2013: RR 2,992,403), net of unamortised transaction costs of RR 801 (31 December 2013: RR 7,597). During January-February 2015, Bonds 1 were fully redeemed by the Group. The buy-back was financed by both the Group's own funds and credit lines (Note 39).

(in thousands of Russian Roubles, unless otherwise stated)

18 Borrowings (continued)

Bonds 2. In February 2013, HYDROMASHSERVICE CJSC issued RR 3,000,000 of bonds. The maturity of the bonds is 5 years with a 3-year put option and semi-annual coupon periods. The coupon rate of 10.10% is set for the first six coupon periods. Subsequent coupon rates are to be determined in February 2016. HMS Hydraulic Machines & Systems Group plc and HMS Livhydromash OJSC issued guarantees in respect of these bonds. At 31 December 2014, the outstanding amount was RR 2,994,383 (31 December 2013: RR 2,992,598), net of unamortised transaction costs of RR 5,617 (31 December 2013: RR 7,402).

At 31 December 2014, the Group pledged property, plant and equipment, inventories and short-term bank deposits in the total amount of RR 514,579, RR 26,810 and RR 11,618 (31 December 2013: RR 415,034, RR 65,273 and RR 7,645), respectively.

At 31 December 2014 and 31 December 2013, the Group also pledged its rights under certain sales contracts with customers as security for certain borrowings. At 31 December 2014, the Group recognised trade receivables under these sales contracts amounted to RR 338,913 (31 December 2013: RR 218,600).

The interest rates for certain bank loans are subject to annual revision by banks at their discretion (see also Note 37), while for other borrowings interest rates can be revised only in proportion to the change in the statutory bank rate, determined by the Central Bank of the Russian Federation.

19 Retirement Benefit Obligations

Entities within the Group provide post-employment and other long-term payments of a defined benefit nature to their employees. These defined benefit plans maintained by each entity separately include lump sum upon retirement, in case of disability, death or attaining jubilee age as well as financial support after retirement. All plans are completely unfunded, i.e. provided on pay-as-you-go basis.

The liability arising from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using the Projected Unit Credit Method. Assumptions were determined based on market conditions as at the statement of financial position dates.

The following assumptions were used for the actuarial assessment at 31 December 2014 and 2013:

	Russia and Belorussia		**Ukraine**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Discount rate	13.0%	8.0%	15.0%	10.5%
Inflation	7.0%	5.1%	9.0%	6.5%
Expected annual increase in salaries	8.0%	6.7%	10.0%	7.6%
Mortality tables	USSR, 1985-1986	USSR, 1985-1986	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognised in profit or loss:

	2014	**2013**
Service cost	1,982	(36,408)
Current service cost	*24,307*	*27,629*
Past service cost and gain from curtailment of plans	*(22,325)*	*(64,037)*
Interest expense	41,736	40,428
Net actuarial gain on other long-term employment benefit obligations	(5,645)	(1,031)
Net monetary loss	144	44
Net periodic benefit expense	**38,217**	**3,033**

(in thousands of Russian Roubles, unless otherwise stated)

19 Retirement Benefit Obligations (continued)

Changes in the present value of the Group's pension benefit obligation are as follows:

	Post-employment payments	Other long-term payments	Total
Present value of defined benefit obligations at 1 January 2013	**493,372**	**42,399**	**535,771**
Current service cost	21,698	5,931	27,629
Interest expense	37,732	2,696	40,428
Past service cost and gain from curtailment of plans	(61,315)	(2,722)	(64,037)
Benefits paid	(38,690)	(6,205)	(44,895)
Liabilities acquired in business combinations (Note 10)	43,218	339	43,557
Effect of translation to presentation currency	6,049	-	6,049
Remesuarements, including:	(31,276)	(1,031)	(32,307)
actuarial loss from changes in demographic assumptions	*986*	-	*986*
actuarial gain from changes in financial assumptions	*(46,352)*	*(2,827)*	*(49,179)*
experience loss	*14,090*	*1,796*	*15,886*
Present value of defined benefit obligations at 31 December 2013	**470,788**	**41,407**	**512,195**
Current service cost	19,978	4,329	24,307
Interest expense	38,796	2,940	41,736
Past service cost and gain from curtailment of plans	(21,453)	(872)	(22,325)
Benefits paid	(28,214)	(2,368)	(30,582)
Effect of translation to presentation currency	(24,281)	-	(24,281)
Remeasurements, including:	(50,372)	(5,645)	(56,017)
actuarial loss from changes in demographic assumptions	*9,343*	-	*9,343*
actuarial gain from changes in financial assumptions	*(77,486)*	*(4,922)*	*(82,408)*
experience loss/(gain)	*17,771*	*(723)*	*17,048*
Present value of defined benefit obligations at 31 December 2014	**405,242**	**39,791**	**445,033**

Short-term and long-term classification was determined based on discounted value of future obligation which is payable within 12 months from the statement of financial position date:

	31 December 2014	31 December 2013
Short-term	69,428	69,869
Long-term	375,605	442,326
Present value of defined benefit obligations at the end of the year	**445,033**	**512,195**

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

		31 December 2014	
		Impact on defined benefit obligation: Increase / (decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(27,136)	28,827
Inflation	1.0%	19,253	(17,601)
Expected annual increase in salaries	1.0%	11,425	(10,136)

		31 December 2013	
		Impact on defined benefit obligation: Increase / (decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(31,346)	40,303
Inflation	1.0%	28,339	(26,346)
Expected annual increase in salaries	1.0%	15,757	(14,985)

The above sensitivity analysis is based on a change in each assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method) has been applied as when calculating the post-employment benefit obligation recognised in the consolidated statement of financial position.

(in thousands of Russian Roubles, unless otherwise stated)

19 Retirement Benefit Obligations (continued)

The weighted average duration of the defined benefit obligations was 8 years at 31 December 2014 (31 December 2013: 9 years).

The expected contributions under voluntary pension programs in 2015 are expected in the amount close to RR 69,428.

For the year ended 31 December 2014, mandatory social contributions amounted to RR 1,766,663 (2013: RR 1,848,127).

20 Construction Contracts

During 2014 and 2013, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures relate to the Group's continuing activities under construction contracts:

	2014	2013
Construction contracts revenue	9,268,900	7,010,678
Contract cost expensed	(6,824,439)	(5,617,603)
Gross margin	**2,444,461**	**1,393,075**

The Group's financial position with respect to construction contracts in progress is as follows:

Contracts with net amount owing to the Group	**31 December 2014**	**31 December 2013**
Aggregate amount of contract cost incurred	4,662,012	5,502,655
Aggregate amount of recognised profits	1,257,374	1,661,799
Aggregate amount of recognised losses	(73,229)	(185,185)
Less: Progress billings	(5,092,048)	(5,491,611)
Gross amount due from customers for contract work	**754,109**	**1,487,658**

Contracts with net amount owed by the Group	**31 December 2014**	**31 December 2013**
Aggregate amount of contract cost incurred	6,095,295	4,284,662
Aggregate amount of recognised profits	2,335,444	2,506,263
Aggregate amount of recognised losses	(4,323)	(6,215)
Less: Progress billings	(9,592,861)	(9,160,363)
Gross amount due to customers for contract work	**(1,166,445)**	**(2,375,653)**

	31 December 2014	31 December 2013
Advances from customers, related to construction contracts	205,592	238,539
Retentions	94,351	166,131

21 Trade and Other Payables

	31 December 2014	31 December 2013
Trade payables	4,056,336	2,342,452
Other payables	170,537	105,181
Financial trade and other payables	**4,226,873**	**2,447,633**
Advances from customers	2,914,755	2,404,423
Payables due to customers for construction work (Note 20)	1,166,445	2,375,653
Wages and salaries payable	899,647	852,083
Other non-financial payables	**4,980,847**	**5,632,159**
Total trade and other payables	**9,207,720**	**8,079,792**

(in thousands of Russian Roubles, unless otherwise stated)

22 Other Taxes Payable

	31 December 2014	31 December 2013
VAT	750,631	733,718
Social funds contribution	150,380	140,657
Personal income tax	61,125	58,035
Property tax	16,753	15,590
Land tax	10,006	3,388
Transport tax	2,169	2,065
Other taxes	1,592	802
Total other taxes payable	**992,656**	**954,255**

23 Other Long-term Payables

	31 December 2014	31 December 2013
Deferred income	95,000	60,000
Redemption liability (Note 38)	-	284,076
Other long-term payables	-	28,567
Total other long-term payables	**95,000**	**372,643**

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash OJSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech equipment for metering of extracted oil and gas at the oilfields. The project is being implemented together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash OJSC is expected to receive from the Federal budget the funds in amount of RR 150,000 for realisation of this project; additionally, not less than RR 150,000 should be invested by the Group. At 31 December 2014, the project has not been finished. 31 December 2014, the Group had obtained government grants in amount of RR 95,000 (31 December 2013: RR 60,000) in relation to this subsidiary, recognising the same amount in deferred income. Such reimbursements are made after supporting documents have been submitted to the relevant authority in the form of a direct grant of public funds. The grant is subject to certain conditions set for the period till 2020 inclusive, including amounts of own investments, volume of production produced by the results of development, number of jobs created and safeguarded, number of students involved in the execution of the project. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with required conditions. At 31 December 2014, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

At 31 December 2014, a redemption liability, related to an option agreement for the shares in Apollo Goessnitz GmbH (Note 38), has been reclassified to short-term liabilities, as execution of the option is expected in the third quarter of 2015.

24 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2013	**167,308**	**162,519**	**16,243**
Additional provisions	20,206	-	-
Unused amounts reversed	-	(78,516)	(16,243)
Effect of translation to presentation currency	822	78	-
Disposal of subsidiaries	(10,396)	(2,574)	-
At 31 December 2013	**177,940**	**81,507**	**-**
Additional provisions	39,916	-	188,422
Unused amounts reversed	(4,659)	(29,437)	(51,315)
Effect of translation to presentation currency	2,926	-	-
At 31 December 2014	**216,123**	**52,070**	**137,107**

Warranty. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. At 31 December 2014, the closing balance of the warranty provision comprised a short-term portion of RR 117,757 and a long-term portion of RR 98,366 (31 December 2013: RR 119,490 and RR 58,450, respectively).

Legal claims. The balance at 31 December 2014 is expected to be utilised by the end of 2015. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

(in thousands of Russian Roubles, unless otherwise stated)

24 Provisions for Liabilities and Charges (continued)

Tax risks. During 2015, decisions of the tax authorities were received by subsidiaries of the Group as a result of field tax inspections. Where the Group's management agreed with the tax authorities' position, tax provision was accrued in accordance with the decisions of the tax authorities.

25 Share Capital, Other Equity Items and Earnings per Share

Share capital and share premium. Below are the details of share issues of the Company:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand	Treasury shares, RR thousand
At 1 January 2013	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(31,507)**
Movements during 2013	-	-	-	-	(169,698)
At 31 December 2013 and 2014	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(201,205)**

At 31 December 2014 and 2013, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

Treasury shares. During 2013, 1,641,139 GDRs of the Company representing 1.40% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 177,331. The voting and dividend rights of these GDRs are suspended. During 2014, there was no buy back of GDRs of the Company.

During 2013, 66,080 GDRs of the Company representing 0.06% of its issued share capital were sold by a wholly-owned subsidiary of the Group for a total consideration of RR 7,511. During 2014, there were no sales of GDRs of the Company.

At 31 December 2014, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (31 December 2013: 1,819,444) of its own GDRs with the total cost of RR 201,205 (31 December 2013: RR 201,205).

Dividends. No interim dividends were declared by the Board of Directors during the year ended 31 December 2014.

At the Annual General meeting which took place in June 2014, a final dividend in respect of the profit for the year ended 31 December 2013 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 393,323 was approved. These dividends were fully paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2014. The dividends were not accrued in respect of the treasury shares.

At the Annual General Meeting, which took place in June 2013, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2012 of 6.82 Russian Roubles per ordinary share, amounting to a total dividend of RR 791,637. These dividends were paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2013. The dividends were not accrued in respect of the treasury shares.

Earnings per share. The Company has no dilutive and antidilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, which includes the effect of treasury shares.

For the years ended 31 December 2014 and 2013, earnings per share are calculated as follows:

	2014	2013
(Loss)/profit for the year attributable to ordinary shareholders	(1,595,510)	1,041,801
Weighted average number of ordinary shares outstanding (thousands)	115,344	115,887
Basic and diluted (loss)/earnings per ordinary share (expressed in RR per share)	**(13.83)**	**8.99**

(in thousands of Russian Roubles, unless otherwise stated)

26 Income Taxes

Income tax expense for the year ended 31 December 2014 and 2013 included:

	2014	2013
Current tax	946,989	975,893
In respect of the current period	*854,259*	*975,893*
In respect of prior years	*92,730*	-
Deferred tax	(444,650)	(452,329)
Total income tax expense	**502,339**	**523,564**

Income before tax for financial reporting purposes is reconciled with the income tax expense as follows:

	2014	2013
(Loss)/profit before income tax	**(1,072,980)**	**2,596,434**
Income tax benefit/(expense) calculated at 20% (2013: 20%)	214,596	(519,287)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impairment of goodwill	(437,266)	(3,351)
Current tax in respect of prior years	(92,730)	-
Social expenditures and charity non-deductible for tax purposes	(41,926)	(31,344)
Hyperinflation effect on monetary loss/(gain) of foreign subsidiaries	(21,292)	(12,067)
Effect of adjustment resulting from intra-group sales of shares in subsidiaries	(20,000)	(20,248)
Provision for tax risks, other than income tax	(19,738)	-
Effect of the difference in tax rates in countries other than Russian Federation	(11,931)	12,098
Effect of revaluation of assets for taxation purposes	(755)	13,434
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	190,963
Dividend withholding tax provision	-	(55,611)
Other non-deductible expenses not subject to tax	(71,297)	(98,151)
Total income tax expense	**(502,339)**	**(523,564)**

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 18% (Ukrainian tax legislation), 18% (Belorussian tax legislation), 28.3% (German tax legislation) and 12.5% (Cypriot tax legislation), accordingly.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

(in thousands of Russian Roubles, unless otherwise stated)

26 Income Taxes (continued)

The gross movement on the deferred income tax account is as follows:

	1 January 2014	Credited/(charged) to profit or loss	Translation to presentation currency	Hyperinflation effect on deferred tax balance for the year	31 December 2014
Deferred tax liabilities					
Property, plant and equipment	(1,533,125)	59,201	(21,911)	(7,874)	(1,503,709)
Intangible assets	(293,198)	72,436	(35,028)	-	(255,790)
Other long-term receivables	(511)	511	-	-	-
Short-term trade and other receivables and other financial assets	(22,895)	22,895	-	-	-
Finance lease liability	(135)	(19,122)	(6,576)	-	(25,833)
Trade and other payables	(51,080)	(96,385)	(561)	-	(148,026)
Long-term borrowings	(3,614)	3,614	-	-	-
Withholding tax provision	(55,611)	55,611	-	-	-
	(1,960,169)	**98,761**	**(64,076)**	**(7,874)**	**(1,933,358)**
Deferred tax assets					
Inventories	199,844	(74,901)	16,636	1,153	142,732
Short-term trade and other receivables and other financial assets	-	368,325	4,970	-	373,295
Cash and cash equivalents	6	5	-	-	11
Other long-term receivables	-	452	(19)	-	433
Share of results of associates	5,565	1,935	-	-	7,500
Other long-term payables	12,000	6,507	(141)	-	18,366
Long-term provisions for liabilities and charges	31,889	7,906	(1,695)	-	38,100
Loss carried forward	38,191	38,524	388	-	77,103
Other taxes payable	3,200	506	-	-	3,706
Short-term borrowings	-	1,615	65	-	1,680
Short-term provisions for liabilities and charges	60,626	(6,657)	334	-	54,303
Long-term borrowings	-	8,393	359	-	8,752
	351,321	**352,610**	**20,897**	**1,153**	**725,981**
Total net deferred tax liability	**(1,608,848)**	**451,371**	**(43,179)**	**(6,721)**	**(1,207,377)**

	1 January 2013	Credited/ (charged) to profit or loss	Business combinations (Note 10)	Opening balance of deferred tax related to discontinued operations	Impairment of previously recognised deferred tax assets/ (liabilities)	Translation to presentation currency	Hyperinflation effect on deferred tax balance for the year	31 December 2013
Deferred tax liabilities								
Property, plant and equipment	(1,669,349)	98,983	(25,887)	60,985	13,934	(6,838)	(4,953)	(1,533,125)
Intangible assets	(206,508)	61,462	(139,808)	8	554	(8,906)	-	(293,198)
Other long-term receivables	-	(529)	-	-	6	12	-	(511)
Non-current assets held for sale	(9,570)	-	-	9,570	-	-	-	-
Short-term trade and other receivables and other financial assets	-	(37,736)	(4,303)	10,179	10,289	(1,324)	-	(22,895)
Finance lease liability	(329)	220	-	-	-	(26)	-	(135)
Trade and other payables	(414,952)	362,234	-	58	(74)	1,654	-	(51,080)
Short-term borrowings	(471)	471	-	-	-	-	-	-
Long-term borrowings	(5,368)	1,754	-	-	-	-	-	(3,614)
Withholding tax provision	(44,705)	(10,906)	-	-	-	-	-	(55,611)
	(2,351,252)	**475,953**	**(169,998)**	**80,800**	**24,709**	**(15,428)**	**(4,953)**	**(1,960,169)**
Deferred tax assets								
Inventories	223,461	60,269	2,460	(63,519)	(23,704)	1,158	(281)	199,844
Short-term trade and other receivables and other financial assets	112,467	(112,467)	-	-	-	-	-	-
Cash and cash equivalents	6	-	-	-	-	-	-	6
Other long-term receivables	514	(514)	-	-	-	-	-	-
Share of results of associates	6,328	(471)	-	-	-	(292)	-	5,565
Other long-term payables	-	12,000	-	-	-	-	-	12,000
Long-term provisions for liabilities and charges	26,927	4,036	-	-	-	926	-	31,889
Loss carried forward	224,957	45,462	2,984	(112,051)	(122,971)	(190)	-	38,191
Other taxes payable	4,000	(800)	-	-	-	-	-	3,200
Short-term provisions for liabilities and charges	91,287	(25,905)	195	(4,922)	(339)	310	-	60,626
	689,947	**(18,390)**	**5,639**	**(180,492)**	**(147,014)**	**1,912**	**(281)**	**351,321**
Total net deferred tax liability	**(1,661,305)**	**457,563**	**(164,359)**	**(99,692)**	**(122,305)**	**(13,516)**	**(5,234)**	**(1,608,848)**

(in thousands of Russian Roubles, unless otherwise stated)

26 Income Taxes (continued)

At 31 December 2014, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 10,574,796 (31 December 2013: RR 9,412,732) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

During the reporting period the Group used all deferred tax asset in relation to loss carried forward from the previous years and recognized deferred tax asset in the amount of RR 77 million on the loss incurred by its certain subsidiaries in 2014. The loss carried forward will expire by 2024.

According to the Tax Code of the Russian Federation tax losses incurred, and current income tax overpaid, by a Group company may not be offset against current tax liabilities and taxable income of any other Group companies. Therefore, deferred tax assets and deferred tax liabilities of the Group companies may not be offset. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

27 Revenue

	2014	**2013**
Sales of oil and gas equipment	12,140,415	8,559,116
Sales of pumps	11,570,996	12,745,240
Revenue from construction and design and engineering services	4,231,621	3,465,451
Sales of compressor equipment	2,479,732	4,734,082
Sales of other services and goods	1,928,016	2,854,259
Total revenue	**32,350,780**	**32,358,148**

28 Cost of Sales

	2014	**2013**
Supplies and raw materials	11,238,178	10,567,089
Labour costs	5,676,790	5,488,801
Cost of goods sold	2,161,548	2,798,614
Depreciation and amortisation	1,264,161	1,116,543
Construction and installation works of subcontractors	650,657	628,034
Utilities	475,055	424,919
Change in provision for obsolete inventories	64,894	78,456
Change in warranty provision	35,257	16,851
Change in retirement benefits obligations	27,357	5,342
Change in work in progress and finished goods	(136,857)	555,596
Other expenses	2,054,020	1,692,580
Total cost of sales	**23,511,060**	**23,372,825**

29 Distribution and Transportation Expenses

	2014	**2013**
Labour costs	462,308	468,363
Transportation expenses	431,017	549,464
Lease expense	70,329	59,542
Insurance	40,002	44,130
Entertaining costs and business trip expenses	38,858	39,865
Advertising	29,494	34,209
Depreciation and amortisation	27,941	23,910
Agency services	26,305	6,527
Customs duties	12,381	13,078
Products certification	7,735	10,381
Property, plant and equipment repair and maintenance	3,490	5,161
Packaging and storage expenses	2,804	2,428
Change in retirement benefits obligations	970	902
Other expenses	83,394	94,262
Total distribution and transportation expenses	**1,237,028**	**1,352,222**

(in thousands of Russian Roubles, unless otherwise stated)

30 General and Administrative Expenses

	2014	2013
Labour costs	2,615,618	2,481,615
Change in provision for impairment of trade and other receivables and other financial assets	277,244	98,709
Audit and consultancy services	229,196	139,685
Depreciation and amortisation	181,873	194,500
Taxes and duties	180,314	190,560
Bank services	146,023	114,328
Change in provision for tax risks	95,691	(16,243)
Entertaining costs and business trip expenses	75,726	93,562
Property, plant and equipment repair and maintenance	71,560	99,866
Stationary and office maintenance	59,758	59,902
Lease expense	49,755	44,742
Security	47,458	44,694
Telecommunications services	34,289	37,906
Insurance	32,615	33,667
Training and recruitment	15,727	21,463
Change in retirement benefits obligations	9,890	(3,211)
Change in provision for VAT receivable	(71)	(8,663)
Other expenses	217,028	232,528
Total general and administrative expenses	**4,339,694**	**3,859,610**

During the year ended 31 December 2014, the Company incurred fees of RR 2,155 for statutory audit services (2013: RR 2,140). In addition, audit and consultancy services stated above include fees of RR 220 (2013: RR 126) for tax consultancy services and RR 907 (2013: RR 1,077) for other assurance services charged by the Company's statutory auditor.

31 Other Operating Expenses, Net

	2014	2013
Charity, social expenditures	115,316	149,876
Fines and late payment interest under contracts	108,196	80,799
Foreign exchange loss/(gain) from non-financial activities, net	67,484	(4,259)
Loss/(gain) on purchase/sale of foreign currency	9,908	(28,747)
Depreciation of social assets	7,694	5,615
Loss from disposal of property, plant and equipment and intangible assets	5,767	6,774
Net monetary loss/(gain)	4,272	(16,698)
Gain on revaluation of redemption liability (Note 38)	(119,418)	(50,354)
Change in provision for legal claims	(29,437)	(80,040)
Other expenses, net	51,972	46,847
Total other operating expenses, net	**221,754**	**109,813**

32 Finance Income

	2014	2013
Interest income	111,581	155,242
Foreign exchange gain from deposits, net	64,587	5,078
Gain on settlement of loan (Note 16)	44,327	-
Total finance income	**220,495**	**160,320**

33 Finance Costs

	2014	2013
Interest expense	1,412,615	1,521,528
Foreign exchange loss from borrowings, net	720,348	159,700
Finance expenses related to redemption liability	14,204	13,527
Finance lease expenses	918	1,908
Discounting of financial assets	-	44,327
Total finance costs	**2,148,085**	**1,740,990**

(in thousands of Russian Roubles, unless otherwise stated)

34 Balances and Transactions with Related Parties

At 31 December 2014, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2013: 71.51%), including shares in the form of GDRs. At 31 December 2014 and 2013, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

Parties are generally considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category of related parties comprises individuals who are the ultimate owners of shares in the Company, who are also key management of the Group, and other key managers as well as the companies controlled by those individuals.

Balances with related parties	**31 December 2014**		**31 December 2013**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	1,922	8,104	25	15,064
Accounts payable	3,326	106,806	3,915	102,933

No provision was made for bad debts from related parties. Neither party issued guaranties to secure accounts receivable or payable.

Transactions with related parties	**2014**		**2013**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	9,819	27,950	17,193	55,833
Other income	1,022	791	2,722	4,183
Purchase of services	(51,695)	-	(44,300)	(61,707)
Purchase of raw materials	(21,856)	-	(37,717)	(9,960)
Rent expense	(9,698)	-	(9,602)	(94)
Purchase of property, plant and equipment	(2,135)	-	(1,935)	-
Purchase of intangible assets	(1,705)	-	(18,811)	-

Key management compensation

Key management compensation amounted to RR 267,640 for the year ended 31 December 2014 (2013: RR 279,960) and included fees and other short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually. Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 17,024 (2013: RR 8,769) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 83,293 for the year ended 31 December 2014 (2013: RR 115,067).

For the year ended 31 December 2014, dividends of RR 57,830 were accrued and paid by the Group's subsidiary to the holder of non-controlling interests who is a member of key management (2013: RR 68,100).

The provisions of the labour contract with the Group's CEO (the Company's Managing Director) include a retirement payment, which is contingent on the market capitalisation of the Company at retirement date and is only paid if the price of the Company's GDRs at that date is above USD 9.25 less dividend per share, paid during the CEO's period in service. The retirement payment is payable only if the Group's CEO is dismissed by the Board of Directors without cause.

35 Contingencies and Commitments

(i) Legal proceeding

On 12 February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the "Order"). The Order was obtained against a number of defendants, including the Company, certain of its shareholders and directors, and Bank of New York (Nominees) Limited. Among other things, the Order froze property of most of the defendants, including the Company, but excluding Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

35 Contingencies and Commitments (continued)

On 16 April 2014, following prior written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia discharged the Order in full, including in respect of the Company and its shareholders and directors.

The Company believes that there is no legal ground for the claims and allegations against the Company made by the plaintiffs. The Company's management is acting in compliance with law in the best interests of the Company and its shareholders. The Company will continue to defend vigorously its position in these ongoing legal proceedings.

On 24 June, 2014, Mr. German A. Tsoy and his holding company, Acura Global Limited (BVI), (the "Plaintiffs") launched a derivative action before the District Court of Nicosia, Cyprus, against the Company's Executive Directors and certain other defendants. The Plaintiffs, as minority shareholders of the Company and its majority shareholder, H.M.S. Technologies Limited ("HMST"), claim damages from the defendants for losses allegedly sustained by the Company and HMST as result of the defendants' alleged actions.

The Company's management believes that this derivative action is groundless and unequivocally rejects the Plaintiffs' claims and allegations.

Management believes that no provisions are required to be booked in the consolidated financial statements for the year ended 31 December 2014 with regards to these litigations.

(ii) Tax legislation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian and Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court of the Russian Federation issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

35 Contingencies and Commitments (continued)

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. At 31 December 2014, the provision accrued amounted to RR 137,107 (31 December 2013: nil). With regard to matters where practice concerning payments of taxes is unclear, management estimated possible tax exposure to be approximately RR 63 million at 31 December 2014, before any fines and interest (31 December 2013: nil).

(iii) Environmental matters

The enforcement of environmental regulation in Russian Federation and Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(iv) Insurance policies

The Russian and Ukrainian insurance services market is evolving. Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 31 December 2014, commitments for purchase of the services amounted to RR 271,252 (31 December 2013: RR 367,175).

At 31 December 2014, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 526,005 (31 December 2013: RR 270,915).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash OJSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. Also refer to Note 23.

The Group holds short-term cancellable and non-cancellable operating leases. The future commitments of the non-cancellable leases are not material.

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets and certain other requirements. At 31 December 2014, the Group was in compliance with all its loan covenants.

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information

Management has determined the operating segments based on the management reports, which are primarily derived from unaudited and not reviewed IFRS financial statements. The management reports are reviewed by the chief operating decision-maker, and are used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Organisational structure of companies;
- Nature of production processes;
- Manufactured and sold products;
- Specific characteristics of buyers/customers.

The **first** operating segment **"Industrial pumps"** includes:

	31 December 2014	31 December 2013
1	HMS Livhydromash OJSC	HMS Livhydromash OJSC
2	HMS Household Pumps OJSC (in process of liquidation)	HMS Household Pumps OJSC (in process of liquidation)
3	Livnynasos OJSC	Livnynasos OJSC
4	Nasosenergomash OJSC	Nasosenergomash OJSC
5	Trade house HYDROMASHSERVICE Ukraine LLC	Trade house HYDROMASHSERVICE Ukraine LLC
6	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
7	Plant Promburvod OJSC	Plant Promburvod OJSC
8	HMS-Promburvod CJSC	HMS-Promburvod CJSC
9	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
10	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
11	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
12	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
13	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

Due to the change in the internal management and reporting structure effective 1 January 2014, the results of the Group's subsidiaries Nizhnevartovskremservis CJSC and Institute Rostovskiy Vodokanalproekt OJSC for the year ended 31 December 2014 were presented within Industrial pumps segment, whereas previously these entities were included in "Oil and gas equipment" and "Engineering, procurement and construction" segments, respectively. Following this change in composition of its reportable segments, the Group has restated the corresponding items of segment information for the year ended 31 December 2013.

The **second** operating segment **"Oil and gas equipment"** includes:

1	HMS Neftemash OJSC	HMS Neftemash OJSC
2	Sibneftemash OJSC	Sibneftemash OJSC
3	EPF "SIBNA" Inc. OJSC	EPF "SIBNA" Inc. OJSC
4	Trade House Sibneftemash LLC	Trade House Sibneftemash LLC

The **third** operating segment **"Compressors"** includes Kazankompessormash OJSC and NIITurbokompressor named after V.B.Shnepp CJSC.

The **fourth** operating segment **"Engineering, procurement and construction"** ("EPC") includes:

1	Tomskgazstroy OJSC	Tomskgazstroy OJSC
2	Giprotyumenneftegaz OJSC	Giprotyumenneftegaz OJSC
3	Noyabrskneftegazproekt LLC (in process of liquidation)	Noyabrskneftegazproekt LLC

The table below contains **other** companies that did not fall under the above listed operating segments and do not meet the quantitative thresholds for separate disclosure.

1	HMS Group Management LLC	HMS Group Management LLC
2	HMS Group JSC	HMS Group JSC
3	Hydromashkomplekt LLC	Hydromashkomplekt LLC
4	Business Centre Hydromash LLC	Business Centre Hydromash LLC
5	HMS Hydraulic Machines & Systems Group plc	HMS Hydraulic Machines & Systems Group plc
6	H.M.S. FINANCE LIMITED	H.M.S. FINANCE LIMITED
7	H.M.S. CAPITAL LIMITED	H.M.S. CAPITAL LIMITED
8	Hydromash K LLC	Hydromash K LLC
9	CMPC LLC	-
10	HMS Active LLC	-

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

Due to disposal of Trest Sibkomplektmontazhnaladka OJSC, the Group's subsidiary, in December 2013, and classification of its results as discontinued operations (Note 17), information related to this entity has been excluded from the results of the EPC segment for the year ended 31 December 2013.

Geographically, management considers non-current assets by their location and revenue based on the location of the Group's customers.

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, compressors, oil and gas construction and the other products and services.

Sales between segments are carried out at the arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the management report.

For this purpose, adjusted EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions). This measurement basis, therefore, excludes the effects of a number of non-recurring income and expenses on the results of the operating segments.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2014 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	16,269,524	10,220,253	2,474,327	3,355,345	31,331	-	**32,350,780**
Intersegment revenue	629,902	70,869	186,241	198	1,290,925	-	**2,178,135**
EBITDA, management report[(1)]	3,137,342	1,908,018	(254,600)	489,802	(25,252)	16,463	**5,271,773**

[(1)] EBITDA derived from management report is equal to adjusted EBITDA.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2013 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	18,386,261	6,971,960	4,206,584	2,788,220	5,123	-	**32,358,148**
Intersegment revenue	192,913	287,202	55,873	83	1,398,844	-	**1,934,915**
EBITDA, management report[(1)]	3,800,804	929,195	571,577	(234,932)	182,223	(10,427)	**5,238,440**

[(1)] EBITDA derived from management report is equal to adjusted EBITDA.

A reconciliation of financial information analysed by the CODM to the corresponding information presented in these consolidated financial statements is presented below:

	2014					
	Industrial pumps	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Total**
Revenue, management report	16,899,426	10,291,122	2,660,568	3,355,543	1,322,256	**34,528,915**
Less intersegment revenue	(629,902)	(70,869)	(186,241)	(198)	(1,290,925)	**(2,178,135)**
Revenue, IFRS	**16,269,524**	**10,220,253**	**2,474,327**	**3,355,345**	**31,331**	**32,350,780**

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

	2014						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
EBITDA from continuing operations, management report[(1)]	**3,137,342**	**1,908,018**	**(254,600)**	**489,802**	**(25,252)**	**16,463**	**5,271,773**
Depreciation and amortisation	(577,656)	(148,272)	(431,211)	(278,223)	(46,307)	-	**(1,481,669)**
Non-monetary items[(2)]	(212,863)	(66,588)	(99,608)	(84,582)	77,892	-	**(385,749)**
Impairment of goodwill	(72,717)	-	(1,002,530)	(1,111,084)	-	-	**(2,186,331)**
Other operating (expenses)/ income, net[(3)]	(234,850)	(22,688)	(65,268)	(12,551)	(18,290)	(9,464)	**(363,111)**
Operating profit/(loss) from continuing operations, IFRS	**2,039,256**	**1,670,470**	**(1,853,217)**	**(996,638)**	**(11,957)**	**6,999**	**854,913**
Finance income							220,495
Finance costs							(2,148,085)
Share of results of associate							(303)
Loss before income tax from continuing operations, IFRS							**(1,072,980)**

(1) EBITDA derived from management report is equal to adjusted EBITDA.
(2) Non-monetary items consists consists of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
(3) Other operating (expenses)/income, net include other operating income and expenses as per Note 31, excluding depreciation of social assets and provision for legal claims.

	2013					
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Total
Revenue, management report	18,579,174	7,259,162	4,262,457	2,788,303	1,403,967	**34,293,063**
Less intersegment revenue	(192,913)	(287,202)	(55,873)	(83)	(1,398,844)	**(1,934,915)**
Revenue, IFRS	**18,386,261**	**6,971,960**	**4,206,584**	**2,788,220**	**5,123**	**32,358,148**

	2013						
	Industrial pumps	Oil and gas equipment	Compres-sors	EPC	All other segments	Intersegment transactions	Total
EBITDA from continuing operations, management report[(1)]	**3,800,804**	**929,195**	**571,577**	**(234,932)**	**182,223**	**(10,427)**	**5,238,440**
Depreciation and amortisation	(533,581)	(126,774)	(385,469)	(262,064)	(32,680)	-	(1,340,568)
Non-monetary items[(2)]	21,816	(21,915)	(19,030)	(31,777)	950	-	(49,956)
Excess of fair value of net assets acquired over the cost of acquisition	-	-	843,941	110,873	-	-	954,814
Impairment of goodwill	-	-	-	(16,757)	-	-	(16,757)
Impairment of assets of construction business, other than goodwill	-	-	-	(422,362)	-	-	(422,362)
Other operating (expenses)/ income, net[(3)]	(166,501)	14,479	(38,050)	(47,219)	47,015	6,038	(184,238)
Operating profit/(loss) from continuing operations, IFRS	**3,122,538**	**794,985**	**972,969**	**(904,238)**	**197,508**	**(4,389)**	**4,179,373**
Finance income							160,320
Finance costs							(1,740,990)
Share of results of associate							(2,269)
Profit before income tax from continuing operations, IFRS							**2,596,434**

(1) EBITDA derived from management report is equal to adjusted EBITDA.
(2) Non-monetary items consists of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
(3) Other operating (expenses)/income, net include other operating income and expenses as per Note 31, excluding depreciation of social assets and provision for legal claims.

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

	2014					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Total**
Total revenue,	16,269,524	10,220,253	2,474,327	3,355,345	31,331	32,350,780
Including						
Promgazmash LLC	170,683	3,106,678	-	-	-	3,277,361
Others (each<10% of total revenue)	16,098,841	7,113,575	2,474,327	3,355,345	31,331	29,073,419

In 2013 revenue from any single customer did not exceed 10% of the Group's consolidated revenue. The management believes that the Group's sales are not subject to concentration risk.

The Group subsidiaries carry out trade and commercial activities in the CIS countries, European and Asian countries, which management assesses by location (the country) of the external customers of products and services based on accounting records used to prepare IFRS financial statements:

	Consolidated revenue for 2014	**Consolidated revenue for 2013**	**Non-current assets at 31 December 2014**[(1)]	**Non-current assets at 31 December 2013**[(1)]
Total revenue/ non-current assets	32,350,780	32,358,148	19,170,116	20,808,726
Including				
Russia	28,798,118	26,896,873	15,018,463	17,114,235
Kazakhstan	708,565	986,294	-	-
Turkmenistan	587,626	2,317,328	-	-
Iraq	468,131	173,695	-	-
Germany	397,853	518,966	1,810,051	1,240,747
Belorussia	290,511	312,410	723,453	609,979
Switzerland	149,616	92,894	-	-
Ukraine	152,319	280,988	1,618,149	1,843,765
Other	798,041	778,700	-	-

[(1)] Non-current assets include goodwill, other intangible assets, property, plant and equipment and investment property.

The information about non-current assets is submitted to persons responsible on a regular basis to take management decisions by operating segments.

37 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

The table below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2014 and 2013. In this table, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them:

	31 December 2014			31 December 2013		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	665,571	(198,654)	454,128	834,673	(687,328)	147,345
EUR	68,287	(2,726,690)	(2,658,403)	27,323	(1,625,888)	(1,598,565)
Total	**733,858**	**(2,925,344)**	**(2,204,275)**	**861,996**	**(2,313,216)**	**(1,451,220)**

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

At 31 December 2014, if RR had strengthened/weakened by 20% against the US dollar with all other variables held constant, loss for the year would have been RR 74,707 (31 December 2013: profit RR 23,575) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash and trade receivables.

At 31 December 2014, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, loss for the year would have been RR 425,344 (31 December 2013: profit RR 255,770) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated borrowings and trade payables.

The Group does not have formal arrangements, including any hedging contracts, to mitigate foreign exchange risks of the Group's operations. However, management monitors net monetary position of the Group's financial assets and liabilities denominated in foreign currency on a regular basis.

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the Group's finance department as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on bank loans (Note 18). The Group does not have significant interest-bearing assets.

At 31 December 2014, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, loss before income tax for the year would have been RR 116,559 (2013: RR 64,519) higher/lower, as a result of higher/lower interest expense on variable interest liabilities.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts and presented in the table below:

	31 December 2014	31 December 2013
Trade and other receivables (Note 14, 15)		
- Trade receivables	8,518,833	5,513,277
- Other financial receivables	1,116,133	2,658,791
Cash and cash equivalents (Note 12)		
- Bank balances (incl. restricted cash)	4,539,877	1,590,738
- Cash on hand	2,664	1,539
Total on-balance sheet exposure	**14,177,507**	**9,764,345**
Total maximum exposure to credit risk	**14,177,507**	**9,764,345**

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. All the bank balances are neither past due nor impaired.

The Group assesses credit quality of banks based on the credit ratings of the banks' long term deposits.

Agency	Rating	31 December 2014	31 December 2013
Expert RA(4)	A+ – A	88,195	86,542
Fitch(3)	BBB+ – B	3,798,200	1,182,851
Moody's(1)	Baa2 – Ba3	499,692	127,648
S&P's(2)	BBB- – B-	131,274	151,313
Moody's(1)	less than B3	3,914	18,091
Other	-	18,602	24,293
Total		**4,539,877**	**1,590,738**

(1) International rating agency Moody's Investor Service.
(2) International rating agency Standard & Poor's.
(3) International rating agency Fitch.
(4) National rating agency Expert RA.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

Trade and other financial receivables. The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with the terms of goods supply and payments. The Group commercial department reviews ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large buyers of industrial equipment and oil and gas companies, which have similar credit risk profile to the Group. The Group does not analyse its customers by classes for credit risk management purposes.

Analysis of credit quality of trade and other accounts receivable is as follows:

	31 December 2014		31 December 2013	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Not overdue and not impaired	**6,609,394**	**1,072,324**	**4,297,347**	**2,537,511**
Total past due but not impaired, including:	**1,909,439**	**43,809**	**1,215,930**	**121,280**
- less than 60 days overdue	1,110,841	8,350	549,402	71,358
- 61 to 180 days overdue	262,449	11,961	226,633	1,107
- 181 to 365 days overdue	110,876	6,565	128,982	610
- over 365 days overdue	425,273	16,933	310,913	48,205
Individually impaired (gross), including:	**303,988**	**93,528**	**192,459**	**10,095**
- not overdue	374	37,194	7,808	584
- less than 60 days overdue	42,562	7	12,422	-
- 61 to 180 days overdue	53,104	-	57,088	-
- 181 to 365 days overdue	65,017	9	7,596	5,182
- over 365 days overdue	142,931	56,318	107,545	4,329
Less provision for impairment	**(303,988)**	**(93,528)**	**(192,459)**	**(10,095)**
Total	**8,518,833**	**1,116,133**	**5,513,277**	**2,658,791**

At 31 December 2014, out of total past due but not impaired trade receivables overdue for more than 365 days, RR 175,441 corresponds to trade and other payables in amount of RR 122,777, related to the same contract (31 December 2013: RR146,450 and RR 141,365, respectively).

Analysis by credit quality of promissory notes receivable and short-term and long-term deposits placed in banks is as follows:

Agency	**Rating**	**31 December 2014**	**31 December 2013**
S&P's[2]	A – A-	32,463	21,361
Expert RA[4]	A	50,000	90,100
Moody's[1]	Aa2	17,428	11,467
Moody's[1]	Ba1 – Ba3	-	100,100
Fitch[3]	BBB – B-	7,791	85,000
S&P's[2]	B+ – B	1,200	3,716
Moody's[1]	less than B3	629	4,082
Total		**109,511**	**315,826**

[1] International rating agency Moody's Investor Service.
[2] International rating agency Standard & Poor's.
[3] International rating agency Fitch.
[4] National rating agency Expert RA.

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) at 31 December 2014 is RR 9,634,966 (31 December 2013: RR 8,172,068).

Credit risk concentration

Date	**Number of counterparties with aggregated receivables balances above RR 50,000**	**Aggregate amount of receivables balances**	**% of the gross amount of trade and other receivables**
At 31 December 2014	38	7,561,556	75%
At 31 December 2013	25	5,083,650	61%

Cash from these counterparties is collected according to the contractual terms during the reporting and subsequent periods, and management does not expect any losses from non-performance of their liabilities by these counterparties.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for the management of liquidity risk, including funding, settlements, related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The tables below give information on the contractual repayment dates of the Group's financial liabilities with regard to expected cash flows at 31 December 2014 and 2013:

Statement of financial position item	Carrying amount at 31 December 2014	Cash flows under the contract: Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bonds[(1)]	5,216,438	2,441,034	302,160	3,453,240	-
Bank loans[(1)]	11,750,470	2,629,022	6,063,052	5,470,671	-
Finance lease liabilities[(1)]	2,665	2,640	220	-	-
Trade accounts payable	4,056,336	4,056,336	-	-	-
Other financial payables[(1)]	349,399	354,594	-	-	-

Statement of financial position item	Carrying amount at 31 December 2013	Cash flows under the contract: Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bonds[(1)]	6,228,952	623,760	3,462,960	3,755,400	-
Bank loans[(1)]	6,452,682	1,432,209	1,476,955	4,928,453	301,324
Other loans[(1)]	4,962	4,962	-	-	-
Finance lease liabilities[(1)]	11,288	10,361	1,746	146	-
Trade accounts payable	2,342,452	2,342,452	-	-	-
Other financial payables[(1)]	417,824	105,181	335,509	-	-

[(1)] As the amounts included in the table are the contractual undiscounted cash flows, including future interest, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings, finance lease liabilities and other financial payables.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the consolidated statement of financial position date.

In the recent years the Group has been extensively expanding its business by raising external finance. The Group uses credit facilities in major multinational and Russian banks. Availability of open credit lines together with long-term borrowings gives the Group the possibility to balance credit portfolio and decrease risk of adverse fluctuations of financial markets.

The table below analyses credit lines of the Group at 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Credit lines	4,387,379	7,374,329
Undrawn credit facilities	153,791	6,218,563

The Group did not exceed the credit limits of any of the banks during the reporting period. The management of the Group does not see any credit risks that could arise as a result of financial transactions (as well as any threat of discontinued operation) of these banks.

Liquidity ratio. The Group's approach to managing liquidity is to ensure, to the extent possible, that the Group maintains, at all times, sufficient liquidity for settling its liabilities in due time avoiding unacceptable losses or risks of damaging Group reputation. The Group's strategy is to maintain the liquidity ratio at 1.50.

	31 December 2014	31 December 2013
Liquidity ratio	1.52	1.56
Current assets	22,396,814	16,630,254
Current liabilities	14,775,161	10,691,476

To manage the targeted liquidity ratio the Group where possible transfers its short-term loans and borrowings to long-term ones.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

Management of capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and 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, issue new shares or sell assets to reduce debt.

The Group pursues a policy of ensuring a sustainable level of capital that allows the Group to maintain the trust of the investors, creditors and the market, and secure future business development. The Group strives to maintain a balance between the potential increase of revenues, which could be achieved with higher level of borrowings, and the advantages and safety, which the sustainable equity position gives.

The Group controls capital by calculating a gearing ratio. This ratio is calculated as the net debt divided by total capital. The net debt includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity attributable to the shareholders of the Company and non-controlling shareholders in the consolidated statement of financial position. In 2014, the Group's strategy has been to maintain the gearing ratio at a level not exceeding 200%.

At the end of the reporting period the gearing ratio was as follows:

	31 December 2014	**31 December 2013**
Long-term borrowings	13,234,507	11,521,956
Short-term borrowings	3,732,401	1,164,640
Total debt	**16,966,908**	**12,686,596**
Cash and cash equivalents	(4,534,953)	(1,584,222)
Net debt	**12,431,955**	**11,102,374**
Equity attributable to the shareholders of the Company	8,392,636	9,700,685
Non-controlling interest	3,550,667	3,543,343
Total capital	**11,943,303**	**13,244,028**
Gearing ratio	**104%**	**84%**

38 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between knowledgeable willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. The carrying amounts of trade receivables and originated loans approximate their fair values. Their fair values are within Level 2 of the fair value hierarchy.

Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

38 Fair Value of Financial Instruments (continued)

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). At 31 December 2014, the fair value of bonds was RR 856,982 lower than their carrying amounts (31 December 2013: RR 1,801). The fair value of borrowings was based on Level 2 and 3 inputs. At 31 December 2014, the fair value of borrowings was RR 1,758,648 lower than their carrying amounts (at 31 December 2013 fair value of borrowings approximated their carrying value). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

Financial instruments carried at fair value. In August 2012, the Group entered into call and put options agreement, under which the Group has a right to acquire the remaining 25% share in Apollo Goessnitz GmbH, while the holders of this non-controlling interest have the right to sell it to the Group. The options may be executed starting from 3 years after the options agreement date. The exercise price is determined based on EBITDA multiple and net debt level of Apollo Goessnitz GmbH for the year, preceeding the year of option execution, applying a discounting factor.

At 31 December 2014, the present value of the redemption liability amounted to RR 178,862 (31 December 2013: RR 284,076) (Note 23). The increase in redemption liability in relation to the discounting effect of RR 14,204 was recognised in finance expenses (Note 33) (2013: RR 13,527) and the decrease in redemption liability in relation to changes in underlying assumptions of RR 119,418 was recognised in other operating expenses, net (Note 31) (2013: RR 50,354). EBITDA used for the calculation of the present value of the redemption liability at 31 December 2014 approximated to RR 127,638, net debt – RR 412,517 (31 December 2013: EBITDA – RR 152,403, net debt – RR 143,859). The redemption amount of the option approximates the fair value of the shares and as the calculation of the redemption amount is not based on observable market data (unobservable inputs are used), it was defined as Level 3.

The sensitivity of fair value measurements disclosed below shows the direction that an increase or decrease in the respective input variables would have on the valuation result. Increase in expected EBITDA would lead to an increase in estimated value. However, an increase in the discount rate would lead to a decrease in value. Thus, if expected EBITDA would be decreased/increased by 10%, the fair value of the option would be decreased/increased by RR 27,908 (31 December 2013: RR 31,736), decrease/increase of discount rate by 100 basis points would increase the fair value of the option by RR 1,016/ decrease the fair value of the option by RR 1,003 (31 December 2013: RR 4,361 and RR 4,258 appropriatly).

39 Subsequent Events

Borrowings. In January 2015, the Group has signed a nine-month non-revolving credit facility agreement of RR 2,000 million to supply Group's needs in financing of its two large oil & gas equipment contracts.

During January-February 2015, Bonds 1 were fully redeemed by the Group in amount of RR 2,099,199. The buy-back was financed by both HMS' own funds and credit lines (Note 18).

In April 2015, the Group has signed a three-year credit facility agreement of RR 1,500 million, which can be utilised for general purposes, including debt refinancing.