HMS Hydraulic Machines & Systems Group plc

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

31 December 2015

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

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3105 Limassol, Cyprus

Registered office

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Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2015. 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 Group's revenue for 2015 grew by 15.3% yoy and amounted to RR 37,296 million. EBITDA grew by 41.3% yoy to RR 7,446 million. As a result, EBITDA margin for 12 months 2015 increased to 20.0% versus 16.3% last year.

Higher revenue and EBITDA for the full year 2015 were a result of large contracts execution in the Oil & gas equipment business segment in 2015 and an effect of import substitution which influenced machine-building segments of the Group.

The Group's operating profit also increased significantly and totalled RR 4,525 million versus RR 855 million in 2014, as a result, operating margin increased to 12.1% in the reporting period versus 2.6% in 2014.

Principal risks and uncertainties

The Group's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 35 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 33 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 2015 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, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2015 of 5.12 Russian Roubles per ordinary share, amounting to a total dividend of RR 599,877 thousand, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2016.

In December 2015, an interim dividend in respect of the profit for the nine months ended 30 September 2015 of 3.25 Russian Roubles per ordinary share amounting to a total dividend of RR 374,380 thousand was approved by the Board of Directors of the Company. This dividend was paid in December 2015.

The Company did not declare any interim or final dividends in respect of the year ended 31 December 2014.

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. This dividend was paid in June-July 2014.

Share capital

At 31 December 2015, 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 23 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 2015 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. Artem V. Molchanov, Nikolai N. Yamburenko and Gary S. Yamamoto 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 2015 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 2015	Interest in the share capital of the Company at 27 April 2016
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 37 to the consolidated financial statements.

The Board Committees

The Group has established three committees: the audit committee, the remuneration committee and the strategy and 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, among 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, remuneration and strategy and investments 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 2015 amounted to RR 32,644 thousand (2014: RR 17,024 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 137,753 thousand for the year ended 31 December 2015 (2014: RR 83,293 thousand). See also Note 32.

Branches

The Company did not operate through any branches during the year ended 31 December 2015.

Treasury shares

During 2015, 352,629 GDRs of the Company representing 0.30% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 12,284 thousand.

At 31 December 2015, the Company, via a wholly-owned subsidiary, is holding 2,172,073 (31 December 2014: 1,819,444) of its own GDRs with the total cost of RR 213,489 thousand (31 December 2014: RR 201,205 thousand). The voting and dividend rights of these GDRs are suspended.

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 2016, 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
27 April 2016

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 57) 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 2015 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
27 April 2016	27 April 2016

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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"), which comprise the consolidated statement of financial position as at 31 December 2015, 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.

Deloitte.

Independent auditor's report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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 2015, 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.

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.

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

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol, 27 April 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets:			
Property, plant and equipment	7	14,161,704	14,371,174
Other intangible assets	8	984,280	1,229,009
Goodwill	9	3,466,063	3,300,399
Investments in associates	10	106,040	117,839
Deferred income tax assets	24	380,351	365,063
Other long-term assets	14	43,444	44,755
Investment property	15	244,247	269,534
Restricted cash		23,219	-
Total non-current assets		**19,409,348**	**19,697,773**
Current assets:			
Inventories	12	6,860,390	5,984,976
Trade and other receivables and other financial assets	13	11,701,492	11,712,382
Current income tax receivable		152,680	156,915
Cash and cash equivalents	11	3,496,420	4,534,953
Restricted cash		2,573	7,588
Total current assets		**22,213,555**	**22,396,814**
TOTAL ASSETS		**41,622,903**	**42,094,587**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	48,329	48,329
Share premium	23	3,523,535	3,523,535
Treasury shares	23	(213,489)	(201,205)
Other reserves		(191,585)	(191,585)
Currency translation reserve		476,312	430,519
Retained earnings		6,180,042	4,783,043
Equity attributable to the shareholders of the Company		**9,823,144**	**8,392,636**
Non-controlling interests		**3,325,643**	**3,550,667**
TOTAL EQUITY		**13,148,787**	**11,943,303**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	11,217,538	13,234,507
Deferred income tax liability	24	1,534,031	1,572,440
Pension liability	17	566,475	375,605
Provisions for liabilities and charges	22	132,865	98,366
Other long-term payables	21	133,552	95,205
Total non-current liabilities		**13,584,461**	**15,376,123**
Current liabilities:			
Trade and other payables	19	8,455,740	9,210,180
Short-term borrowings	16	4,666,626	3,732,401
Provisions for liabilities and charges	22	451,410	306,934
Redemption liability	36	326,759	178,862
Pension liability	17	69,538	69,428
Current income tax payable		142,323	284,700
Other taxes payable	20	777,259	992,656
Total current liabilities		**14,889,655**	**14,775,161**
TOTAL LIABILITIES		**28,474,116**	**30,151,284**
TOTAL EQUITY AND LIABILITIES		**41,622,903**	**42,094,587**

Approved for issue and signed on behalf of the Board of Directors on 27 April 2016.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

The accompanying notes on pages 13 to 57 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2015	2014
Revenue	25	37,296,437	32,350,780
Cost of sales	26	(25,782,590)	(23,511,060)
Gross profit		**11,513,847**	**8,839,720**
Distribution and transportation expenses	27	(1,377,995)	(1,237,028)
General and administrative expenses	28	(4,603,227)	(4,339,694)
Other operating expenses, net	29	(623,897)	(221,754)
Impairment of property, plant and equipment and investment property	7,15	(383,472)	-
Impairment of goodwill	9	-	(2,186,331)
Operating profit		**4,525,256**	**854,913**
Finance income	30	192,595	220,495
Finance costs	31	(2,086,920)	(2,148,085)
Share of results of associates	10	(467)	(303)
Profit/(loss) before income tax		**2,630,464**	**(1,072,980)**
Income tax expense	24	(866,289)	(502,339)
Profit/(loss) for the year		**1,764,175**	**(1,575,319)**
Profit/(loss) attributable to:			
Shareholders of the Company		1,884,619	(1,595,510)
Non-controlling interests		(120,444)	20,191
Profit/(loss) for the year		**1,764,175**	**(1,575,319)**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		(158,400)	50,751
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		51,868	700,706
Currency translation differences of associates	10	(11,332)	(9,281)
Other comprehensive (loss)/income for the year		**(117,864)**	**742,176**
Total comprehensive income/(loss) for the year		**1,646,311**	**(833,143)**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		1,817,172	(960,264)
Non-controlling interest		(170,861)	127,121
Total comprehensive income/(loss) for the year		**1,646,311**	**(833,143)**
Basic and diluted earnings/(loss) per ordinary share for profit attributable to the ordinary shareholders (RR per share)	23	**16.34**	**(13.83)**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2015	2014
Cash flows from operating activities			
Profit/(loss) before income tax		2,630,464	(1,072,980)
Adjustments for:			
Depreciation and amortisation	26-29	1,491,317	1,481,669
Loss from disposal of property, plant and equipment and intangible assets	29	9,856	5,767
Finance income	30	(192,595)	(220,495)
Finance costs	31	2,086,920	2,148,085
Change in retirement benefits obligations	17	94,507	38,217
Change in warranty provision	26	97,606	35,257
Change in provision for impairment of trade and other receivables and other financial assets	28	112,237	277,244
Change in provision for obsolete inventories	26	87,289	64,894
Change in provision for legal claims	29	250,023	(29,437)
Impairment of goodwill	9	-	2,186,331
Impairment of property, plant and equipment and investment property	7,15	383,472	-
Impairment reversal of property, plant and equipment	29	(6,160)	(2,524)
Foreign exchange (gain)/ loss, net	29	(72,636)	67,484
Loss/(gain) on revaluation of redemption liability	29	136,392	(119,418)
Net monetary effect on non-operating items		-	(73,023)
Change in provision for tax risks	28	-	95,691
Share of results of associates	10	467	303
Operating cash flows before working capital changes		**7,109,159**	**4,883,065**
Increase in inventories		(1,086,345)	(536,844)
Decrease/(increase) in trade and other receivables		582,643	(1,740,757)
Decrease in taxes payable		(350,009)	(4,413)
(Decrease)/increase in accounts payable and accrued liabilities		(1,277,293)	565,243
Cash from operations		**4,978,155**	**3,166,294**
Income tax paid		(1,091,049)	(804,573)
Interest paid		(1,987,450)	(1,402,522)
(Increase)/decrease in restricted cash		(18,204)	467
Net cash from operating activities		**1,881,452**	**959,666**
Cash flows from investing activities			
Repayment of loans advanced		35,515	44,327
Loans advanced		(45,870)	(36,371)
Proceeds from sale of property, plant and equipment and intangible assets		22,184	81,640
Interest received		14,082	21,134
Purchase of property, plant and equipment, net of VAT		(1,381,062)	(1,157,127)
Acquisition of intangible assets		(75,687)	(65,962)
Net cash used in investing activities		**(1,430,838)**	**(1,112,359)**
Cash flows from financing activities			
Repayments of borrowings		(10,330,274)	(6,610,548)
Proceeds from borrowings		9,127,120	10,091,492
Proceeds from government grant	21	55,000	35,000
Payment for finance lease		(2,474)	(10,748)
Buy back of issued shares	23	(12,284)	-
Dividends paid to non-controlling shareholders of subsidiaries		(56,547)	(80,697)
Dividends paid to the shareholders of the Company	23	(374,380)	(393,323)
Net cash (used in)/from financing activities		**(1,593,839)**	**3,031,176**
Net (decrease)/increase in cash and cash equivalents		**(1,143,225)**	**2,878,483**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**104,692**	**72,248**
Cash and cash equivalents at the beginning of the year		**4,534,953**	**1,584,222**
Cash and cash equivalents at the end of the year		**3,496,420**	**4,534,953**

(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 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**
Currency translation differences		-	-	-	-	610,341	-	610,341	90,365	**700,706**
Currency translation differences of associates	10	-	-	-	-	(9,281)	-	(9,281)	-	**(9,281)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**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	23	-	-	-	-	-	(393,323)	(393,323)	-	**(393,323)**
Effect of the Group restructuring on non-controlling interest	6	-	-	-	-	-	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**
Profit for the year		-	-	-	-	-	1,884,619	1,884,619	(120,444)	**1,764,175**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(113,240)	(113,240)	(45,160)	**(158,400)**
Currency translation differences		-	-	-	-	57,125	-	57,125	(5,257)	**51,868**
Currency translation differences of associates	10	-	-	-	-	(11,332)	-	(11,332)	-	**(11,332)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**45,793**	**1,771,379**	**1,817,172**	**(170,861)**	**1,646,311**
Buy back of issued shares		-	-	(12,284)	-	-	-	(12,284)	-	**(12,284)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(54,163)	**(54,163)**
Dividends declared to the shareholders of the Company	23	-	-	-	-	-	(374,380)	(374,380)	-	**(374,380)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(12,284)**	**-**	**-**	**(374,380)**	**(386,664)**	**(54,163)**	**(440,827)**
Balance at 31 December 2015		**48,329**	**3,523,535**	**(213,489)**	**(191,585)**	**476,312**	**6,180,042**	**9,823,144**	**3,325,643**	**13,148,787**

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, 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 2015, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2014: 71.51%), including shares in the form of GDRs. At 31 December 2015 and 2014, 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 the 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 the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the 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 the 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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate. 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 EU on certain Russian officials, businessmen and companies.

In the first quarter of 2015, international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates 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. During 2014-2015, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia has devalued against major foreign currencies. The National Bank of Ukraine (NBU) introduced a range of measures aimed at limiting outflow of foreign currency from the country, inter alia, a mandatory sale of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, limitations on remittances abroad, including veto on dividends distribution to foreign companies. Significant external financing is required to support the economy. In early 2015, the Government of Ukraine agreed with the IMF a four-year program for USD 17.5 billion loan aimed at supporting the economic stabilization of Ukraine. The program defines economic reforms that must be undertaken by the Government of Ukraine to reinstate a sustainable economic growth in the mid-term perspective.

In 2015, political and economic relationships between Ukraine and the Russian Federation remained strained that led to a significant reduction in trade and economic cooperation. On 1 January 2016, a free-trade element of Ukraine's association agreement with the European Union is coming into force. In late 2015, the Russian Federation denounced the free trade zone agreement with Ukraine and further trade restrictions were announced by both countries.

Stabilization of the economic and political situation depends, to a large extent, upon the ability of the Ukrainian Government to continue reforms and the efforts of the NBU to further stabilize the banking sector, as well as upon the ability of the Ukrainian economy in general to respond adequately to changing markets. Nevertheless, further economic and political developments, as well as the impact of the above factors on the Group, its customers, and contractors are currently difficult to predict.

2 Operating Environment of the Group (continued)

One of the Group's subsidiaries, Nasosenergomash PJSC, 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 PJSC are sold in Russia and other countries. For the year ended 31 December 2015, the revenue of Nasosenergomash PJSC approximated to 9% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers (for the year ended 31 December 2014: 10%, primarily being revenue from sales to Russian customers). Though up to the date of finalisation of these consolidated financial statements, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of Nasosenergomash PJSC, 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 PJSC, the Group has accelerated 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 2015 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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 an 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.

3 Summary of Significant Accounting Policies (continued)

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.

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 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.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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 2015 and 2014, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2015	**31 December 2014**	**2015**	**2014**
1 USD = RR	72.8827	56.2584	61.3194	38.6025
1 EUR = RR	79.6972	68.3427	67.9915	50.9928
1 UAH = RR	3.0463	3.5564	2.8261	3.2383
1 BYR = RR	0.00389	0.00388	0.00382	0.00374

Accounting for the effect of inflation. Since the fourth quarter of 2011 until the end of 2014, the Belorussian economy was considered to be hyperinflationary. During this period, IAS 29, Financial Reporting in Hyperinflationary Economies, was applied to restate the financial statements of the Group's subsidiaries based in Belorussia before they were included in the consolidated financial statements of the Group. The restatement was 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.

For the year ended 31 December 2014, the conversion factor of 1.1622 was used and the effect of applying IAS 29 included the increase of revenue by RR 48,451, recognition of net monetary loss of RR 4,272 (Note 29) and the increase of loss for the year by RR 84,757. Also, the restatement led to the positive effect on opening retained earnings in amount of RR 11,149.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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 and project documentation, 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.

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.

3 Summary of Significant Accounting Policies (continued)

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 36.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 tax law that has 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.

3 Summary of Significant Accounting Policies (continued)

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 the 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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 Group 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 may 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 2015, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 12,749,301 (2014: 9,268,900) (Note 18).

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.

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

The Group's major construction contracts accounted for using 'percentage-of-completion' method are as follows:

(i) 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 the contract includes development of design documentation, manufacturing, delivery, supervision and testing of 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 three years. Total amount of advances received in relation to this project at 31 December 2015 amounted to RR 3,455,899, net of VAT (31 December 2014: RR 1,506,464). For the year ended 31 December 2015, the Group recognised revenue of RR 3,884,695 in relation to this project (2014: RR 730,792), and the excess of accumulated revenue recognised over advances received of RR 1,159,588 was included in receivables due from customers for construction work (31 December 2014: the excess of advances received over accumulated revenue recognised of RR 775,672 was included in payables due to customers for construction work).

(ii) 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 2015 amounted to approximately RR 7.3 billion. The contract is expected to be completed in 2016. At 31 December 2015, the total amount of advances received in relation to this project equalled to RR 7,258,573, net of VAT (31 December 2014: RR 3,277,185). For the year ended 31 December 2015, the Group recognised revenue of RR 4,109,558 in relation to this project (2014: 3,106,678), and the excess of advances received over accumulated revenue recognized of RR 42,337 was included in payables due to customers for construction work (31 December 2014: 170,507).

(iii) During the year ended 31 December 2014, the Group signed a contract for the construction and delivery of highly customised pump stations for an oil-gas-and-condensate field in the northern part of Yamal peninsula. Total budgeted revenue for this contract at 31 December 2015 amounted to RR 1.9 billion. The contract is expected to be completed in the first quarter of 2016. At 31 December 2015, the total amount of advances received in relation to this project equalled to RR 1,173,600, net of VAT. The Group recognised revenue of RR 1,694,598 in relation to this project for the year ended 31 December 2015 (2014: nil), and the excess of accumulated revenue recognised over advances received of RR 520,998 was included in receivables due from customers for construction work.

(iv) In July 2015, the Group signed a contract to deliver 5 high-pressure compressor units, intended for compression of separated associated gas. Equipment will be manufactured by the Group and installed at an oil and gas condensate deposit, located in the Ural region of Russia. The contract is expected to be fulfilled in 2016. Total budgeted revenue for this contract at 31 December 2015 amounted to RR 3.7 billion. At 31 December 2015, the total amount of advances received in relation to this project equalled to RR 1,043,400, net of VAT. For the year ended 31 December 2015, the Group recognised revenue of RR 259,388 in relation to this project, the excess of advances received over accumulated revenue recognised of RR 784,012 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, resolution of current legal proceedings or other claims outstanding would not have a material adverse effect on the result of operations or financial position of the Group. There are no probable or possible legal risks which have not been recorded or disclosed in these consolidated financial statements. Refer to Note 33.

(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 2015 would be either increase or decrease by RR 109,943 (2014: RR 107,726).

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

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

At 31 December 2015, the Group performed the analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as well as performed mandatory annual impairment testing for the CGUs containing goodwill. The recoverable amount of each CGU, except for Bobruisk Machine Building Plant OJSC and Giprotyumenneftegaz PJSC, 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. As a result of these analysis and testing, no impairment was identified for the CGUs of the Group, with the exception of following subsidiaries of the Group:

- Bobruisk Machine Building Plant OJSC, a pump manufacturer belonging to the reportable segment "Industrial pumps" of the Group;
- Giprotyumenneftegaz PJSC, a company providing design and engineering services for oil and gas companies belonging to the reportable segment "Engineering, procurement and construction" of the Group.

The Group performed an impairment test of assets of Bobruisk Machine Building Plant OJSC and Giprotyumenneftegaz PJSC, determining the fair value less cost to sell, calculated by reference to the market of relevant assets, as the recoverable amount of these CGUs. The fair value of the assets was determined using Level 3 inputs assuming that the best use of the assets is to sell them.

Based on the results of these calculations, the Group recognised impairment charge in relation to the property, plant and equipment of Giprotyumenneftegaz PJSC in amount of RR 257,757 (Note 7). At 31 December 2015, the recoverable amount of this CGU was approximately RR 2,460 million.

The Group also recognised impairment charge in relation to the property, plant and equipment of Bobruisk Machine Building Plant OJSC in amount of RR 106,374 (Note 7). At 31 December 2015, the recoverable amount of this CGU was approximately RR 548 million.

Also, at 31 December 2015, the Group performed the annual test for impairment of goodwill and of each CGU to which goodwill was allocated. Based on the results of performed impairment tests, the Group did not recognise any impairment of goodwill at 31 December 2015 and for the year then ended (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 33.

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations

The following amendments to the standards were adopted by the Group from 1 January 2015, but had no significant impact on these consolidated financial statements:

- *Annual Improvements to IFRSs 2011-2013 Cycle*. The improvements consist of changes to four standards: IAS 40, IFRS 1, IFRS 3, IFRS 13.

The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 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):

Standards, amendments and interpretations	**Effective for annual periods beginning on or after**
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions. The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributable to periods of service.	1 February 2015
Annual Improvements to IFRSs 2010-2012 Cycle. The improvements consist of changes to seven standards: IAS 16, IAS 24, IAS 38, IFRS 2, IFRS 3, IFRS 8, IFRS 13.	1 February 2015
Amendments to IAS 1, Presentation of Financial Statements. Amendments address perceived impediments to preparers exercising their judgement in presenting their financial reports.	1 January 2016
Amendments to IFRS 11, Joint Arrangements, 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.	1 January 2016
Amendments to IAS 16, Property, Plant and Equipment and *IAS 38, Intangible Assets*. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.	1 January 2016
Amendments to IAS 16, Property, Plant and Equipment and *IAS 41, Agriculture*. The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41.	1 January 2016
Amendments to IAS 27, Separate Financial Statements. 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.	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle. The improvements consist of changes to four standards: IAS 19, IAS 34, IFRS 5, IFRS 7.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities. Amendments address issues that have arisen in the context of applying the consolidation exception for investment entities.	1 January 2016*
Amendments to IAS 7, Cash Flow. The amendments require companies to provide additional information about changes in their financing liabilities.	1 January 2017*
Amendments to IAS 12, Income Taxes. These amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.	1 January 2017*
IFRS 9, Financial Instruments	1 January 2018*
IFRS 15, Revenue from Contracts with Customers	1 January 2018*
IFRS 16, Leases	1 January 2019*

The impact of adoption of the pronouncements listed above on the consolidated financial statements of future periods is currently assessed by management of the Group.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

At 31 December 2015 and 2014, HMS Hydraulic Machines & Systems Group plc, parent company of the Group, held directly a 100% share in HMS Group JSC, a company registered in Russia and controlling directly or indirectly all other subsidiaries of the Group.

Details of the Group's material subsidiaries at 31 December 2015 and 31 December 2014 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of effective ownership interest held by the Group at 31 December, % 2015	2014
Segment "Industrial pumps"				
HMS Livhydromash JSC	Manufacture of pumps	Russia	100.00	100.00
Livnynasos JSC	Manufacture of pumps	Russia	100.00	100.00
Nasosenergomash PJSC	Manufacture of pumps	Ukraine	83.33	83.33
HYDROMASHSERVICE JSC	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 JSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash JSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompessormash OJSC	Manufacture of compressors	Russia	89.86	89.86
NIITurbokompressor named after V.B.Shnepp CJSC	Development of project documentation	Russia	98.39	98.39
Segment "Engineering, procurement and construction"				
Tomskgazstroy PJSC	Construction services	Russia	80.78	80.78
Giprotyumenneftegaz PJSC	Engineering services	Russia	45.34	45.34
Noyabrskneftegazproekt LLC*	Engineering services	Russia	45.34	45.34

*The subsidiary was liquidated in January 2016, its assets and liabilities had been transferred to Giprotyumenneftegaz PJSC in 2015.

In December 2014, the Group acquired additional ordinary share issue of NIITurbokompressor named after V.B.Shnepp CJSC, as a result non-controlling interests in NIITurbokompressor named after V.B.Shnepp CJSC 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 the consolidated statement of changes in equity.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

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 2015						
Segment "Industrial pumps"						
Nasosenergomash PJSC	Ukraine	16.67	16.67	76,804	326,946	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	14,466	130,113	336
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(183,594)	(59,040)	22
Dimitrovgradkhimmash OJSC	Russia	49.00	49.00	113,605	1,027,982	47,029
Apollo Goessnitz GmbH (Note 36)	Germany	25.00	25.00	13,633	301,394	-
Institute Rostovskiy Vodokanalproekt OJSC	Russia	14.30	14.30	(1,141)	11,752	-
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	(15,012)	354,374	11
NIITurbokompressor named after V.B.Shnepp CJSC	Russia	1.61	1.40	(1,169)	16,461	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	Russia	19.22	23.89	(10,135)	(80,752)	-
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(83,837)	1,259,831	9,136
Noyabrskneftegazproekt LLC (liquidated in January 2016)	Russia	54.66	0.00	(45,449)	-	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	1,385	36,582	-

	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	Accumu-lated non-controlling interests in the subsidiary	Dividends paid to non-controlling interests during the year
Year ended 31 December 2014						
Segment "Industrial pumps"						
Nasosenergomash PJSC	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 (Note 36)	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 PJSC	Russia	19.22	23.89	435	(70,617)	-
Giprotyumenneftegaz PJSC	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)

At 31 December 2015 and 2014, 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 2015				
Segment "Industrial pumps"				
Nasosenergomash PJSC	1,998,741	1,489,756	(946,309)	(580,570)
Plant Promburvod OJSC	153,801	161,875	(32,108)	(15,936)
Bobruisk Machine Building Plant OJSC	198,381	503,263	(498,393)	(340,400)
Dimitrovgradkhimmash OJSC	1,314,297	1,277,206	(287,054)	(206,527)
Apollo Goessnitz GmbH (Note 36)	1,247,177	871,328	(737,037)	(175,891)
Institute Rostovskiy Vodokanalproekt OJSC	24,862	94,133	(23,301)	(13,523)
Segment "Compressors"				
Kazankompessormash OJSC	3,411,255	4,672,263	(3,537,435)	(1,050,857)
NIITurbokompressor named after V.B.Shnepp CJSC	191,833	1,026,928	(122,477)	(76,718)
Segment "Engineering, procurement and construction"				
Tomskgazstroy PJSC	288,433	597,051	(1,296,385)	(9,175)
Giprotyumenneftegaz PJSC	2,126,039	1,033,697	(606,340)	(248,738)
Noyabrskneftegazproekt LLC (liquidated in January 2016)	-	-	-	-
Balance at 31 December 2014				
Segment "Industrial pumps"				
Nasosenergomash PJSC	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 (Note 36)	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 PJSC	683,221	319,216	(1,362,310)	(7,482)
Giprotyumenneftegaz PJSC	1,846,455	1,712,436	(732,194)	(334,069)
Noyabrskneftegazproekt LLC	19,044	151,268	(56,916)	(30,254)

The summarised financial information about transactions and cash flows for the years ended 31 December 2015 and 2014 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 2015						
Segment "Industrial pumps"						
Nasosenergomash PJSC	3,359,857	460,812	(73,318)	399,976	(129,733)	(273,335)
Plant Promburvod OJSC	378,547	29,756	30,395	15,330	(5,659)	2,703
Bobruisk Machine Building Plant OJSC	504,745	(426,482)	(375,283)	(147,744)	(20,366)	148,161
Dimitrovgradkhimmash OJSC	2,303,330	231,846	195,378	121,167	(133,548)	(83,289)
Apollo Goessnitz GmbH	1,763,576	54,530	240,505	611,541	(54,983)	(199,610)
Institute Rostovskiy Vodokanalproekt OJSC	39,102	(7,975)	(7,975)	(10,709)	(331)	11,050
Segment "Compressors"						
Kazankompessormash OJSC	4,127,275	(148,063)	(150,623)	462,024	(103,129)	(144,412)
NIITurbokompressor named after V.B.Shnepp CJSC	417,701	(72,428)	(73,085)	(7,036)	5,902	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	1,023,629	(52,717)	(52,717)	(81,201)	(30,537)	73,500
Giprotyumenneftegaz PJSC	1,593,238	(153,366)	(173,878)	309,159	(120,967)	(17,554)
Noyabrskneftegazproekt LLC (liquidated in January 2016)	-	(83,144)	(83,144)	(22,069)	-	7,332

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

	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 PJSC	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 PJSC	1,089,181	2,263	2,263	72,911	(13,631)	(21,500)
Giprotyumenneftegaz PJSC	2,217,662	152,788	151,893	271,484	(148,976)	(46,464)
Noyabrskneftegazproekt LLC	49,729	-	-	575	5,797	-

* 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.

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 2014	**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**
Additions	22,022	97,642	369,975	34,133	124,920	811,195	1,459,887
Transfers	-	215,787	348,828	-	6,012	(570,627)	-
Disposals	-	(26,796)	(58,876)	(14,572)	(35,543)	(12,091)	(147,878)
Translation to presentation currency	1,181	(40,998)	(127,330)	(2,561)	(1,842)	(14,639)	(186,189)
Balance at 31 December 2015	**1,475,789**	**9,115,128**	**7,074,981**	**306,765**	**901,960**	**1,044,942**	**19,919,565**
Accumulated depreciation and impairment							
Balance at 1 January 2014	**(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 reversal	-	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)**
Eliminated on disposals	-	21,565	41,461	11,389	26,278	-	100,693
Depreciation expense	-	(331,887)	(613,175)	(32,664)	(121,706)	-	(1,099,432)
Impairment charge (Note 4)	-	(261,011)	(85,764)	-	(7,605)	(9,751)	(364,131)
Impairment reversal	-	-	6,051	-	109	-	6,160
Translation to presentation currency	-	2,315	19,643	960	(1,498)	-	21,420
Balance at 31 December 2015	**(7,993)**	**(1,887,739)**	**(3,063,476)**	**(207,455)**	**(581,447)**	**(9,751)**	**(5,757,861)**
Carrying amount							
Carrying amount at 1 January 2014	**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**
Carrying amount at 31 December 2015	**1,467,796**	**7,227,389**	**4,011,505**	**99,310**	**320,513**	**1,035,191**	**14,161,704**

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment (continued)

At 31 December 2015, the Group's property, plant and equipment for a total of RR 202,657 had been pledged as security for certain borrowings (31 December 2014: RR 514,579), including RR 9,737 related to undrawn credit facilities (31 December 2014: RR nil) (Note 16).

At 31 December 2015 and 31 December 2014, construction in progress includes capitalised expenses, related to the implementation of large investment projects by the Group, including the construction of a new production and testing facility for high-productivity and high-capacity pumps for oil transportation, oil extraction and power industries.

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the year ended 31 December 2015 was RR 41,201. The capitalisation rate calculated using Group weighted average interest was 11.4%.

Construction-in-progress includes advances for capital expenditures for a total of RR 77,643 at 31 December 2015 (31 December 2014: RR 112,140).

At 31 December 2015, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 172,792 (31 December 2014: RR 526,005).

Based on the results of impairment tests the Group recognised at 31 December 2015 and for the year then ended an impairment of property, plant and equipment of Giprotyumenneftegaz PJSC and Bobruisk Machine Building Plant OJSC in amount of RR 257,757 and RR 106,374, respectively (at 31 December 2014 and for the year then ended: no impairment charge) (Note 4).

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 2014	**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**
Additions	4,791	24,701	68,416	-	-	-	97,908
Disposals	(160)	(8,258)	(32,582)	(340,148)	-	(43)	(381,191)
Translation to presentation currency	27,275	(5,919)	(3,060)	63,345	(1,185)	-	80,456
Balance at 31 December 2015	**639,026**	**87,895**	**185,086**	**1,075,396**	**195,693**	**1,256**	**2,184,352**
Accumulated amortisation and impairment							
Balance at 1 January 2014	**(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)**
Amortisation on disposals	160	5,664	32,410	340,148	-	43	378,425
Amortisation expense	(112,982)	(12,430)	(57,758)	(175,280)	(21,098)	(122)	(379,670)
Translation to presentation currency	(15,774)	1,181	1,258	(27,742)	420	-	(40,657)
Balance at 31 December 2015	**(330,481)**	**(28,286)**	**(95,020)**	**(630,775)**	**(114,728)**	**(782)**	**(1,200,072)**
Carrying amount							
Carrying amount at 1 January 2014	**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**
Carrying amount at 31 December 2015	**308,545**	**59,609**	**90,066**	**444,621**	**80,965**	**474**	**984,280**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill

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

	2015	2014
Carrying amount at 1 January	**3,300,399**	**5,145,730**
Impairment loss	-	(2,186,331)
Effect of translation to presentation currency	165,664	341,000
Carrying amount at 31 December	**3,466,063**	**3,300,399**

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 2015	31 December 2014
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,162,775	997,111
Sibneftemash JSC	511,784	511,784
Neftemash JSC (goodwill, recognised on acquisition of Giprotyumenneftegaz PJSC)	370,360	370,360
EPF “SIBNA” Inc. JSC	117,308	117,308
Dimitrovgradkhimmash OJSC	64,027	64,027
Total carrying amount of goodwill	**3,466,063**	**3,300,399**

For the purpose of impairment testing, 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. 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 the 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 2015	31 December 2014
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	5-10 years
Growth rate beyond forecast period	4.5%	3.0%
Pre-tax discount rate	17.4-17.6%	21.2-23.3%

Based on the results of impairment tests, the Group did not recognise any impairment of goodwill at 31 December 2015 and for the year then ended. Reasonably possible changes in key assumptions don’t lead to material impairment charge.

(in thousands of Russian Roubles, unless otherwise stated)

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 was 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.

At 31 December 2014, the Group also tested goodwill in relation to the acquisition of its subsidiary Giprotyumenneftegaz PJSC, 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 PJSC 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 and 2015 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.

10 Investments in Associates

The Group’s investments in associates are as follows:

	2015	2014
Carrying amount at 1 January	**117,839**	**127,423**
Share of after tax results of associates	(467)	(303)
Effect of other changes, including translation to presentation currency	(11,332)	(9,281)
Carrying amount at 31 December	**106,040**	**117,839**

At 31 December 2015 and 2014, the Group owned 47.69% in its associate VNIIAEN OJSC, 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.

The table below summarises financial information of VNIIAEN OJSC:

	At 31 December 2015 and for the year then ended	At 31 December 2014 and for the year then ended
Total non-current assets	133,072	157,747
Total current assets	17,761	19,316
Total non-current liabilities	(9,640)	(12,238)
Total current liabilities	(9,241)	(8,172)
Revenue	66,431	67,955
Loss after tax	(975)	(636)
Other comprehensive loss	(24,741)	(19,461)

(in thousands of Russian Roubles, unless otherwise stated)

11 Cash and Cash Equivalents

	31 December 2015	31 December 2014
Cash on hand	1,786	2,664
RR denominated balances with banks	1,082,075	714,882
Foreign currency denominated balances with banks	943,004	296,874
RR denominated bank deposits	1,178,428	3,347,770
Foreign currency denominated bank deposits	278,319	151,858
Other cash equivalents	12,808	20,905
Total cash and cash equivalents	**3,496,420**	**4,534,953**

At 31 December 2015, the closing balance of short-term deposits denominated in foreign currencies comprised EUR-denominated deposits of RR 141,235 (31 December 2014: RR nil) and UAH-denominated deposits of RR 137,084 (31 December 2014: RR 151,858).

12 Inventories

	31 December 2015	31 December 2014
Raw materials and supplies	3,164,485	2,820,429
Work in progress	2,353,042	2,075,670
Finished goods and goods for resale	1,342,863	1,088,877
Total inventories	**6,860,390**	**5,984,976**

Inventories are presented net of provision for obsolescence in amount of RR 377,410 at 31 December 2015 (31 December 2014: RR 322,364).

At 31 December 2015, inventories of RR 64,046 were pledged as collateral for certain borrowings (31 December 2014: RR 26,810), including RR 9,737 for undrawn credit facilities (Note 16). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 26.

13 Trade and Other Receivables and Other Financial Assets

	31 December 2015	31 December 2014
Trade receivables	7,305,883	8,822,821
Less: provision for impairment of trade receivables	(349,428)	(303,988)
Short-term loans issued	12,340	153,130
Less: provision for impairment of short-term loans issued	-	(36,647)
Bank deposits	62,752	109,411
Other receivables	146,688	156,955
Less: provision for impairment of other receivables	(80,910)	(56,881)
Receivables due from customers for construction work (Note 18)	2,174,638	754,109
Financial assets, net	**9,271,963**	**9,598,910**
Prepayments and advances to suppliers and subcontractors	1,916,339	1,488,492
Less: provision for impairment of advances to suppliers and subcontractors	(36,133)	(42,860)
VAT receivable	526,057	650,639
Less: provision for VAT receivable	(6,403)	(6,177)
Other taxes receivable	29,669	23,378
Non-financial assets, net	**2,429,529**	**2,113,472**
Total trade and other receivables and other financial assets	**11,701,492**	**11,712,382**

VAT receivable balance comprises VAT related to export sales which is expected to be offset against VAT payable after appropriate confirmation is received from the tax authorities subsequent to the reporting date. Settlement of VAT receivables and payables is normally executed on net basis.

(in thousands of Russian Roubles, unless otherwise stated)

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

At 31 December 2015, the closing balance of bank deposits comprised RUB-denominated deposits of RR 3,200 (31 December 2014: RR 51,377), EUR-denominated deposits of RR 37,856 (31 December 2014: RR 49,890) and USD-denominated deposit of RR 21,696 (31 December 2014: RR 8,144).

At 31 December 2015, trade receivables arising from certain sales contracts in the amount of RR 322,490 (31 December 2014: RR 338,913) were pledged as collateral for certain borrowings (Note 16). Also at 31 December 2014, short-term bank deposits for the total amount of RR 11,618 were pledged as collateral for certain borrowings (Note 16).

At 31 December 2015, trade receivables of RR 349,428 (31 December 2014: RR 303,988) and other financial receivables of RR 80,910 (31 December 2014: RR 93,528) 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 2014	**192,459**	**10,095**	**45,684**
Provision for receivables impairment	196,001	82,349	41,054
Unused amounts reversed	(28,332)	(634)	(13,194)
Receivables written off during the year as uncollectible	(56,221)	(288)	(22,053)
Effect of translation to presentation currency	81	2,006	(2,454)
At 31 December 2014	**303,988**	**93,528**	**49,037**
Provision for receivables impairment	109,279	35,678	17,409
Unused amounts reversed	(20,069)	(11,701)	(18,359)
Receivables written off during the year as uncollectible	(43,730)	(36,810)	(3,525)
Effect of translation to presentation currency	(40)	215	(2,026)
At 31 December 2015	**349,428**	**80,910**	**42,536**

The creation and release of provision for receivables impairment have been included in the Change in provision for impairment of trade and other receivables and other financial assets (Note 28). 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 is disclosed in Note 35.

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 2015	31 December 2014
RR	8,142,816	8,683,836
USD	743,919	472,696
EUR	349,507	402,504
BYR	28,314	26,618
UAH	7,407	13,256
Financial assets, net	**9,271,963**	**9,598,910**

14 Other Long-term Assets

	31 December 2015	31 December 2014
Long-term loans issued	31,763	35,956
Long-term bank deposits	4,230	100
Financial assets	**35,993**	**36,056**
Other non-current assets	7,451	8,699
Non-financial assets	**7,451**	**8,699**
Total other long-term assets	**43,444**	**44,755**

(in thousands of Russian Roubles, unless otherwise stated)

15 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 30).

As the Group plans to hold these assets to earn rentals or for capital appreciation, these assets are accounted for as investment property. At 31 December 2015, the Group performed impairment test of the investment property, determining a fair value of investment property less costs to sell, calculated by reference to the market of relevant assets. As a result of the performed impairment test, the Group recognised loss in amount of RR 19,341 which was included in the profit for the year as an impairment of property, plant and equipment and investment property (31 December 2014: the fair value of investment property approximated its carrying amount). The fair value of investment property was determined using observed prices for sales of similar assets in principal market (Level 3 of the fair value hierarchy). At 31 December 2015 the carrying amount of the investment property after recognition of the impairment loss was RR 244,247 (31 December 2014: RR 269,534).

16 Borrowings

	Interest rate	Denominated in	31 December 2015	31 December 2014
Long-term unsecured loans and bonds:				
Bonds 1	10.75%	RR	-	2,099,199
Bonds 2	10.10%	RR	591,998	2,994,383
Unsecured bank loans	9.95% - 17.00%	RR	11,986,069	8,959,165
Unsecured bank loans	from EURIBOR+3.82% to 5%	EUR	2,093,316	1,802,316
Unsecured non-bank loans	5.00%	RR	500,000	-
Unsecured bank loans	11.00%	USD	-	8,873
			15,171,383	**15,863,936**
Long-term secured bank loans:				
Secured loans	EURIBOR+2.84% - EURIBOR+6%	EUR	-	381,108
Secured loans	10.00% - 11.50%	USD	-	40,423
			-	**421,531**
Less: current portion of long-term borrowings			(3,953,845)	(3,050,960)
Total long-term borrowings			**11,217,538**	**13,234,507**
Short-term unsecured loans:				
Unsecured bank loans	13.80% - 17.00%	RR	160,000	39,000
			160,000	**39,000**
Short-term secured bank loans:				
Secured loans	EURIBOR+2.60% - EURIBOR+2.84%	EUR	318,796	68,383
Secured loans	14.85%	RR	130,021	309,874
Secured loans	11.50%	USD	61,474	46,747
Secured loans	36.00%	BYR	3,895	-
			514,186	**425,004**
Current portion of long-term borrowings			3,953,845	3,050,960
Interest payable			38,595	217,437
Total short-term borrowings			**4,666,626**	**3,732,401**

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

	31 December 2015	31 December 2014
RR	13,405,777	14,618,077
EUR	2,412,964	2,252,781
USD	61,474	96,043
BYR	3,949	7
Total borrowings	**15,884,164**	**16,966,908**

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings (continued)

Bonds 1. In February 2012, HYDROMASHSERVICE JSC, 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 JSC, 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, net of unamortised transaction costs of RR 801. 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.

Bonds 2. In February 2013, HYDROMASHSERVICE JSC issued RR 3,000,000 of bonds. The maturity of the bonds was 5 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 10.10% was set for the first six coupon periods. Subsequent coupon rates were to be determined in February 2016. HMS Hydraulic Machines & Systems Group plc and HMS Livhydromash JSC issued guarantees in respect of these bonds. During the year ended 31 December 2015, HMS Neftemash JSC, the subsidiary of the Group, repurchased part of Bonds 2 with total par value of RR 588,968 at a market value of RR 558,323. In July 2015, the Group redeemed before the maturity date 2,389,284 Bonds 2 at 97.75% par value of RR 2,335,525, including bonds which were repurchased by HMS Neftemash JSC in April-June 2016 with total par value of RR 574,083. The difference between par value and market value of purchased bonds in amount of RR 71,487 was recognised within finance costs as a gain from redemption of bonds Note 31). As a result of above actions, Bonds 2 in amount of RR 610,716 were left to be redeemed on maturity date, including bonds which were repurchased by HMS Neftemash JSC with total par value of RR 14,885. At 31 December 2015, the outstanding amount of Bonds 2 was RR 591,998 (31 December 2014: RR 2,994,383), net of unamortised transaction costs of RR 3,833 (31 December 2014: RR 5,617).

In February 2016, Bonds 2 were fully redeemed by the Group. Accrued coupon interest was paid to holders of Bonds 2 in amount of RR 30,318 at the date of redemption (Note 37).

Bonds 2 redemptions that were executed by the Group in July 2015 and in February 2016 were financed by credit lines.

Assets pledged. At 31 December 2015, the Group pledged property, plant and equipment and inventories in total amount of RR 202,657 and RR 54,309 (31 December 2014: RR 514,579, RR 26,810 and short-term bank deposits for RR 11,618), respectively.

At 31 December 2015 and 2014, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2015, the Group recognised trade receivables under these sales contracts in amount of RR 322,490 (31 December 2014: RR 338,913).

17 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 2015 and 2014:

	Russia and Belorussia		**Ukraine**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Discount rate	9.7%	13.0%	9.6%	15.0%
Inflation	7.0%	7.0%	7.6%	9.0%
Expected annual increase in salaries	8.0%	8.0%	10.6%	10.0%
Mortality tables	Russian Federation, 2010	USSR, 1985-1986	USSR, 1985-1986	USSR, 1985-1986

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

The following amounts were recognised in profit or loss:

	2015	2014
Service cost	40,941	1,982
Current service cost	*21,083*	*24,307*
Past service cost and gain from curtailment of plans	*19,858*	*(22,325)*
Interest expense	55,331	41,736
Net actuarial gain on other long-term employment benefit obligations	(1,765)	(5,645)
Net monetary loss	-	144
Net periodic benefit expense	**94,507**	**38,217**

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 2014	**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	*17,771*	*(723)*	*17,048*
Present value of defined benefit obligations at 31 December 2014	**405,242**	**39,791**	**445,033**
Current service cost	18,946	2,137	21,083
Interest expense	51,984	3,347	55,331
Past service cost and gain from curtailment of plans	19,858	-	19,858
Benefits paid	(34,899)	(3,027)	(37,926)
Effect of translation to presentation currency	(24,001)	-	(24,001)
Remeasurements, including:	158,400	(1,765)	156,635
actuarial loss from changes in demographic assumptions	*41,590*	*(4,449)*	*37,141*
actuarial gain from changes in financial assumptions	*127,953*	*5,218*	*133,171*
experience loss/(gain)	*(11,143)*	*(2,534)*	*(13,677)*
Present value of defined benefit obligations at 31 December 2015	**595,530**	**40,483**	**636,013**

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 2015	31 December 2014
Short-term	69,538	69,428
Long-term	566,475	375,605
Present value of defined benefit obligations at the end of the year	**636,013**	**445,033**

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

		31 December 2015	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(57,241)	59,741
Inflation	1.0%	27,019	(27,019)
Expected annual increase in salaries	1.0%	21,362	(21,362)

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

		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)

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.

The weighted average duration of the defined benefit obligations was 7 years at 31 December 2015 (31 December 2014: 8 years).

The expected contributions under voluntary defined benefit pension programs in 2016 are expected to be approximately RR 69,538.

For the year ended 31 December 2015, mandatory social contributions to state defined contribution plans amounted to RR 1,858,444 (2014: RR 1,766,663).

18 Construction Contracts

During 2015 and 2014, 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 activities under construction contracts:

	2015	2014
Construction contracts revenue	12,749,301	9,268,900
Contract cost expensed	(8,879,302)	(6,824,439)
Gross margin	**3,869,999**	**2,444,461**

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 2015	31 December 2014
Aggregate amount of contract cost incurred	7,262,995	4,662,012
Aggregate amount of recognised profits	2,192,571	1,257,374
Aggregate amount of recognised losses	(42,488)	(73,229)
Less: Progress billings	(7,238,440)	(5,092,048)
Gross amount due from customers for contract work	**2,174,638**	**754,109**

Contracts with net amount owed by the Group	31 December 2015	31 December 2014
Aggregate amount of contract cost incurred	7,619,601	6,095,295
Aggregate amount of recognised profits	4,139,611	2,335,444
Aggregate amount of recognised losses	(6,196)	(4,323)
Less: Progress billings	(12,790,200)	(9,592,861)
Gross amount due to customers for contract work	**(1,037,184)**	**(1,166,445)**

	31 December 2015	31 December 2014
Advances from customers, related to construction contracts	-	205,592
Retentions	80,758	94,351

(in thousands of Russian Roubles, unless otherwise stated)

19 Trade and Other Payables

	31 December 2015	31 December 2014
Trade payables	3,268,065	4,056,336
Other payables	193,346	172,997
Financial trade and other payables	**3,461,411**	**4,229,333**
Advances from customers	2,765,720	2,914,755
Payables due to customers for construction work (Note 18)	1,037,184	1,166,445
Wages and salaries payable	1,191,425	899,647
Other non-financial payables	**4,994,329**	**4,980,847**
Total trade and other payables	**8,455,740**	**9,210,180**

20 Other Taxes Payable

	31 December 2015	31 December 2014
VAT	468,723	750,631
Social funds contribution	212,785	150,380
Personal income tax	62,149	61,125
Property tax	17,527	16,753
Land tax	11,438	10,006
Transport tax	2,767	2,169
Other taxes	1,870	1,592
Total other taxes payable	**777,259**	**992,656**

21 Other Long-term Payables

At 31 December 2015, other long-term payables include payables related to government grants in the amount of RR 133,552 (31 December 2014: RR 95,000). At 31 December 2014, other long-term payables also included payables related to a finance lease liability in the amount of RR 205.

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC 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 JSC was entitled 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 2015, the Group obtained government grants in amount of RR 150,000, including the long-term part in amount of RR 133,552 (31 December 2014: RR 95,000) in relation to this subsidiary, recognising the same amount in deferred income. 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 2015, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

22 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2014	**177,940**	**81,507**	**-**
Additional provisions	182,584	3,715	188,422
Unused amounts reversed	(60,244)	(33,152)	(51,315)
Provision used during the period	(87,083)	-	-
Effect of translation to presentation currency	2,926	-	-
At 31 December 2014	**216,123**	**52,070**	**137,107**
Additional provisions	266,353	257,230	-
Unused amounts reversed	(61,587)	(7,207)	-
Provision used during the period	(107,160)	(33,034)	(137,107)
Effect of translation to presentation currency	1,136	351	-
At 31 December 2015	**314,865**	**269,410**	**-**

(in thousands of Russian Roubles, unless otherwise stated)

22 Provisions for Liabilities and Charges (continued)

Warranty provision. 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 2015, the closing balance of the warranty provision comprised a short-term portion of RR 182,000 and a long-term portion of RR 132,865 (31 December 2014: RR 117,757 and RR 98,366, respectively).

Provision for legal claims. The balance at 31 December 2015 is expected to be utilised by the end of 2016. 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.

Provision for tax risks. During 2015, the provision for tax risks was fully utilised as the Group's subsidiaries made respective tax payments and redeemed the liabilities in full.

23 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 31 December 2014 and 1 January 2015	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(201,205)**
Movements during 2015	-	-	-	-	(12,284)
At 31 December 2015	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(213,489)**

At 31 December 2015 and 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.

Treasury shares. During 2015, 352,629 GDRs of the Company representing 0.30% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 12,284.

At 31 December 2015, the Company, via a wholly-owned subsidiary, is holding 2,172,073 (31 December 2014: 1,819,444) of its own GDRs with the total cost of RR 213,489 (31 December 2014: RR 201,205). The voting and dividend rights of these GDRs are suspended.

Dividends. At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2015 of 5.12 Russian Roubles per ordinary share, amounting to a total dividend of RR 599,877, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2016.

In December 2015, an interim dividend in respect of the profit for the nine months ended 30 September 2015 of 3.25 Russian Roubles per ordinary share amounting to a total dividend of RR 374,380 was approved by the Board of Directors of the Company. This dividend was paid in December 2015.

The Company did not declare any interim or final dividends in respect of the year ended 31 December 2014.

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. This dividend was paid in June-July 2014.

Earnings per share. The Company has no dilutive or 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.

(in thousands of Russian Roubles, unless otherwise stated)

23 Share Capital, Other Equity Items and Earnings per Share (continued)

For the years ended 31 December 2015 and 2014, earnings per share are calculated as follows:

	2015	2014
Profit/(loss) for the year attributable to ordinary shareholders	1,884,619	(1,595,510)
Weighted average number of ordinary shares outstanding (thousands)	115,370	115,344
Basic and diluted earnings/(loss) per ordinary share (expressed in RR per share)	**16.34**	**(13.83)**

24 Income Taxes

Income tax expense for the year ended 31 December 2015 and 2014 included:

	2015	2014
Current tax	951,173	946,989
In respect of the current period	*951,173*	*854,259*
In respect of prior years	-	*92,730*
Deferred tax	(84,884)	(444,650)
Total income tax expense	**866,289**	**502,339**

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

	2015	2014
Profit/(loss) before income tax	**2,630,464**	**(1,072,980)**
Income tax (expense)/benefit calculated at 20% (2014: 20%)	(526,093)	214,596
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax losses for which no deferred income tax asset was recognised	(87,403)	(40,826)
Effect of the difference in tax rates in countries other than the Russian Federation	(12,509)	(11,931)
Effect of tax on intragroup dividends received	(39,143)	(35,502)
Dividend withholding tax provision	(20,000)	-
Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes	(12,177)	(41,926)
Impairment of goodwill	-	(437,266)
Current tax in respect of prior years	-	(92,730)
Hyperinflation effect on monetary gain of foreign subsidiaries	-	(21,292)
Effect of adjustment resulting from intra-group sales of shares in subsidiaries	-	(20,000)
Provision for tax risks, other than income tax	-	(19,738)
Effect of revaluation of assets for taxation purposes	-	(755)
Other non-deductible expenses not subject to tax	(168,964)	5,031
Total income tax expense	**(866,289)**	**(502,339)**

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)

24 Income Taxes (continued)

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

	1 January 2015	Credited/(charged) to profit or loss	Translation to presentation currency	31 December 2015
Deferred tax liabilities				
Property, plant and equipment	(1,503,709)	144,089	(13,274)	(1,372,894)
Intangible assets	(255,790)	64,539	(13,355)	(204,606)
Short-term borrowings	-	(47)	(12)	(59)
Finance lease liability	(25,833)	25,701	132	-
Trade and other payables	(148,026)	175,316	(145)	27,145
Long-term borrowings	-	(5,640)	(154)	(5,794)
Withholding tax provision	-	(20,000)	-	(20,000)
	(1,933,358)	**383,958**	**(26,808)**	**(1,576,208)**
Deferred tax assets				
Inventories	142,732	10,823	(2,235)	151,320
Trade and other receivables and other financial assets	373,295	(369,592)	(81)	3,622
Cash and cash equivalents	11	3	-	14
Other long-term assets	433	13,103	(41)	13,495
Share of results of associates	7,500	2,357	-	9,857
Other long-term payables	18,366	38,021	323	56,710
Long-term provisions for liabilities and charges	38,100	23,018	(1,470)	59,648
Loss carried forward	77,103	(67,274)	-	9,829
Other taxes payable	3,706	9,957	-	13,663
Short-term borrowings	1,680	(1,680)	-	-
Short-term provisions for liabilities and charges	54,303	50,942	(875)	104,370
Long-term borrowings	8,752	(8,752)	-	-
	725,981	**(299,074)**	**(4,379)**	**422,528**
Total net deferred tax liability	**(1,207,377)**	**84,884**	**(31,187)**	**(1,153,680)**

	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 assets	(511)	511	-	-	-
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
Trade and other receivables and other financial assets	-	368,325	4,970	-	373,295
Cash and cash equivalents	6	5	-	-	11
Other long-term assets	-	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)**

At 31 December 2015, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 11,688,576 (31 December 2014: RR 10,574,796) 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 of its deferred tax asset in relation to loss carried forward from the previous years and recognized deferred tax asset in the amount of RR 18 million on the loss incurred by its certain subsidiaries in 2015. The loss carried forward will expire by 2025.

(in thousands of Russian Roubles, unless otherwise stated)

24 Income Taxes (continued)

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.

25 Revenue

	2015	**2014**
Sales of oil and gas equipment	15,621,935	12,140,415
Sales of pumps	12,856,592	11,570,996
Sales of compressor equipment	3,826,975	2,479,732
Revenue from construction and design and engineering services	2,828,587	4,231,621
Sales of other services and goods	2,162,348	1,928,016
Total revenue	**37,296,437**	**32,350,780**

26 Cost of Sales

	2015	**2014**
Supplies and raw materials and other components	16,520,303	13,399,726
Labour costs	5,928,081	5,676,790
Depreciation and amortisation	1,280,525	1,264,161
Construction and design, engineering and other services of subcontractors	1,135,175	1,762,980
Utilities	432,465	475,055
Change in warranty provision	97,606	35,257
Change in provision for obsolete inventories	87,289	64,894
Change in retirement benefits obligations	73,115	27,357
Change in work in progress and finished goods	(648,346)	(136,857)
Other expenses	876,377	941,697
Total cost of sales	**25,782,590**	**23,511,060**

Accounting policy on cost of sales classification per types was changed in 2015 and comparative information for the year ended 31 December 2014 was changed accordingly. Cost of goods sold in amount of RR 2,161,548 was presented in “Supplies and raw materials and other components” line and certain subcontractors expenses were reclassified from “Other expenses” line in amount of RR 1,112,323.

27 Distribution and Transportation Expenses

	2015	**2014**
Labour costs	541,921	462,308
Transportation expenses	436,880	431,017
Agency services	101,662	26,305
Lease expense	72,556	70,329
Entertaining costs and business trip expenses	38,460	38,858
Insurance	28,238	40,002
Advertising	26,742	29,494
Depreciation and amortisation	20,198	27,941
Products certification	14,648	7,735
Customs duties	9,590	12,381
Property, plant and equipment repair and maintenance	6,112	3,490
Packaging and storage expenses	3,717	2,804
Change in retirement benefits obligations	1,659	970
Other expenses	75,612	83,394
Total distribution and transportation expenses	**1,377,995**	**1,237,028**

(in thousands of Russian Roubles, unless otherwise stated)

28 General and Administrative Expenses

	2015	2014
Labour costs	3,031,406	2,615,618
Audit and consultancy services	209,773	229,196
Taxes and duties	204,850	180,314
Depreciation and amortisation	179,971	181,873
Bank services	164,720	146,023
Change in provision for impairment of trade and other receivables and other financial assets	112,237	277,244
Entertaining costs and business trip expenses	96,715	75,726
Stationary and office maintenance	74,095	59,758
Property, plant and equipment repair and maintenance	71,429	71,560
Security	63,857	47,458
Lease expense	49,344	49,755
Insurance	43,974	32,615
Telecommunications services	31,408	34,289
Change in retirement benefits obligations	19,733	9,890
Training and recruitment	17,249	15,727
Change in provision for tax risks	-	95,691
Other expenses	232,466	216,957
Total general and administrative expenses	**4,603,227**	**4,339,694**

During the year ended 31 December 2015, the Company incurred fees of RR 2,371 for statutory audit services (2014: RR 2,155). In addition, audit and consultancy services stated above include fees of RR 40 (2014: RR 220) for tax consultancy services and RR 1,132 (2014: RR 907) for other assurance services charged by the Company's statutory auditor.

29 Other Operating Expenses, Net

	2015	2014
Change in provision for legal claims	250,023	(29,437)
Charity, social expenditures	143,231	115,316
Loss/(gain) on revaluation of redemption liability (Note 36)	136,392	(119,418)
Fines and late payment interest under contracts	59,076	108,196
Loss on purchase/sale of foreign currency	13,622	9,908
Depreciation of social assets	10,623	7,694
Loss from disposal of property, plant and equipment and intangible assets	9,856	5,767
Foreign exchange (gain)/loss, net	(72,636)	67,484
Impairment reversal of property, plant and equipment	(6,160)	(2,524)
Net monetary loss	-	4,272
Other expenses, net	79,870	54,496
Total other operating expenses, net	**623,897**	**221,754**

30 Finance Income

	2015	2014
Interest income	146,689	111,581
Foreign exchange gain from deposits, net	45,906	64,587
Gain on settlement of loan (Note 15)	-	44,327
Total finance income	**192,595**	**220,495**

31 Finance Costs

	2015	2014
Interest expense	1,803,616	1,412,615
Foreign exchange loss from borrowings, net	343,150	720,348
Finance expenses related to redemption liability (Note 36)	11,505	14,204
Finance lease expenses	136	918
Gain from redemption of bonds (Note 16)	(71,487)	-
Total finance costs	**2,086,920**	**2,148,085**

(in thousands of Russian Roubles, unless otherwise stated)

32 Balances and Transactions with Related Parties

At 31 December 2015, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2014: 71.51%), including shares in the form of GDRs. At 31 December 2015 and 2014, 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 2015**		**31 December 2014**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	3,412	10,538	1,922	8,104
Accounts payable	3,959	252,170	3,326	106,806

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

Transactions with related parties	**2015**		**2014**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	13,208	33,659	9,819	27,950
Other income	2,247	439	1,022	791
Purchase of services	(33,311)	-	(51,695)	-
Purchase of intangible assets	(19,270)	-	(1,705)	-
Rent expense	(11,467)	-	(9,698)	-
Purchase of raw materials	(8,846)	-	(21,856)	-
Interest expenses	-	(143)	-	-
Purchase of property, plant and equipment	-	-	(2,135)	-

Key management compensation

Key management compensation amounted to RR 444,256 for the year ended 31 December 2015 (2014: RR 267,640) 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 32,644 (2014: RR 17,024) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 137,753 for the year ended 31 December 2015 (2014: RR 83,293).

For the year ended 31 December 2015, dividends of RR 45,280 were accrued and paid by the Group's subsidiary to the holder of non-controlling interests who is a member of key management (2014: RR 57,830).

33 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.

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 years ended 31 December 2015 and 2014 with regards to these litigations.

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. The management believes that resolution of such matters will not have a material adverse effect on the Group's financial performance and liquidity based on information currently available. All probable legal risks are provided for.

(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.

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.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognised as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries. 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.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. At 31 December 2015, the Group did not recognise any provision for tax risks (31 December 2014: RR 137,107). With regard to matters where practice concerning payments of taxes is unclear, management estimated possible tax exposure to be approximately RR 44 million at 31 December 2015, before any fines and interest (31 December 2014: RR 63 million).

33 Contingencies and Commitments (continued)

(iii) Environmental matters

The enforcement of environmental regulation in the 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 2015, commitments for purchase of the services amounted to RR 177,157 (31 December 2014: RR 271,252).

At 31 December 2015, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 172,792 (31 December 2014: RR 526,005).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC 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. At 31 December 2015, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement. Also refer to Note 21.

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 Net debt/EBITDA ratio and certain other requirements. At 31 December 2015, the Group was in compliance with all its loan covenants.

34 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.

34 Segment Information (continued)

The **first** operating segment **"Industrial pumps"** includes following significant subsidiaries:

	31 December 2015	31 December 2014
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	Nasosenergomash PJSC	Nasosenergomash PJSC
4	HYDROMASHSERVICE JSC	HYDROMASHSERVICE JSC
5	Plant Promburvod OJSC	Plant Promburvod OJSC
6	HMS-Promburvod CJSC	HMS-Promburvod CJSC
7	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
8	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
9	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
10	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
11	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

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

1	HMS Neftemash JSC	HMS Neftemash JSC
2	Sibneftemash JSC	Sibneftemash JSC
3	EPF "SIBNA" Inc. JSC	EPF "SIBNA" Inc. JSC
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 PJSC	Tomskgazstroy PJSC
2	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC
3	Noyabrskneftegazproekt LLC (liquidated in January 2016)	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	CMPC LLC
10	HMS Active LLC	HMS Active LLC

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.

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) 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.

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

The segment information provided to the CODM for the reportable segments is reconciled to corresponding amounts reported in the Group's consolidated financial statements prepared in accordance with IFRS.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2015 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
External revenue	16,262,748	15,154,817	3,265,753	2,606,124	6,995	-	**37,296,437**
Intersegment revenue	1,662,094	63,266	917,337	10,603	1,383,414	-	**4,036,714**
EBITDA, management report[1]	4,098,065	3,246,107	315,410	179,541	(367,136)	(25,559)	**7,446,428**

[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 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.

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

	2015						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
EBITDA, management report[1]	**4,098,065**	**3,246,107**	**315,410**	**179,541**	**(367,136)**	**(25,559)**	**7,446,428**
Depreciation and amortisation	(615,899)	(162,072)	(411,439)	(256,156)	(45,751)	-	**(1,491,317)**
Non-monetary items[2]	(234,955)	(343,007)	(1,629)	(94,968)	(6,255)	-	**(680,814)**
Impairment of property, plant and equipment and investment property (Note 7,15)	(106,374)	-	-	(277,098)	-	-	**(383,472)**
Other operating (expenses)/ income, net[3]	(273,128)	(230,202)	(59,651)	170,617	(2,554)	29,349	**(365,569)**
Operating profit/(loss), IFRS	**2,867,709**	**2,510,826**	**(157,309)**	**(278,064)**	**(421,696)**	**3,790**	**4,525,256**
Finance income							192,595
Finance costs							(2,086,920)
Share of results of associate							(467)
Profit before income tax, IFRS							**2,630,464**

[1] EBITDA derived from management report is equal to adjusted EBITDA.
[2] Non-monetary items consist 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 29, excluding depreciation of social assets and provision for legal claims.

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

	2014						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
EBITDA, 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)	(41,526)	-	**(505,167)**
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)	101,128	(9,464)	**(243,693)**
Operating profit/(loss), 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, IFRS							**(1,072,980)**

[1] EBITDA derived from management report is equal to adjusted EBITDA.
[2] Non-monetary items consist 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 29, excluding depreciation of social assets and provision for legal claims.

	2015					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Total**
Total revenue,	16,262,748	15,154,817	3,265,753	2,606,124	6,995	37,296,437
Including						
Promgazmash LLC	12,676	4,169,351	-	-	-	4,182,027
Rospan International CJSC	-	3,884,695	-	-	-	3,884,695
Others (each<10% of total revenue)	16,250,072	7,100,771	3,265,753	2,606,124	6,995	29,229,715

	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

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 2015	**Consolidated revenue for 2014**	**Non-current assets at 31 December 2015[1]**	**Non-current assets at 31 December 2014[1]**
Total revenue/ non-current assets	37,296,437	32,350,780	18,856,294	19,170,116
Including				
Russia	32,817,024	28,798,118	14,869,824	15,018,463
Iraq	1,198,125	468,131	-	-
China	684,552	-	-	-
Kazakhstan	631,780	708,565	-	-
Germany	517,238	397,853	2,034,126	1,810,051
Belorussia	305,502	290,511	565,400	723,453
Turkmenistan	247,582	587,626	-	-
Ukraine	125,443	152,319	1,386,944	1,618,149
Other	769,191	947,657	-	-

[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.

(in thousands of Russian Roubles, unless otherwise stated)

35 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 2015 and 2014. 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 2015			**31 December 2014**		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	917,824	(158,554)	759,270	665,571	(198,654)	466,917
EUR	525,926	(2,298,645)	(1,772,719)	68,287	(2,726,690)	(2,658,403)
Total	**1,443,750**	**(2,457,199)**	**(1,013,449)**	**733,858**	**(2,925,344)**	**(2,191,486)**

At 31 December 2015, if RR had strengthened/weakened by 20% against the US dollar with all other variables held constant, profit for the year would have been RR 121,483 lower/higher (31 December 2014: loss would have been RR 74,707 higher/lower), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and cash.

At 31 December 2015, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, profit for the year would have been RR 283,635 higher/lower (31 December 2014: loss would have been RR 425,344 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 16). The Group does not have significant interest-bearing assets.

At 31 December 2015, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been RR 129,430 lower/higher (31 December 2014: loss before income tax would have been RR 116,559 higher/lower), as a result of higher/lower interest expense on variable interest liabilities.

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

(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 2015	31 December 2014
Trade and other receivables (Note 13, 14)		
- Trade receivables	6,956,455	8,518,833
- Other financial receivables	2,351,501	1,116,133
Cash and cash equivalents (Note 11)		
- Bank balances (incl. restricted cash)	3,520,426	4,539,877
- Cash on hand	1,786	2,664
Total on-balance sheet exposure	**12,830,168**	**14,177,507**
Total maximum exposure to credit risk	**12,830,168**	**14,177,507**

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 2015	31 December 2014
S&P's(2)	A	268,284	-
Expert RA(4)	A+ – A	52,619	88,195
Fitch(3)	BBB+ – B-	1,674,681	3,798,200
Moody's(1)	Baa2 – B1	961,830	499,692
S&P's(2)	BBB+ – B-	395,670	131,274
Moody's(1)	less than B3	1,020	3,914
Expert-rating(5)	uaAAA	127,128	-
Other	-	39,194	18,602
Total		**3,520,426**	**4,539,877**

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

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.

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

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

	31 December 2015		31 December 2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Not overdue and not impaired	**5,829,517**	**2,335,678**	**6,609,394**	**1,072,324**
Total past due but not impaired, including:	**1,126,938**	**15,823**	**1,909,439**	**43,809**
- less than 60 days overdue	531,925	5,952	1,110,841	8,350
- 61 to 180 days overdue	447,752	1,485	262,449	11,961
- 181 to 365 days overdue	117,288	2,368	110,876	6,565
- over 365 days overdue	29,973	6,018	425,273	16,933
Individually impaired (gross), including:	**349,428**	**80,910**	**303,988**	**93,528**
- not overdue	11,252	3,830	374	37,194
- less than 60 days overdue	143	1,113	42,562	7
- 61 to 180 days overdue	18,337	9,535	53,104	-
- 181 to 365 days overdue	60,631	4,461	65,017	9
- over 365 days overdue	259,065	61,971	142,931	56,318
Less provision for impairment	**(349,428)**	**(80,910)**	**(303,988)**	**(93,528)**
Total	**6,956,455**	**2,351,501**	**8,518,833**	**1,116,133**

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.

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 2015 is RR 9,307,956 (31 December 2014: RR 9,634,966).

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 2015	32	7,052,337	72%
At 31 December 2014	38	7,561,556	75%

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.

(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 2015 and 2014:

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2015**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bonds(1)	617,177	626,107	-	-	-
Bank loans(1)	14,766,987	5,652,960	4,594,267	7,778,434	-
Other loans(1)	500,000	25,000	25,000	549,855	-
Trade accounts payable	3,268,065	3,268,065	-	-	-
Other financial payables(1)	520,105	520,105	-	-	-

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

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	-
Trade accounts payable	4,056,336	4,056,336	-	-	-
Other financial payables[1]	352,064	357,234	220	-	-

[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. At 31 December 2015, the Group had access to RR 6,855,757 in undrawn credit lines (31 December 2014: RR 153,791). 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 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 2015	31 December 2014
Liquidity ratio	1.49	1.52
Current assets	22,213,555	22,396,814
Current liabilities	14,889,655	14,775,161

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

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 2015, the Group's strategy has been to maintain the gearing ratio at a level not exceeding 200%.

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

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

	31 December 2015	31 December 2014
Long-term borrowings	11,217,538	13,234,507
Short-term borrowings	4,666,626	3,732,401
Total debt	**15,884,164**	**16,966,908**
Cash and cash equivalents	(3,496,420)	(4,534,953)
Net debt	**12,387,744**	**12,431,955**
Equity attributable to the shareholders of the Company	9,823,144	8,392,636
Non-controlling interest	3,325,643	3,550,667
Total capital	**13,148,787**	**11,943,303**
Gearing ratio	**94%**	**104%**

36 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.

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 2015, the fair value of bonds was RR 2,979 lower than their carrying amounts (31 December 2014: RR 856,982). The fair value of borrowings was based on Level 2 inputs. At 31 December 2015, the fair value of borrowings was RR 36,853 lower than their carrying amounts (31 December 2014: RR 1,758,648). 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 had a right to acquire the remaining 25% share in Apollo Goessnitz GmbH, while the holders of this non-controlling interest had the right to sell it to the Group. The options could be executed starting from 3 years after the options agreement date. The exercise price was 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.

In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH at the price of EUR 4.1 million. Share purchase transaction was legally completed in February 2016 (Note 37). As a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100%.

36 Fair Value of Financial Instruments (continued)

At 31 December 2015, the present value of the redemption liability under the option agreement amounted to RR 326,759, being the RUB equivalent of the option exercise price of EUR 4.1 million (31 December 2014: RR 178,862). The increase in redemption liability in relation to the discounting effect of RR 11,505 was recognised in finance expenses (Note 31) (2014: RR 14,204) and the increase in redemption liability in relation to changes in underlying assumptions of RR 136,392 was recognised in other operating expenses, net as a loss (Note 29) (2014: the decrease in redemption liability of RR 119,418 was recognised in other operating expenses, net as a gain).

37 Subsequent Events

Bonds. In February 2016, Bonds 2 were fully redeemed by the Group (Note 16). Accrued coupon interest was paid to holders of Bonds 2 in amount of RR 30,318 at the date of redemption. The buy-back was financed by a credit line.

Borrowings. In March 2016, the Group signed a new credit facility agreement in amount of RR 10,000 million with maturity of five years. Total liability under the agreement and certain existing Group's loans should not exceed RR 10,000 million at any point of time. At 31 December 2015, the respective existing loans amounted to RR 3,006,270.

In March 2016, on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the interest rates for certain unsecured long term-loans amounting to RR 1,500,000 were decreased to 15.5% per annum. At 31 December 2015, the interest rates of respective loans were in the range of 15.6% to 17.0% per annum (Note 16).

Acquisition of share in Apollo Goessnitz GmbH. In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH at the price of EUR 4.1 million. Share purchase transaction was legally completed in February 2016 (Note 36). As a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100%.

Long-term Incentive Program. In March 2016, the Board of Directors of the Company approved a Long-term Incentive Program (the “Program”) for the Group’s key executives. Under the conditions of the Program, GDRs of the Company will be granted to the participants based on the Group’s performance in the years 2016 to 2018. The transfer of GDRs to the participants will happen over 2018-2021, if participants are still employed by the Group. GDRs for this Program will come from GDRs owned and bought by the Company.

The first grant date for the Program has been deemed to be subsequent to 31 December 2015, and accordingly the Program has not been accounted for and no compensation expense has been recognized in the year ended 31 December 2015. The Group will account for this Program as an equity-settled share based payment transaction under IFRS 2, Share-based Payments, starting from the year ending 31 December 2016.

Depository Receipts (DR) ratio change. On 8 February 2016, the ratio of the Company’s DR program was changed from an old ratio of one DR representing one ordinary share to a new ratio of one DR representing five ordinary shares. The issued number of ordinary shares of the Company and their nominal value remained unchanged.

Treasury shares. In February-April 2016, a wholly-owned subsidiary of the Group bought back 0.51% of the Company’s issued share capital for a total consideration of RR 25,132. The equivalent quantity of acquired GDRs under a new ratio (see above) was equal to 118,918.