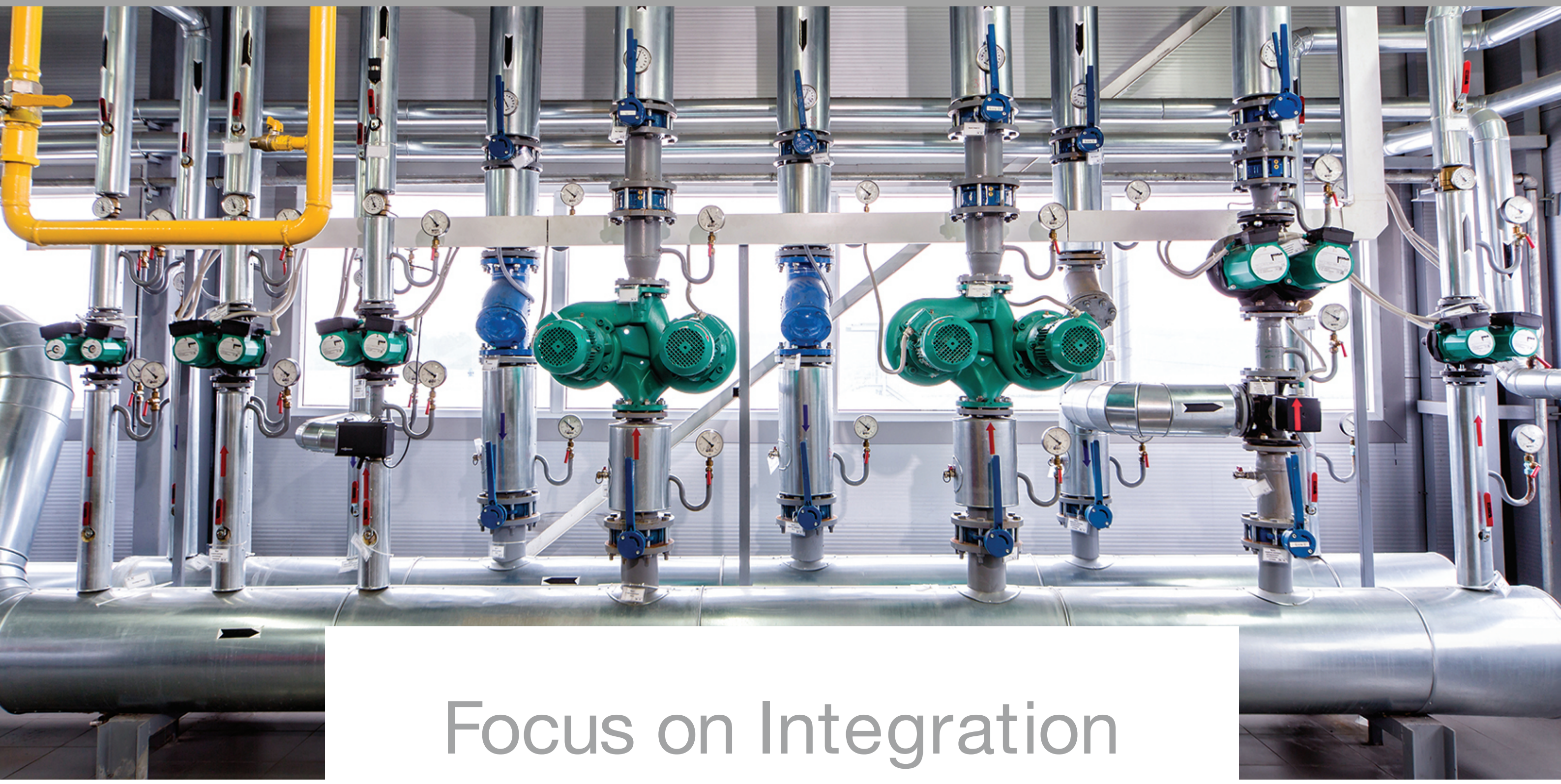
HMS GROUP

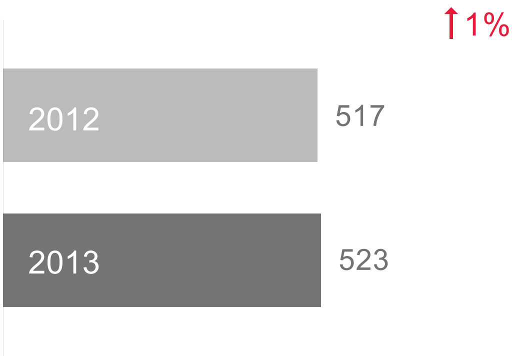
Annual Report 2013



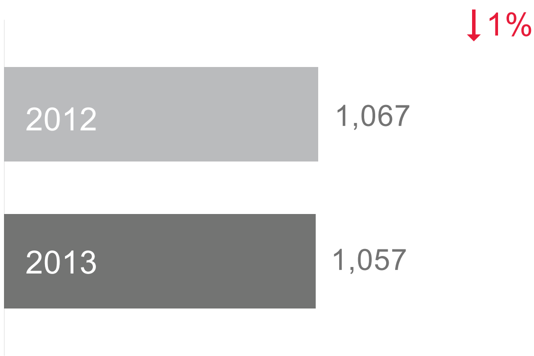
Focus on Integration and Synergy

Market indicators

Oil production, mn t

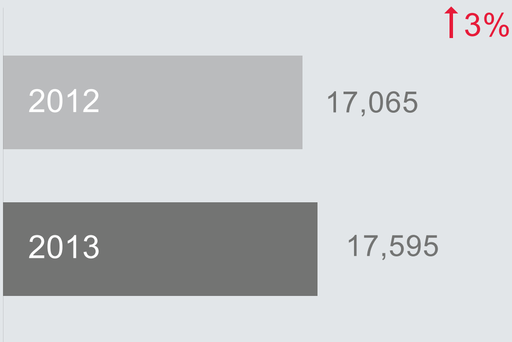


Power generation, kW/h

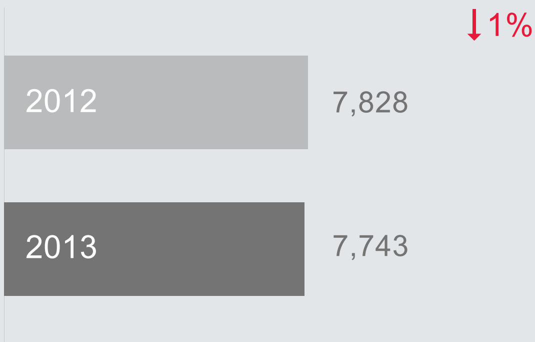


Performance indicators

Industrial pumps revenue, Rub mn

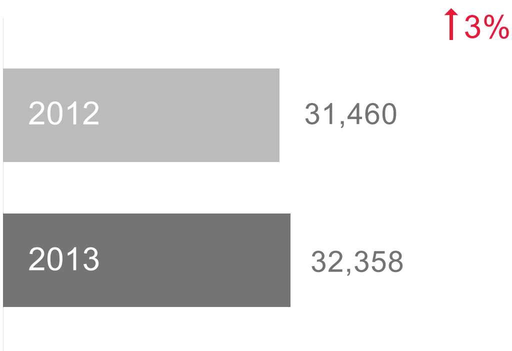


Oil and gas equipment revenue, Rub mn

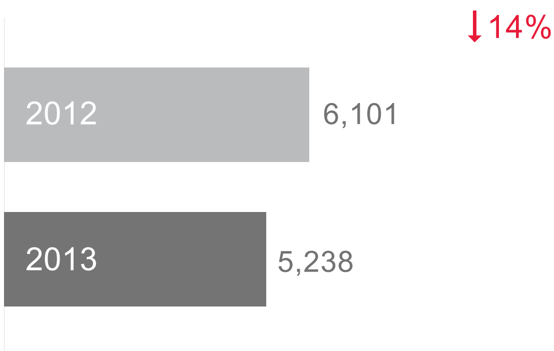


Financial indicators

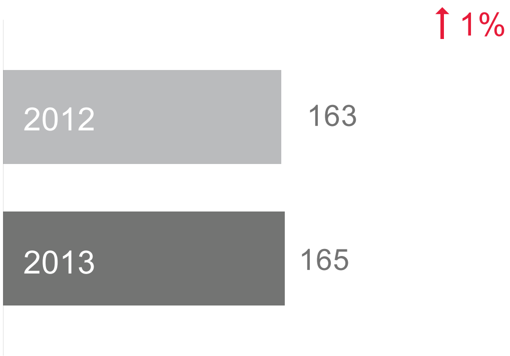
Revenue, Rub mn



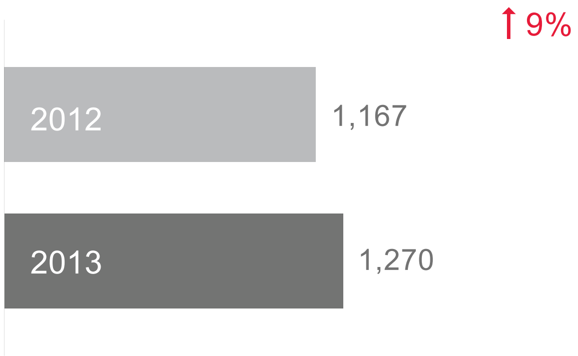
EBITDA, Rub mn



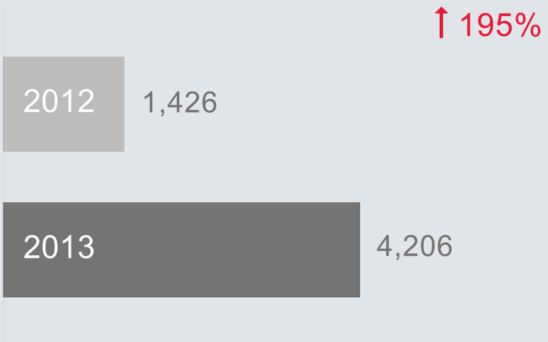
Russian well stock, ths items



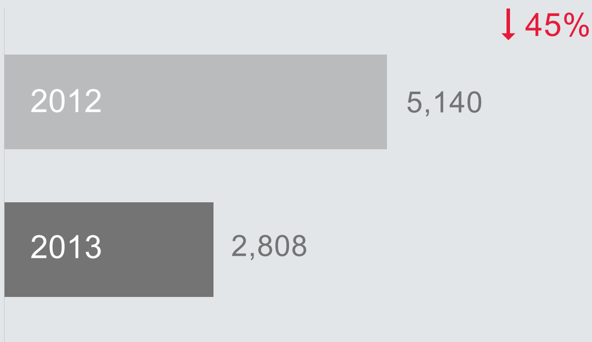
Oil sector investment growth, bn Rub



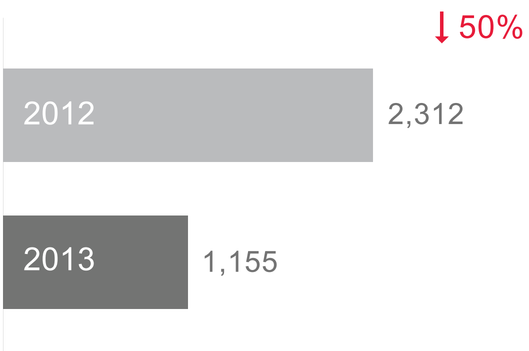
Compressors revenue, Rub mn



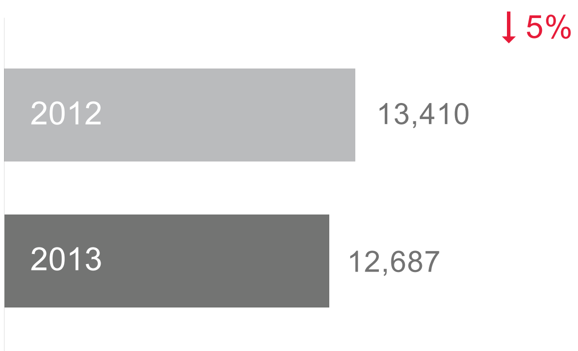
EPC revenue, Rub mn



Net income, Rub mn



Total debt, Rub mn



Overview

Overview

Who we are

HMS Group is the leading pump and compressor manufacturer and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS.

Our team is a leading industrial group with a strong research and design base, which can offer fully integrated solutions from design and manufacturing to engineering, construction works, repairs and maintenance.

HMS Group operates through four divisions, which employ over 16,000 people in Russia, Ukraine, Belarus and overseas.

Industrial Pumps

Rub 17,595 bn
Revenue

22%
EBITDA Margin

8,8 thds
Employees

Description

The industrial pumps business segment is our oldest division. It designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. It also provides aftermarket maintenance, repair services and other support for its products.

Core products and services

- Water injection
- Trunk pipelines
- Oil refineries
- Nuclear and Thermal power
- Water utilities
- General industrial pumps

Oil and gas equipment

Rub 7,743 bn
Revenue

11%
EBITDA Margin

2,4 thds
Employees

Description

The oil and gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems primarily for oil extraction and transportation.

Core products and services

- Oil pumping stations and pump stations for water injection
- Oil & gas and water processing units
- High-precision and automated metering units
- Tanks, reservoirs and vessels
- Oil development equipment

Compressors

Rub **4,207** bn

Revenue

14%

EBITDA Margin

2,6 thds

Employees

Description

The compressor business segment was established after the acquisition of a leading Russian compressor producer Kazankompressormash (KKM) in July 2012. In 2013, it was strengthened by the acquisition of NIITK, R&D institute providing compressor technologies. The division designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions to customers in the oil and gas, metals and mining and other core industries in Russia.

Core products and services

– Oil and gas production

– Oil and gas transportation

– Gas processing

– Oil refineries

– Oil and gas chemistry

– Refrigeration applications for various industries

Engineering, procurement and construction (EPC)

Rub **2,808** bn

Revenue

-7%

EBITDA Margin

2,1 thds

Employees

Description

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects for customers in the oil upstream and midstream, gas upstream and water utilities sectors.

Core products and services

– Oil and gas projects focused on design and planning

– Oilfield infrastructure and pipelines construction

– Equipment supply

All data as of 2013

Highlights

Name	Unit	2013	2012	Change
Backlog	Rub million	22,333	18,963	18%
Order intake	Rub million	34,813	33,086	5%
Revenue	Rub million	32,358	31,460	3%
EBITDA, adj.	Rub million	5,238	6,101	-14%
Net debt	Rub million	11,102	12,064	-8%
EPS	Rub	8.99	17.91	-50%
Dividend per share	Rub	3.4	6.8	-50%
ROCE	%	13.9%	18.7%	-483 bps

Interactive analysis by business segment

INDEX	UNITS	2007	2008	2009	2010	2011	2012	2013
Revenue								
Total Revenue	ths RUR	13,399,356	14,046,245	14,772,269	23,070,014	27,495,553	31,459,887	32,358,148
Revenue / Industrial pumps	ths RUR	6,189,039	4,577,893	6,308,064	10,712,374	15,646,400	17,065,522	17,595,245
Revenue / Oil and gas equipment	ths RUR	3,534,223	4,125,655	4,166,176	5,804,694	5,899,811	7,827,850	7,742,714
Revenue / Compressors	ths RUR	0	0	0	0	0	1,426,253	4,206,584
Revenue / EPC	ths RUR	3,614,097	5,204,376	4,188,738	6,134,904	5,946,254	5,139,862	2,808,482
EBITDA								
Total EBITDA	ths RUR	1,423,168	1,643,861	1,889,636	3,519,244	5,508,924	6,100,949	5,238,440
EBITDA / Industrial pumps	ths RUR	685,861	822,030	1,011,886	2,367,037	4,398,797	4,278,902	3,816,496
EBITDA / Oil and gas equipment	ths RUR	501,103	528,762	786,462	598,939	696,729	1,397,043	882,917
EBITDA / Compressors	ths RUR	0	0	0	0	0	88,582	571,577
EBITDA / EPC	ths RUR	248,738	254,794	33,342	549,508	563,122	341,492	-204,346
EBITDA margin								
Total EBITDA margin	%	10.6	11.7	12.8	15.3	20	19.4	16.1
EBITDA margin / Industrial pumps	%	11.1	18	16	22.1	28.1	25.1	21.9
EBITDA margin / Oil and gas equipment	%	14.2	12.8	18.9	10.3	11.8	17.8	11.4
EBITDA margin / Compressors	%	0	0	0	0	0	6	13.4
EBITDA margin / EPC	%	6.9	4.9	0.8	9	9.5	9.2	-7.2

Total and EPC data for 2012 and 2013 have been adjusted due to the disposal of the SKMN constuction subsidiary in December 2013

CEO statement

Dear Stakeholders and Partners of HMS Group,

Summary of 2013

Business development in 2013 lagged behind expectations. HMS Group experienced several challenges arising from both external and internal factors. The most influential external factor was the slowdown of the Russian economy which resulted in delays in large tenders targeted by HMS. Consequently, the market provided no material growth opportunities. The deterioration in the construction market for oil and gas fields also had a negative effect on our performance. The key internal challenges included our withdrawal from the active M&A strategy that had previously supported the Group's growth and working capital restraints. Despite these setbacks, we were able to demonstrate a generally strong performance in 2013.

Artem Molchanov,
Chief Executive Officer

HMS Group reported a backlog of Rub 22.3 billion. As a result of a couple of material projects and a constant flow of small- and medium-sized orders from our customers, we managed to attain an order intake worth Rub 34.8 billion.

The Group's revenue was Rub 32.4 billion in 2013. The largest share of our revenue (Rub 17.6 billion) was generated by our oldest and largest industrial pumps division, which demonstrated a traditionally strong performance. The oil and gas division experienced an anticipated decrease in revenue following the completion of the high-margin Vankor project and contributed Rub 7.7 billion to the Group's revenue. The new compressors segment achieved impressive results with Rub 4.2 billion in revenue. In the EPC segment, revenue decreased to Rub 2.8 billion due to the poor results of the construction sub-segment.

The weaker margins had a negative impact on profitability in 2013. The Group's EBITDA was Rub 5.2 billion, 14% lower than last year. Net income decreased by 50% to Rub 1.2 billion. In order to provide returns to our shareholders we made a decision to pay dividends of Rub 400 million. The level of dividends as a proportion of net profit (from continuing operations) is consistent with the previous practice.

2013 achievements and challenges

Although it was a challenging year, we achieved sound results in our key business segments. We continued our successful cooperation with one of our key strategic partners — Transneft. In July, we signed a Rub 1.5 billion contract for the production and delivery of 8 pump units for the Zapolarye — Purpe oil pipeline. HMS was awarded this material contract thanks to our strong record of performance in the East Siberia — Pacific Ocean (ESPO) and ESPO-2 projects.

Our compressor business has been developing in line with the Group's strategy aimed at boosting its growth through participating in large, high-margin projects and enhancing our competencies in this area. In 2013, we managed to successfully deliver complex compressor equipment as a part of a series of contracts signed in 2012, valued at more than Rub 2.5 billion. In addition, in August, HMS signed a single Rub 1 billion contract for the manufacturing and delivery of a booster compressor station with a gas-turbine engine to be installed at a petrochemical complex in the South of Russia. Furthermore, HMS bought NIITurbocompressor (NIITK), the leading Russian project and design institute, focused on compressor technology, to strengthen our position in the compressor market. We are satisfied with the results achieved so far and see attractive opportunities for our compressor business going forward.

In 2013, three new large-scale projects were brought on stream. The largest of them is a milestone project to supply an integrated solution for a major Siberian gas field. During the next 2 years, HMS Group will design, manufacture, deliver and install a complex technology facility, including compressors, pumps, tanks, vessels, filters, coolers and other components for a total of Rub 5.7 billion.

Our target markets are not just limited to the oil and gas sector. In 2013, we continued to execute our key project in the water utility sector comprising the delivery of three customized water pump stations to Turkmenistan. We completed the design stage and delivered most of the contracted equipment. In the power generation sector, we made good progress in the delivery of equipment for Leningradskaya NPP and Novovoronezhskaya NPP.

2013 year was also memorable for our development of an innovative device for real-time measurement of oil and associated gas flows without a traditional separator. The product is a result of close cooperation between HMS engineers and experts from the international company, Invensys Operations Management. The new product has already successfully passed tests at some oil fields and received positive feedback from a number of leading oil companies, which indicates the prospect of solid demand for this product.

We are also very pleased with the results of German pumps manufacturer, Apollo Goessnitz, our first international acquisition. This business has noticeably strengthened the Group's position in the pumps market. In 2013, Apollo produced different types of pumps for a number of international projects: vertical high-pressure pumps for one of the world's largest oil and gas platforms, Troll A, in the North Sea; processing pumps to pump ammonium nitrate for a plant in Egypt; and a bespoke pump to transfer wax bearing products for a petrochemical plant in the Samara region.

HMS Group constantly pays attention to upgrading its equipment and technology. In 2013, as part of the Group's modernisation programme, we put into operation a new castling shop at Nasosenergomash and a new complex for tank and vessels production at Sibneftemash.

2013 brought new challenges that we are continuing to address. The deterioration in payment terms that HMS has been facing since the beginning of last year led to a growth in working capital needs. Although we managed to respond to working capital restraints by the end of the year and decrease working capital to 19% of revenue, we cannot exclude its growth going forward due to uncertainties in relation to prepayments under large contracts. Due to its increase in working capital, the Group's total debt reached Rub 12.4 billion, while net debt to EBITDA ratio was 2.0x, within its internal limit of 2.5x.

Strategy evolution

Navigating through challenging markets, we chose to concentrate our efforts on programmes designed to promote our operational excellence.

In 2013, HMS Group started to introduce optimisation measures at its previously acquired companies targeting the further development of its core business segments — industrial pumps, compressors, oil and gas equipment and EPC. We suspended the Group's "growth through acquisitions" strategy and shifted to organic development. Our updated strategy focuses on the optimisation of our asset portfolio, the reduction of operating losses and the improvement of the Group's financial performance.

Following careful consideration, we made a decision to divest our underperforming non-core construction business. In line with this decision, we disposed of one of our construction subsidiaries, SKMN, and intend either to sell or close-down the second one.

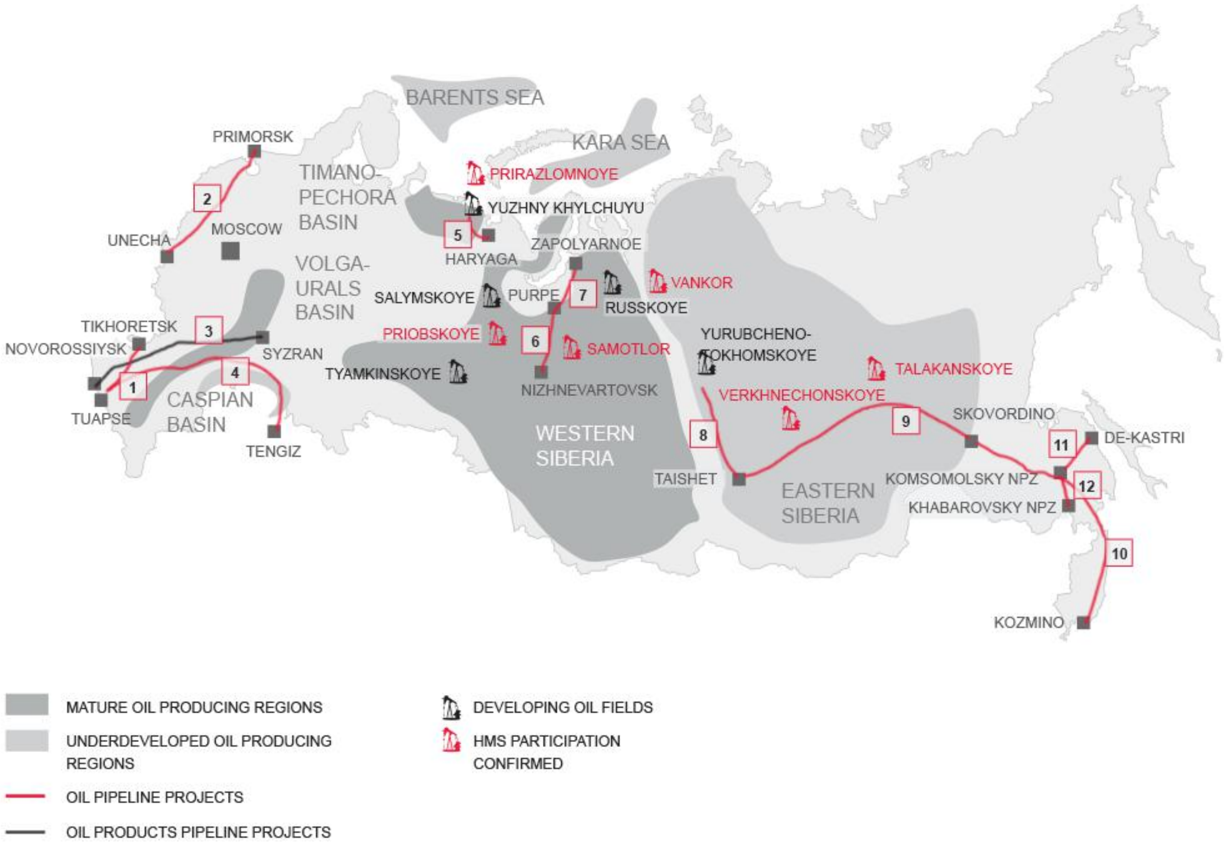
Outlook 2014

Despite the mixed business climate and uncertainties relating to tenders, we believe that HMS will continue to benefit in the long term. We consider that the compressor market offers a lot of potential and we expect that the disposal of our loss-making construction business will lead to an increase in the Group's overall profitability. We believe in the Group's strong fundamentals as well as attractive industry opportunities, which should assist us in achieving better performance in future periods.

Yours faithfully,

Artem Molchanov

Map of projects



1 Tikhoretsk-Tuapse 2
(12 MMt, 295 km)

2 Baltic Pipeline System-II
(50 MMt, 1,000 km)

3 “Yug” (South)
(9 MMt, 1,465 km)

4 Caspian Pipeline Consortium expansion
(67 MMt, 1,510 km)

5 Trebs & Titov
(140 MMt, 2,151 km)

6 Purpe-Samotlor
(25 MMt, 430 km)

7 Zapolyarnoye-Purpe
(45 MMt, 536 km)

8 Kuyumba-Taishet
(15 MMt, 700 km)

9 ESPO-I capacity expansion
(50 MMt, 2,694 km)

10 ESPO-II capacity expansion
(47 MMt, 2,346 km)

11 ESPO - Komsomolsky NPZ
(8 MMT, 300 km)

12 ESPO – Khabarovsky NPZ
(6 MMt, 28 km)

Map of operations

● Industrial pumps ● Modular equipment ● Compressors ● EPC

1 APOLLO GOESSNITZ GMBH
Founded in 1863
A member of HMS Group since 2012

Products: process and standard pumps and systems, system engineering - projecting, design and manufacture of plants for liquid fuels, process plants, plants for water supply, automation systems and electrical
Apollo is certified according to ISO 9001 by Lloyd's Register Quality Assurance

Website: http://www.apollo-goessnitz.de

Location: Goessnitz, Germany

2 BOBRUISK MACHINE BUILDING PLANT
Founded in 1898
A member of HMS Group since 2011

Products: pumps for oil refining, petrochemical, steel and mining, power, pulp and paper, construction, as well as for water and water waste and sewage in municipal, agricultural and industrial water supply systems.

Website: http://www.bmbpump.by

Location: Bobruisk, Belarus

3 PROMBURVOD
Founded in 1927
A member of HMS Group since 2007

Products: electric driven submersible pumps for water supply, utilities and environment.

Website: http://www.promburvod.com

Location: Minsk, Belarus

4 NASOSENERGOMASH
Founded in 1946
A member of HMS Group since 2004

Products: pumps for oil and gas: midstream, upstream; thermal and nuclear power, water supply and utilities

Location: Sumy, Ukraine

5 VNIIAEN
Founded in 1951
Associate of HMS Group (47%) since 2007

Description: development of pumping equipment for large complexes of atomic and thermal power engineering; on projects of oil, chemical, sugar and food industries, oil pipeline transportation and maintenance of pressure in oil pools, water supply and irrigation; at civil engineering and mining works, in underground systems, agglomerate-and-ironmaking and steel industries, sewerage system and cattle-breeding complexes, municipal and public utilities etc.

Website: vniiaen.sumy.ua/en

Location: Sumy, Ukraine

6 HMS PUMPS
(before 26.08.2010 Livgidromash)
Founded in 1947
A member of HMS Group since 2003

Products: pumps for oil processing, petrochemical, shipbuilding, power generation, water, utilities and environment, agriculture

Website: http://www.hms-pumps.com

City: Livny, Orel region

7 LIVNYNASOS
Founded in 1970
A member of HMS Group since 2006

Products: submersible centrifugal ECV-type pumps for municipal, industrial, rural and household water supply as well as for irrigation and groundwater control

Website: http://www.livnasos.ru

City: Livny, Orel region

8 DIMITROVGRADKHIMMASH
Founded in 1931
A member of HMS Group since 2011

Products: pumps for chemical processing and oil and gas, vessel equipment, chemical equipment, spare parts for gas pumping stations

Website: http://www.himmash.net

Location: Dimitrovgrad, Ulyanovsk region

9 KAZANCOMPRESSORMACH (KKM)
Founded in 1951
A member of HMS Group since 2012

Products: centrifugal, screw compressors and systems for air and various gases; compressor stations; refrigerators.

Website: http://www.compressormash.ru/en

Location: Kazan

10 NIITURBOKOMPRESSOR N.A. V.B.SHNEPPA (NIITK)
(before 26.08.1985 – ICBS – Special Design Bureau compressor engineering)
Founded in 1957
A member of HMS Group since 2013

Description: a major scientific and research and production center in Russia to develop centrifugal, screw, rotary and scroll compressors.

Website: http://www.niitk-kazan.ru/eng

Location: Kazan

11 NIZHNEVARTOVSK-REMSERVICE
Founded in 1998
A member of HMS Group since 2006

Services: pumping, drilling and other oilfield equipment repair, maintenance and upgrade.

Website: http://www.nv-rs.ru

Location: Nizhnevartovsk, Khantymansiysk autonomous district

12 HMS NEFTEMASH
(Before 26.08.10 Neftemash)
Founded in 1965
A member of HMS Group since 2005

Products: modular equipment for oil and gas, including cluster pumping stations and equipment for water injection systems; group automatic measuring units for oil well gauging metering; stations for hydraulic drives of submersible well pumps and underground oil extraction equipment; oil pumping stations etc.

Website: http://www.hms-neftemash.ru/en

Location: Tyumen

13 SIBNEFTEMASH
Founded in 1976
A member of HMS Group since 2011

Description: special oilfield equipment development, design and manufacture for oil exploration intensification and efficiency; current and work over repairs, isolation works and fracturing.

Website: http://www.sibneftemash.ru/en

Location: Tyumen

14 SIBNEFTEAVTOMATIKA (SIBNA)
Founded in 1986
A member of HMS Group since 2008

Products: controlling devices and systems development and manufacture for oil and gas, power generation, water, heat and gas supply.

Website: http://sibna.ru/eng/main

Location: Tyumen

15 GIPROTYUMENNEFTEGAZ (GTNG)
Founded in 1964
A member of HMS Group since 2010

Description: the leading Russian R&D center with integrated oilfield designing for oil and gas.

Website: http://www.gtng.ru/en

Location: Tyumen

16 TOMSKGAZSTROY (TGS)
Founded in 1968
A member of HMS Group since 2007

Products: linear objects construction, reconstruction and overhaul such as oil pipelines, gas pipelines, product pipelines, water pipelines, condensate pipelines and power transmission lines.

Website: http://www.tgs.tomsk.ru

Location: Tomsk, Tomsk region

17 ROSTOVSKIY VODOKANALPROEKT
Founded in 1932
A member of HMS Group since 2009

Description: institute with focus on water supply and waste water and sewage systems and related hydro-technical facilities design.

Website: http://rvkp.ru

Location: Rostov-on-Don, Rostov region

18 HYDROMASHSERVICE
Founded in 1993

Description: the associated trading company of the HMS Group

Products: pumps and units, compressors and units, oilfield, measuring and modular equipment

Services: commissions, installation supervising, repair, service maintenance and equipment upgrade

Website: http://www.hms.biz

Location: Moscow

Investment thesis

1 Attractive market fundamentals with a developed oil and gas sector, playing a crucial role in the emerging Russian economy

As western economies stagnate, Russia becomes a particularly attractive emerging market, with the oil and gas sector playing a crucial role for the whole economy. Russian oil and gas majors are incentivized to invest in the development of the oil and gas infrastructure and have secured a large Capex for the coming years. This allows us to benefit from the long-term growth drivers in their industries.

2 Leading market positions in almost all segments where we are presented

The largest installed base in Russia supports a stable and resilient flow of orders for the replacement, upgrading, modernisation and maintenance of operating equipment, while advanced R&D capabilities allow us to offer customers high value-added integrated solutions, which are associated with higher margin, large contracts and offer aftermarket opportunities.

3 Unique R&D base gives us the ability to provide high-margin integrated solutions

One of our core strengths is a strong focus on R&D is our core advantage, which allows us to provide complex integrated solutions. HMS Group combines leading pump R&D centers, including design centers and research institutes at production facilities, independent research and development centers at our HQ and in the production regions of Russia and the CIS, as well as a center for innovative technologies complying with API standards in Germany.

4 Well-established customer base and strong relations with Russian oil & gas majors and power companies

Well-diversified client base of more than 6,000 customers, including numerous subsidiaries of Russia's largest oil and gas and energy companies.

5 History of resilient financial growth

Founded in 1993 as a pump trading and servicing company, HMS has grown organically and by pursuing an active M&A policy that has seen the successful completion of over 20 acquisitions aimed at either adding products to the portfolio or expanding into adjacent business areas. As part of this strategy, since 2003, HMS Group has consolidated a number of leading pumps and equipment manufacturers in the former Soviet Union and formed a leading industrial group with an annual revenue in 2013 of Rub 32.7 bn. In 2012, we added a compressor business arm and acquired a German manufacturer of specialised pumps for oil refineries, power and offshore applications.

6 Dedicated management team comprised of founders and shareholders

HMS Group's growth is driven by a strong management team with a proven track record that has demonstrated its ability to deliver organic growth and make value-added acquisitions. The management team includes the founders of the Group, with HMS being a core business for its largest shareholders.

7 Attractive dividend policy

According to our policy, not less than 25% of profit for the year in accordance with IFRS is distributed for dividends among our shareholders.

Strategy

Objective

Creating long-term value for our shareholders by achieving sustainable profitable growth in our key strategic markets

Strategy

HMS Group operates and targets the further strengthening of its position in three key markets that have encouraging outlooks and positive fundamentals —industrial pumps, oil and gas equipment and compressors. We intend to benefit from anticipated growing demand for our core equipment in the oil and gas, water utilities and power generation industries. Through the effective supply of standard and customised products and integrated solutions, HMS aims to achieve the status of preferred partner for its clients.

The Group seeks to deliver sustainable organic growth supplemented by selective acquisitions. The successful integration of acquired assets will allow HMS Group to capture synergistic opportunities and realise expected benefits. While continuing to improve operational performance, the Group will seek to develop new customer-oriented value-added products and services.

Four pillars of our strategy

Collaboration

We work closely with our customers and suppliers across all business segments. These partnerships allow us to better understand our existing markets and meet current and anticipate future needs of our clients.

Operational excellence

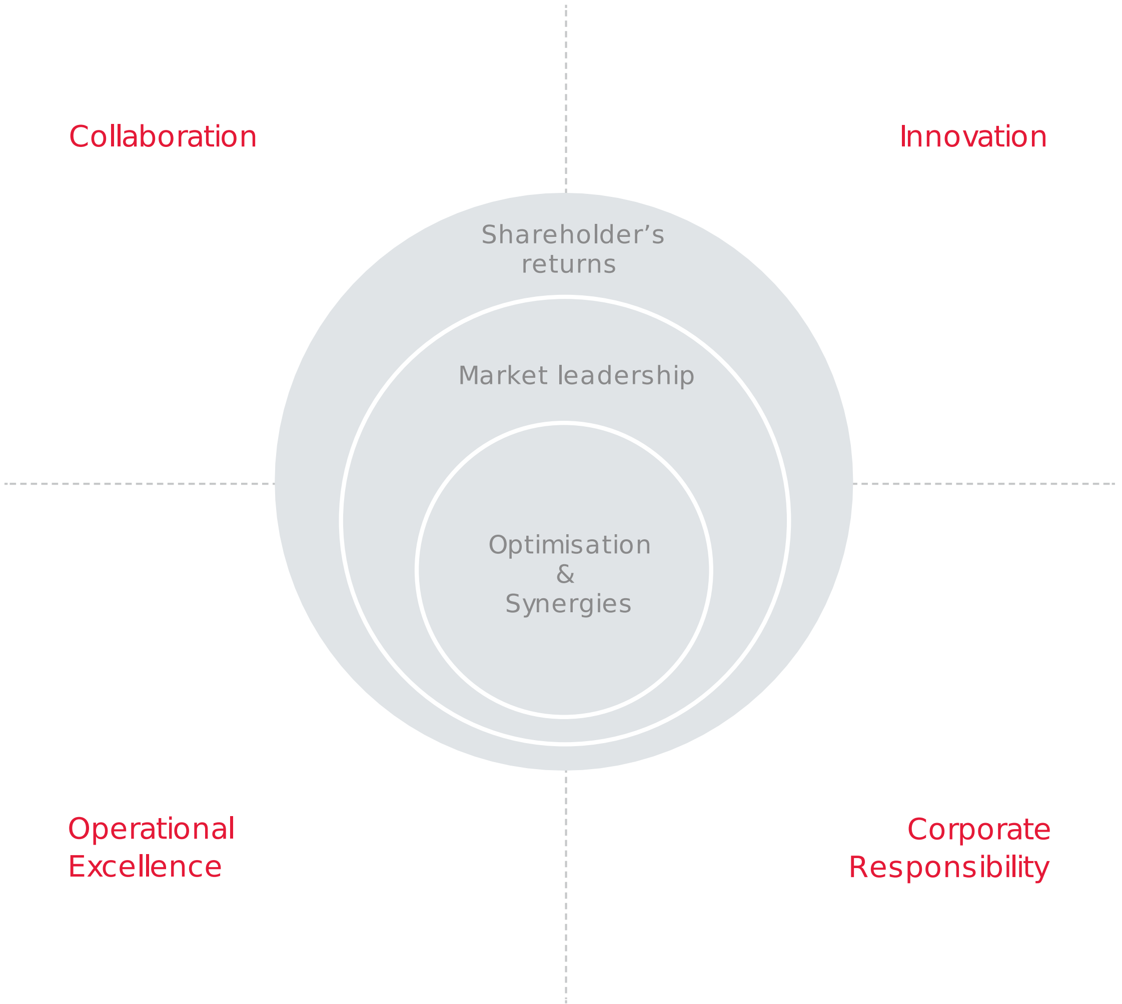
We constantly seek to improve the equipment we manufacture and solutions we offer, as well as developing our sales and marketing effectiveness. A commitment to self-improvement leads to higher margins and returns.

Innovation

We develop new products and technologies to provide our clients with competitive engineering solutions. Our commitment to innovation promotes our market leadership and enables us to enter adjacent markets.

Corporate responsibility

We strictly comply with safety standards, follow a code of ethics in respect to all stakeholders and target a lowering of the environmental impact of our operations.



Business model

Customer focus is the leading principal for HMS Group. All our businesses — from product development to after-sales services — are tailored to solve our customers' challenges. The deep understanding of our customers and markets, the ability to engineer products to meet customers' specific needs and our strong expertise in manufacturing helps us secure further mutually beneficial partnerships.

Research & development

Continuous research and development plays an essential role in the sustained success of HMS Group. We view R&D as the cornerstone for achieving technological leadership in the markets where we operate. Turning the technical requirements of our customers into innovative engineered products strengthens our competitive position and helps to increase our commercial success.

HMS operates a wide corporate R&D network. It includes: 5 leading R&D centers in Russia and the CIS; 3 leading project and design institutes dedicated to strengthening our core competencies in oilfield design (GTNG), water facilities (RVKP) and compressor equipment (NIITK); and one foreign innovative technology center -complying with off-shore and oil refinery API standards (Apollo). The Group coordinates the whole innovation cycle through its management company headquartered in Moscow.

Our research and development activities are directed primarily at improving existing products and services, the design of products to meet specific customer needs and the development of new products, solutions and services.

Our highly-qualified and experienced R&D team, combined with leading computer technologies enable us to create reliable, energy-effective, efficient pumping equipment, which conforms to the requirements of Russian and foreign customers within tight schedules.

Manufacturing

Manufacturing is the core activity of HMS Group. We have built our leading industrial group through the consistent acquisition of the best producers of pumps, compressors and oil and gas equipment in Russia and the CIS. Currently 16 plants operate under the HMS brand, most of which are considered flagship enterprises in their regions.

We continuously update our production facilities and technological processes to offer a modern and competitive equipment for our clients. In our manufacturing process we primarily focus on the energy efficiency, robustness, reliability and cost of our products.

HMS Group manufactures both standard and customised equipment. We purposely target the manufacturing of high-margin products tailored for specific customer needs and based on our in-house R&D design, which leads our planned future sales growth. Our commitment to high quality, our solid track record and our strong expertise make HMS the partner of choice for participating in complex and challenging projects in the oil and gas, power and water markets.

Marketing and sales

In the majority of cases, the Group is awarded contracts following participation in tenders. The Group builds and maintains customer relationships at the board level, senior manager level and local level. The negotiation of large-scale projects typically involves the Group's directors, senior managers, senior R&D personnel and technical specialists and their counterparts in the customer's head office. R&D personnel support the sales process by providing input at each stage.

Customised and modular equipment is sold directly to customers. Contract terms vary depending on a number of factors, including, among others, the industry in question, the size of the order and the types of pumps ordered.

Standard pumps are sold mainly through an extensive trading network of dealers and distributors accounting for over 100 partner companies across Russia. The central sales office, Hydromashservice, is located in Moscow. There are also 11 branches and representatives offices in Russia and CIS and 3 outside of the CIS — in Milan, Dubai and Baghdad.

Equipment sales are made by professionals with a strong practical knowledge and the ambition to offer the best solution for the customer's specific application.

We have a well-diversified client base of around 6,000 names. A significant portion of the Group's revenue comes from "Blue-chip" clients, which include the largest oil and gas and energy companies in Russia. A stable revenue growth comes from small-to-medium-sized clients with annual purchases below Rub 200 million.

The improvement of our sales process and the further extension of an effective distribution system are the priorities for HMS Group.

Revenue split by clients in 2013, %

	Rosneft & TNK-BP	13%		Surgutneftegaz	6%
	Transneft	12%		Gazpromneft	5%
	Lukoil	10%		Gazprom	4%
				Others	50%

After-sales services

When customers enter into a partnership with HMS Group, their experience is not just limited to the delivery of industrial equipment. We also provide a wide range of after-sales services, which include:

- energy audit and energy efficiency optimization of pumping systems;
- warranty and post-warranty maintenance;
- supply of spare parts, equipment repair and upgrade;
- consulting and training.

We run over 20 service centers in Russia and the CIS. HMS Group is seeking to extend this network of service centers.

In addition to carrying out energy efficiency optimisation of pumping systems and audit, our team of designers selects tailored pumps for every type of hydro technical system and provides the necessary consulting to customers to highlight possible reasons for and to eliminate ineffective pump operations.

HMS Group provides further training programmes and technical consulting services for the client’s operating personnel to enable the correct, failure-free and energy-efficient use of supplied equipment and to increase the professional qualifications of personnel.

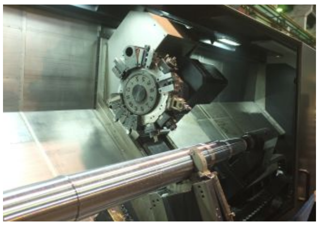
We are currently developing a programme to expand our maintenance services to cover all types of supplied equipment.

HMS Group is anticipating a growing demand for after-market services in the oil and gas sector of Russia and the CIS in the long term in line with global industry trends.

History

1993

A pump trading and servicing company was founded by German Tsoy, Artem Molchanov and Kirill Molchanov. The Company expanded its operations and client base to become a leading distributor of pumps and pumping equipment in Russia and the CIS.



1995

HMS Group launched a pump skid assembly business in Russia and CIS countries where *Hydromashservice (HMS)* became one of the leading enterprises specializing in delivering of pumping equipment for oil and gas complexes, power and water industry and housing utilities.

2003

HMS Group began to manufacture pumps after the acquisition of *Livgidromash* (currently — *HMS Pumps*), one of the largest manufacturers of industrial pumps in the CIS.

2004

HMS Group enhanced its oil and gas equipment offering through the acquisition of *Neftemash* (Tyumen), one of the largest Russian producers of modular flow control equipment for surface oilfield sites.

2005

HMS Group became a leading manufacturer of high capacity customized pumps through the acquisition of *Nasosenergomash (NEM),* one of the major companies for the nuclear and thermal power generation industries and trunk oil pipelines in the CIS.

2006

HMS Group became a leading manufacturer of submersible borehole pumps for water through the acquisition of *Livnynasos*, one of the largest producers of submersible electric water pumps in the CIS. The Company also acquired operational control over *Tomskgazstroy (TGS)*, a provider of construction services for oil and gas pipelines. The Company expanded its maintenance and repair business through the acquisition of *Nizhnevartovskremservice (NRS)*.

2007

HMS Group entered the EPC market through the acquisition of *Sibkomplektmontazhnaladka (SKMN)* , a provider of integrated EPC services for the development and construction of oilfield infrastructure. The Company also acquired a minority stake in *Dimitrovgradhimmash* (*DGHM)*, a manufacturer of pumps and vessel equipment, with an option to purchase a controlling stake in 2012, and increased its R&D capabilities through the acquisition of a 49% stake in *VNIIAEN*, an R&D centre and the only one of its kind in the CIS which specializes in pumping equipment for the nuclear power generation and oil transportation industries.

2008

HMS Group increased its presence in the water utility, power generation and modular equipment sectors through the acquisitions of *Promburvod*, the largest producer of electric submersible water pumps in Belarus, and *NPO Hydromash*, a manufacturer of pumps for the thermal power generation and oil and gas industries that subsequently has been joined to *NEM* and *Rostov Vodokanalproekt (RVKP)*, a leading project and design facility for the water utility sector.

2009

HMS Group continued to enhance its position in the water utility, power generation and oil and gas sectors through the acquisition of *Sibnefteavtomatika (SibNA)*, a manufacturer of high precision measuring equipment for the oil and gas, power generation and water utility sectors. The Company participated in the flagship project of the Vankor oilfield development and the Baltic Pipeline System construction project.

2010

HMS Group enhanced its design and R&D capabilities and its position in the EPC market through the acquisition of 51% of the voting shares of *Gyprotumenneftegas (GTNG)*, a leading independent Russian R&D centre focused on the design of the surface infrastructure of oil and gas fields. The Group participated in the ESPO-1 pipeline expansion project and the construction of the ESPO-2 pipeline. The Company commenced a large-scale production of pumps for use in nuclear power generation.

2011

HMS Group went public in February 2011, placing 37.2% of its stock via GDRs on the London Stock Exchange. As a key consolidator in the domestic pumping industry, HMS completed 3 acquisitions (*Sibneftemash, Bobruisk Machine Building Plant* and exercised the option to acquire its next stake in *Dimitrovgradkhimmash (DGHM)*) seeking opportunities to increase its presence in existing and adjacent markets.

2012

HMS Group entered the promising new gas projects market with an acquisition of the leading Russian industrial compressor producer *Kazankompressormash (KKM).* Pursuing the enhancement of its pumps product portfolio, the Group completed the acquisition of the German manufacturer of high-end specialized pumps, *Apollo Goessnitz GmbH (Apollo),* which strengthened its market position in industries with a need for technologically-demanding integrated solutions.

2013 year in context

January

Apollo Goessnitz GmbH (Apollo) produced a unique horizontal 12-stage barrel pump with back-to-back design for *Uralchem*, one of the largest producers of nitrogen and phosphate fertilizers in Russia and the CIS. The pump is designed for a maximum discharge pressure of 242 bars at 130°C and an output 150 м³ per hour and is used for carbamate transfer. A special heating jacket is installed to secure the temperature of the medium being handled and its viscosity.

February

HMS Group successfully placed a Rub 3 billion bond issue of by *Hydromashservice (HMS)*, the main operational subsidiary of the Group. The coupon rate was set at 10.10% pa. The maturity was 5 years with a 3-year put option and semi-annual coupon periods.

March

Kazankompressormash (KKM) signed a contract with *Lenniikhimmash*, the leading Russian engineering company for the design and manufacturing of units for natural and associated gas, to supply compressor equipment for *Lukoil's* enterprises.

April

Apollo Goessnitz GmbH (Apollo) produced pumps for the *Novokuibyshevsk* petrochemical plant, a subsidiary *of Rosneft*, in the Samara region to transfer wax bearing products. The pump skid was equipped with an electric motor, a gear box, a pressurised seal system, an API 53A termosyphon system and a vibration measurement gauge by Bently Nevada.

***

HMS Group signed a Rub 1.3 billion contract for the delivery of an associated gas compressor station with three turbo compressors, designed and manufactured by *Kazankompressormash (KKM)*. In addition to the compressor units, the scope of supplied equipment included a fuel gas conditioning package, separator facilities, heat ventilation and air conditioning systems, tanks and vessels, fire fighting skids and other equipment.

***

In a series of transactions HMS Group acquired a controlling stake (95.36% of the share capital) in *NIITurbokompressor (NIITK)*, the leading Russian R&D institute focused on compressor technologies located in Kazan, Tatarstan, for a total consideration of Rub 321 million. As a part of the deal, the Group also increased its stake in *Kazankompressormash (KKM)* from 75% to 90% of voting shares.

May

HMS Group delivered a compressor unit for compressing butylrubber to *Panjin Heyun New Materials Co. Ltd*, a Chinese petrochemical company. The unique compressor unit, with an output of 387 м³ per minute and a discharge pressure of 1.2MPa was designed by *Kazankompressormash (KKM)*.

***

Kazankompressormash (KKM) delivered 5 modular spiral TAKAT compressor units to *Uganskneftegas*, a subsidiary of *Rosneft*. The compressor unit, which is designed with an intake pressure of 2.7kgs/cm² and a discharged pressure of 17 kgs/cm² to compress and transport associated gas for further processing, is an innovative product from *NIITurbokompressor (NIITK)*.

***

Nasosenergomash (NEM) received design and production quality certificates from the Chinese nuclear safety regulator (NNSA) for its pumps for nuclear power plant applications. These certificates (in effect till 2017) are mandatory for foreign companies working on projects in the Chinese nuclear industry.

June

As a part of its large-scale modernisation programme, *Nasosenergomash (NEM)* put into operation a new casting shop with an annual capacity of up to 4 thousand tonnes.

***

Apollo Goessnitz GmbH (Apollo) manufactured and supplied vertical high-pressure pumps for one of the world's largest oil and gas platforms, Troll A, in the North Sea, operated by *Statoil*, an international energy company.

***

On June 24, 2013, the Annual General Meeting of Shareholders of HMS Group was held. The shareholders approved the Company's annual report for 2012 and the consolidated and stand-alone financial statements of the Group for 2012, re-elected Mr. Artem Molchanov, Mr. Nikolay Yamburenko and Mr. Gary Stuart Yamamoto as Directors, voted for the payment of dividends in the amount of Rub 6.82 per GDR, and appointed *Price Waterhouse Coopers Limited (Cyprus)* as the Group's auditors.

July

HMS Group concluded a Rub1.5 billion contract with *Transneft* for the production and delivery of 8 trunk pipeline pump units for the Zapolyarye — Purpe oil pipeline. The 500 km pipeline is located in the Yamalo-Nenetsk region and has a designed annual capacity of 45 million tonnes of oil.

***

R&D institute *Giprotumenneftegaz (GTNG)* signed contracts to provide project and design work for development projects of *Gazpromneft's* oil and gas fields in the Yamalo-Nenetsk region, including the Novoportovskoye and Ety-Purovskoye fields.

August

Nizhnevartovskremservice (NRS) signed a contract with *Baker Hughes,* an international oilfield service company, for the production and supply of modular frequency converters for the oil and gas Vankor field located in the Krasnoyarsk region.

***

Hydromashservice (HMS) delivered pumps for the modernisation of the power-generating blocks of several thermal power stations in the Kemerovsky region. The boiler feed and condensate extraction pumps were manufactured by *Nasosenergomash (NEM).*

***

HMS Group signed a Rub 943 million contract for the delivery of a booster compressor station with a gas-turbine engine manufactured by *Kazankompressormash (KKM),* a subsidiary of HMS Group, for a petrochemical complex in the South of Russia.

September

Neftemash signed a contract for the production and delivery of a block clustered pump station for *Orenburgneft*, a subsidiary of *Rosneft.* The pump station, equipped with three pumps, was designed for pressure maintenance at the Vahitovskoye oilfield in the Orenburg region.

***

HMS Group signed several contracts with *BP Iraq* for the supply of spare parts for pumps manufactured by *Nasosenergomash (NEM)* and used at the Rumaila oilfield in Iraq.

***

HMS Group raised 3- and 5-year loan facilities of Rub 2.75 billion and Rub 1.83 billion respectively from Sberbank, the largest bank in Russia and the CIS, for the purpose of refinancing of the existing credit lines.

October

Sibneftemash put into operation a new tanks and vessels production complex focused on the full-cycle manufacturing of a new type of separation equipment.

***

HMS Group successfully tested a unique oxygen pressure compressor designed by *NIITurbokompressor (NIITK)* and manufactured by *Kazankompressormash (KKM)* for *NLMK,* an international steel producer.

***

Neftemash signed an agreement with *Invensys,* a global technology company, granting the right to use its software and know-how for the production of a multiphase mass flow meter NetOil&Gas (NOG). The equipment is an important component of the Group's innovative product measuring complex Mera-MFR, which is designed to measure mass flow rate of oil and associated gas on the basis of well production water-cut. It allows defining well flow rate in real time without preliminary separation. The unit continuously registers and collects data on components' composition of well output for further transferring to the control point.

***

HMS Group delivered the first set of pump units for oil transportation as part of the East Siberia — Pacific Ocean (ESPO) Expansion project. The contract with *Transneft,* the operator of trunk pipelines in Russia, contemplates the manufacturing, supply, installation and putting into operation of 12 pump units and auxiliary equipment for 3 pump stations.

November

HMS Group delivered over 20 types of high-tech pump units manufactured by *Nasosenergomash (NEM)* and *HMS Pumps* for a nuclear power station in the Rostovsky region.

December

HMS Group sold 67.29% shares in *Sibkomplektmontagnaladka (SKMN)*. As a result of the transaction, part of *SKMN*'s indebtedness to HMS Group (Rub 859 million) was written off and the remaining part was restructured into a secured loan of approximately Rub 427 million, bearing 10.5% interest and repayable in cash and transfer of assets within 3 years.

***

HMS Group signed Rub a 5.7 billion contract to deliver a technological integrated solution for a major Siberian gasfield. The scope of the contract includes the development of design documentation and the manufacturing, delivery, supervision and testing of a complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components for providing complex integrated systems such as a de-ethanising compressor station and a methanol regenerating unit, among others.

Market performance in 2013

Macroeconomic environment

Market trends

- Oil industry
- Power generation
- Water utilities

Markets performance in 2013

Macroeconomic environment

The global economic growth in 2013 of 3.0% was driven by the developing countries, especially China, India and ASEAN countries, which grew by 7.7%, 4.9% and (on a collective basis) 4.6% respectively. Developed economies have shown relatively positive results with the EU28 area turning from recession to recovery and showing growth of 0.1%. The North American market slowed down to some extent (with annual growth of 1.8%), but is expected to improve in 2014 due to the announced tapering of US Federal Reserve quantitative easing measures and the growth in internal demand. Global industrial output mirrored the overall GDP growth within emerging markets, while in developed markets industrial production levels were weaker.

In the contrast to the majority of other developing markets, the Russian economy demonstrated lower rates of growth in 2013, with the economic growth rates slowing down to 1.3% from 3.4% in the previous year. Deceleration has been caused by the occurrence of several major factors, including significant decline in private investments by large and medium-sized companies, weak global demand for the metals and coal (which represent some of the key sectors of Russian economy) and a slowdown of internal consumer spending. As a result, the economy was consistently slowing down during first three quarters of 2013 with quarter-by-quarter growth decreasing from 1.6% in Q1 to 1.2% in Q3. However, in Q4 the economic growth slightly accelerated to 1.4%, which was interpreted as a sign of recovery by the Ministry of Economic Development of Russia and a number of market analysts.

For 2013 as a whole, growth of real domestic consumption in Russia slowed down from 6.9% to 3.4%. Investments in fixed assets decreased by 1.4% and constituted 16.6% of the overall Russian GDP.

Russia experienced just 0.1% growth in industrial output in 2013 (2.2% in 2012). The severest decline in output was recorded in two sectors: the construction sector (a decline of 2.4%) and the energy, gas & water production and transportation sector (a decline of 1.6%). At the same time, the raw materials extraction sector and the manufacturing sector have shown sluggish growth of 0.9% and 0.8% respectively. The profitability of an absolute majority of the producers of industrial products has significantly decreased across all the industrial segments.

Inflation (Consumer Price Index) in Russia in 2013 has remained at the stable level of 6.5%, as in 2012. At the same time, the Industrial Goods Producers Price Index has increased by only 3.7%, reflecting the decreasing domestic demand for investment goods and stagnating global demand for metals.

Starting in May 2013, investors globally shifted their focus from the developing to the developed markets, which resulted in the global strengthening of the US dollar and Euro and a corresponding depreciation of all currencies in developing countries. The Russian ruble has demonstrated an average performance among other currencies of the developing countries, performing much better, than the Argentinean Peso, the Turkish Lira, the Brazilian Real and the Indian Rupee. Overall during the year, the ruble declined by 7.6% relative to USD and by 12.2% relative to EUR (RUB/USD: from 30.45 to 32.77; RUB/EUR: from 40.20 to 45.11). The Central Bank of Russia has tacitly encouraged this moderate decline in the ruble exchange rate in order to increase exchange rate flexibility, which is perceived as a useful tool to deal with a prospective tightening of international monetary conditions. Fundamentally, the ruble continued to be strongly supported by a consistently positive Russian balance of trade of goods and services, which amounted to a surplus of 118.3 billion USD for 2013 and was largely attributable to a steadily high Brent price (108.6 USD/barrel on average for the year). The overall balance from current and capital accounts amounted to a surplus of 32.6 billion USD.

The slowdown in the economy was reflected in the Russian stock market, where the RTS index dropped in the first half of the year from 1,570 points in January 2013 to 1,230 points in June 2013, with a subsequent partial recovery, up to 1,440 points in December. The volatility in the financial markets, combined with negative capital flows, has resulted in a significant worsening of fundraising conditions. This factor was particularly relevant to the corporate sector as a decrease of profitability and a growth of working capital have resulted in most of the companies increasing their debt leverage. The overall sum of credits issued by banks to corporate lenders increased by 16.6% in comparison to 2012, from Rub 180 trillion to Rub 210 trillion , resulting in a 15.4% increase of the national corporate debt load, from Rub 19.5 trillion rub in December 2012 to Rub 22.5 trillion in December 2013.

Real wages in Russia grew in average by 5.3%, while the real disposable income of the Russian population increased by 3.3%. The unemployment rate remained stable at the low level of the previous year and amounted to just 5.5%.

Market trends

Oil industry | **Power generation** | **Water utilities**

Oil industry

Upstream

Russia has the largest oil and gas reserves in the world and is the second largest oil producer with 13% of total global oil output. The oil upstream industry is a backbone of the economy with an impact on the country's international balance of payments, exchange rate and the formation of the investment resources of the economy.

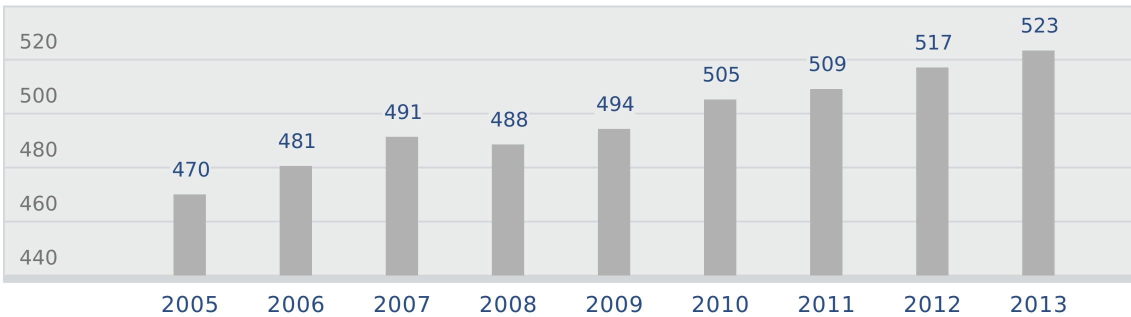
Following its post-Soviet collapse, Russian oil production has been growing and rebounded from its low of 5.8 million barrels per day to 10.5 million barrels per day in 2013, with around 234.86 million tonnes exported as either crude or oil product.

According to the Russian Ministry of Energy, oil output in Russia grew by 1.2% to 523 million tonnes in 2013, supported by tax legislation incentives and the launch of new pipelines and oil exploration projects.

The well stock reached 165.4 thousand versus 162.8 thousand in 2012 with more than 143.1 thousand (~86%) of them in active production. Russia aims to maintain annual oil production at the current level, or just over 10 million bpd, over the next 10 years.

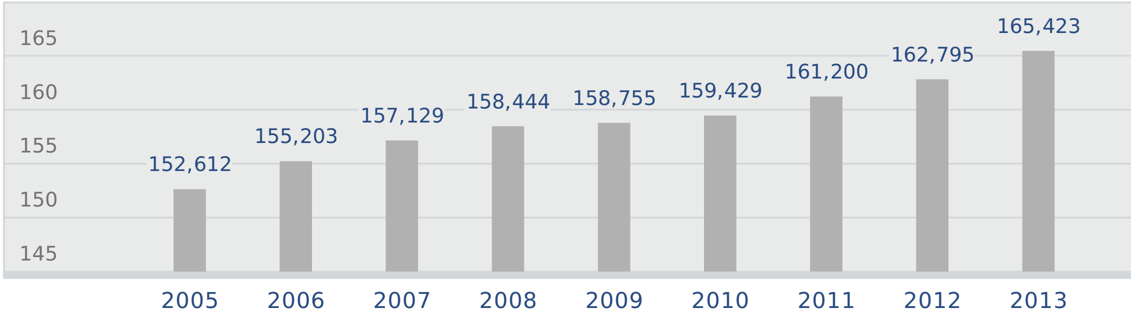
Capital expenditures in the oil upstream sector grew from Rub 700 billion in 2012 to approximately Rub 840 billion in 2013. Oil prices continued to support favorable conditions in the industry. Following a strong performance in 2011, driven by unstable political situations in key oil producing regions as well as the monetary policy of developed countries, the average oil price continued to demonstrate moderated growth supported by ongoing monetary expansion of the key Central Banks and prolonged instability in some producing countries. The average oil price reached USD 108.8 USD/barrel in 2013 versus 111.7 USD/barrel in 2012.

Oil production in Russia, mn t



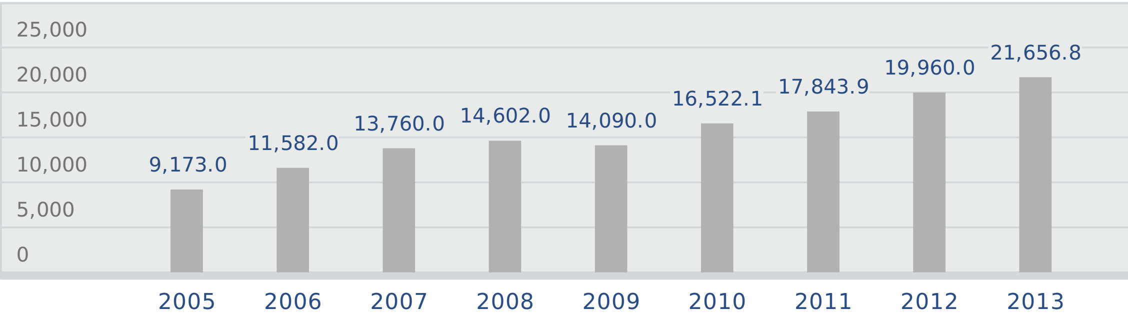
Source: Ministry of Energy

Russian well-stock, units



Source: Ministry of Energy

Production drilling rate, km



Source: Ministry of Energy

Midstream

Having over 50 thousand km of oil pipelines and more than 400 installed pump stations, Russia has the largest oil pipeline system in the world. Over 90% of crude oil produced in Russia is transported through the existing trunk pipeline system.

Transneft, the operator of the pipeline system, has significantly improved the pipeline in the past 10 years to meet the needs of the post-Soviet oil boom and transports around 460 million tonnes of oil annually. When the system was created in Soviet times, it was primarily designed to supply the domestic market: the refineries located in European Russia and the nearby republics, with only some excess volumes destined for exports. With the collapse of the Soviet economy, oil producers redirected crude oil flows to more profitable markets in non-CIS countries, which resulted in export capacity bottlenecks in 2002-04. This was resolved by adding new pipeline capacity.

The existing pipeline system is constantly expanding through the following projects:

The ESPO expansion — the construction of oil pipelines from ESPO to the Komsomol’skiy refinery and the Khabarovsk refinery, and the pipeline from the Komsomol’sk refinery to De Kastri sea terminal.

The construction of the Zapolyarye-Purpe oil pipeline, with an overall capacity of 45 million tonnes per year, is planned in order to transport oil from the green fields of the Yamalo-Nenets Autonomous District and from North of Krasnoyarsk District. The overall length of the pipeline is estimated to be 500km.

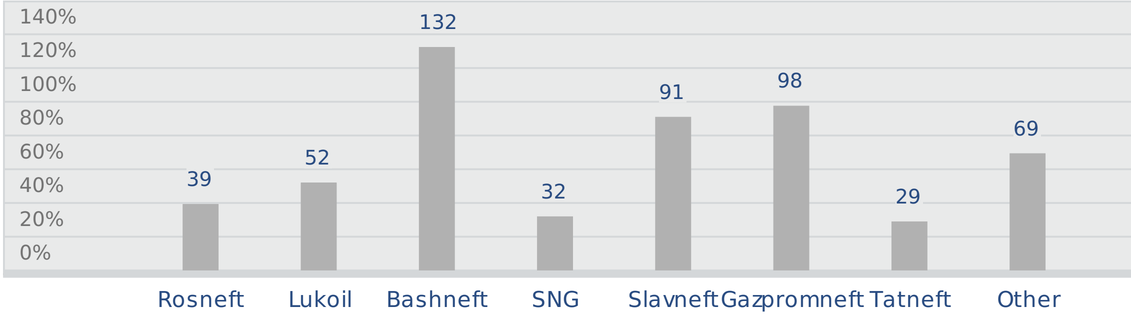
In 2013, Transneft finished the construction of the Tihoretsk-Tuapse-2 oil pipeline to increase oil volumes delivered to the Tuapse oil refining plant. The length of the oil pipeline is 247km with a capacity of 12 million tonnes per year.

The construction of the Kuyumba-Taishet oil pipeline, with an overall capacity of 15 million tonnes per year, began in 2013 to transport oil to the system of pipelines in the ESPO-2 project. The overall length of the pipeline is estimated to be 700km.

Total capital expenditure by Transneft in 2013 was Rub 161.4 billion.

Downstream

Refinery capacity in oil production, 2013, %



Source: Ministry of Energy

The Russian refining system is the third largest in the world, ranked only behind the U.S. and China, with approximately 275 million tonnes of total capacity.

In 2013, the volume of primary processing hit a record level of 278 million tonnes, up 3% year-on-year. Production growth has been driven by the transition to the European emission standards Euro-4 (affected in 2013), an increase in internal demand and an expansion of gasoline exports.

The majority of refineries still need to be upgraded. The strategic goal set by the government is to reach a processing depth of 83% by 2015.

According to investment plans announced by oil companies, capital expenditure in the sector exceeded Rub 269 billion in 2013.

Industry growth is likely to be driven by new projects in 2013:

– Rosneft is still developing programmes to upgrade in the Tuapse and Novokuybyshevsk refineries: Upgrading Tuapse oil refining complex by putting into operation two stations of primary oil refining and construction of a the catalytic reforming complex and a complex of a low-temperature isomerisation and hydrocracking complex in Novokuybyshevsk refineries plants. The construction of a catalytic cracking complex in the Syzransky plant and hydrocracking complex in the Komsomolsk plant is continuing.

– Lukoil is continuing to reconstruct its diesel fuel production unit and modernise the atmospheric block of the AVT-6 at Nizhegorodnefteorgsintez.GaspromNeft started to implement the second stage of its primary oil refining upgrade by rebuilding AVT-6 installation and building a combined oil refinery installation with a capacity of 6 million tonnes per year.

Gas pipeline projects

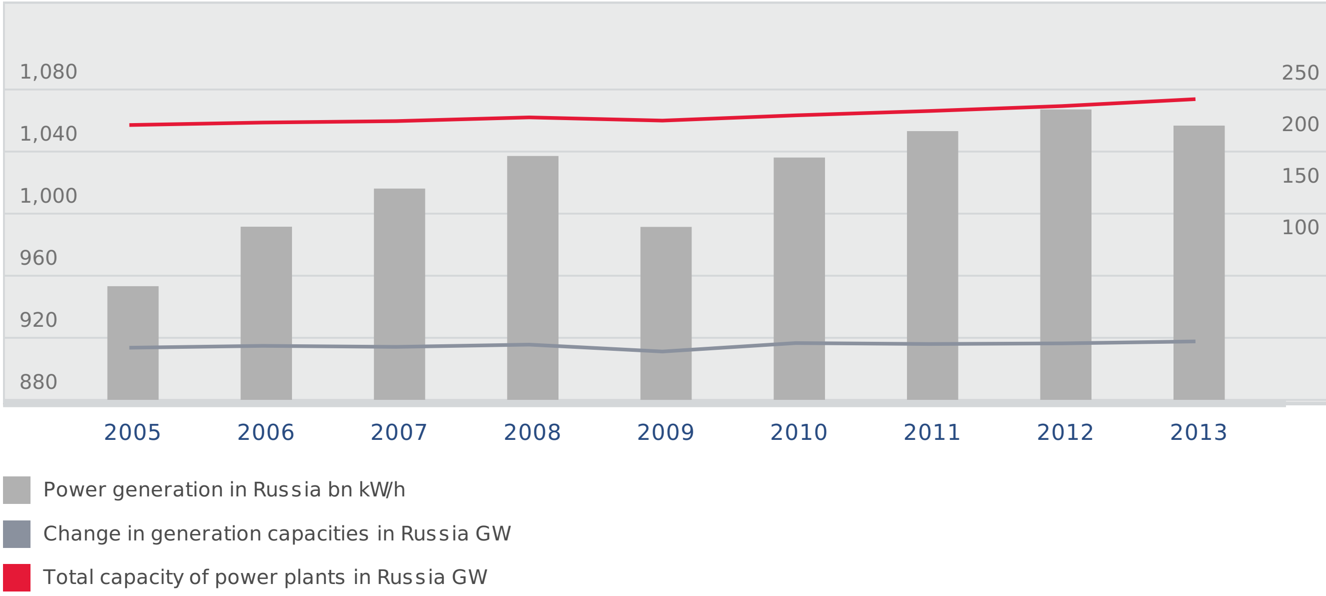
The Unified Gas Supply System of Russia, operated by Gazprom, is the world’s largest gas transmission system and represents a unique engineering complex encompassing gas production, processing, transmission, storage and distribution facilities. It assures continuous gas supply from the wellhead to the end consumer.

The system includes 161.7 thousand kilometers of gas trunklines and laterals, 215 line compressor stations with gas compressor units totaling 42 thousand MW in capacity, 6 gas and gas condensate treatment facilities and 25 underground gas storages locations.

Projects in gas transmission include the following: the South Stream gas pipeline, the coast technological complex for Kirinsky gas-field, the main compressor station “Sakhalin”, the gas-main pipeline Bovanenkovo Ukhta and the “Yuzny potok” gas-pipeline expansion.

Power generation

Power generation in Russia



Russia remains one of the largest electricity producers in the world, siting only behind China, USA, Japan and India. Strong electricity demand is driven by the relatively low energy efficiency of national industries. This strong demand consequently challenges the limited and ageing energy producing capacity and explains the permanent tariff growth and the reason why this is one of the sources for high investment programs by the power generating companies.

In 2013, the electricity output in Russia decreased by 1% year on year and reached 1,057 billion KW/h.

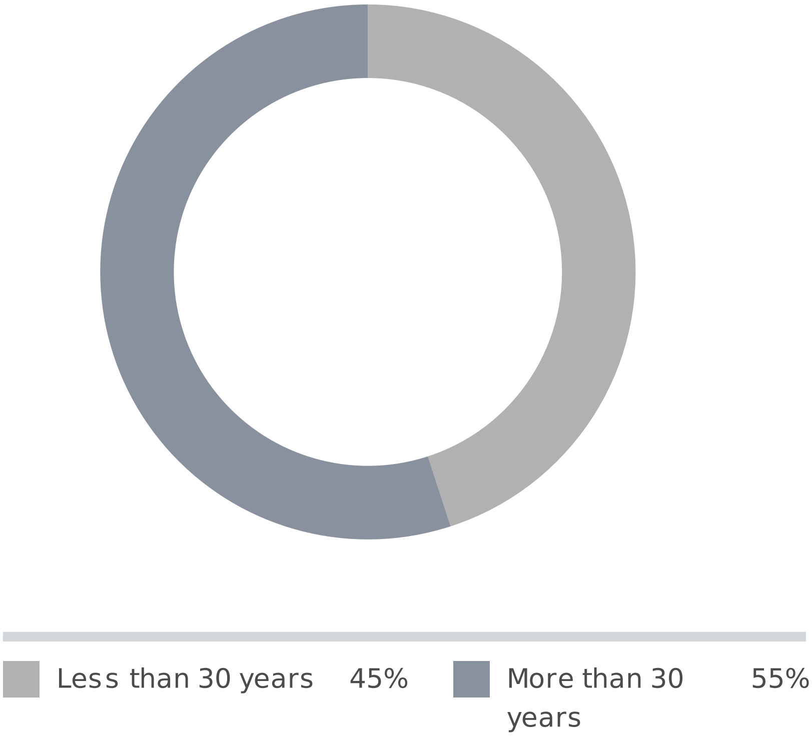
Russia's power complex includes approximately 600 power plants each with an individual capacity of over 5 MW. In 2013, the total capacity of Russian power plants amounted to 241.7 GW, exceeding the 2012 level by 6.7 GW. Growth was driven by the construction of new power facilities and the modernisation of existing infrastructure.

The power industry has the following components of generation: thermal plants (68%), hydraulic (21%), nuclear (approximately 11%).

The long-term outlook of the Russian power industry is influenced by the "General scheme of energy development for the period till 2020".

Thermal power plants

Thermal capacity maturity, %



In the main, thermal power stations in Russia use organic fuels such as gas or coal and basically consist of steam-turbine power stations.

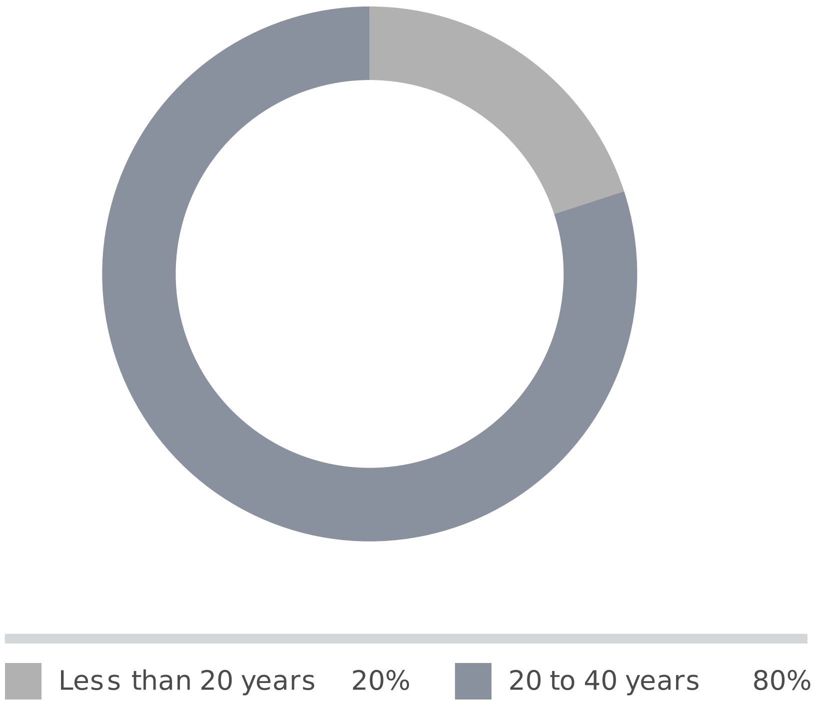
In 2013, Russia's overall installed thermal power plant capacity installed was 166.7 GW, up 2.9% compared to the previous year.

The infrastructure in the thermal power sector is quite outdated — almost 55% of the installed capacities over 30 years old. As such, Russian plants have an efficiency ratio of 37%, which is lower than the 41% level for developed economies. This discrepancy dictates the necessity for equipment upgrades by all the major power generating companies. This is also the reason why the technical modernisation and reconstruction of the existing power stations is a primary development goal of the Russian thermal power sector, in addition to the start-up of new modern generating capacities. Around 25 projects have been executed in 2013 with a total capacity of 4.7 GW.

The sector's investment grew by 14.8% year-on-year in 2013 and reached Rub 365 billion.

Nuclear power plants

Nuclear capacity maturity, %



Russia has a full-cycle technology for the nuclear industry — from the extraction of uranium ore to electric power generation. Currently, 33 nuclear power units, with an overall installed capacity of 25.2 GW, are operated at 10 sites by Rosenergoatom. They account for 16% of domestic electricity generation. The share of nuclear generation in the European part of Russia reaches 30%, and, in the North-West part of Russia, 37%.

Currently, there is an ongoing process of large-scale NPP construction in Russia. The following construction projects are underway: Novovoronezhskaya NPP Phase II, Leningradskaya NPP Phase II, Baltic NPP, and the world's first floating nuclear co-generation plant Academic Lomonosov. Another nuclear power unit — the fourth reactor of Beloyarsk NPP — is close to completion. In addition to construction in Russia, nuclear power plants are being built in overseas countries, including Kudankulam (India), Bushehr (Iran), Akkuyu (Turkey), Ostrovets (Belarus), and Tianwan Second Stage (China).

Most of the 33 nuclear operating reactors in Russia are ageing; 80% of capacity has a maturity of 20-40 years. This has led to the development of a large-scale investment programme by the state operator Rosatom, under which several initial steps have already been taken.

In 2013, electricity output grew by 2% year on year and reached 172.7 billion KW/h.

The estimated investments in the sector increased 16.3% year-on-year in 2013 and reached Rub 300 billion.

Water utilities

With over 20% of the world's water reserves, Russia is one of the richest countries in terms of its water resources with almost 30 thousand m^3 per capita produced annually. This amount significantly exceeds the minimum level of 1.7 thousand m^3 per capita set by the United Nations (UN) organisation.

One of the historical issues for the Russian water sector was the high water intensity in the economy and relatively high losses in water supply. Annual water losses amount to 7.5 km^3, mainly driven by housing, public utilities and agriculture. A low technological level and outdated infrastructure are among the main reasons for such losses. For instance, according to Rosvodokanal, the wear ratio in the water-supply network is over 65% for water supply pipelines, approximately 63% for drainage networks, around 65% for water pumping stations, around 60% for sewer pumping stations, 64% for waste water facilities and 56% for sewage treatment facilities.

A main source of capital expenditure for the municipal utilities companies has been tariffs which have been growing at a higher rate than the average inflation level.

The water component of tariffs grew to approximately 10% in 2013, while GDP growth was 1.3%. Aside from the tariffs, the government approved several federal programmes for the purposes of the development of this sector. Under the "Clean Water" federal programme, around Rub 276 billion is scheduled to be invested over the period from 2013 to 2017. In addition, Rub 290.6 billion will be invested under the federal state program "Development of the water utilities in Russia in 2013- 2017".

There are also a number of ongoing regional projects financed from all three levels of the state budget — federal, regional and municipal. At the regional level, Kalinigrad, Far East, Transbaikal, Kurily Island, and the Chechen Republic are expected to invest more than Rub 50 billion focusing on the development of the water utilities sector.

Company’s performance in 2013

Operating performance

Financial performance

Key projects

Research and development

Investment activities

Social responsibility

Company’s performance in 2013

Operating performance

Financial summary

(Figures in brackets are for the twelve months ended December 31, 2012)

- Backlog increased by 18% year-on-year to Rub 22.3 billion (Rub 19.0 billion) and order intake was up 5% year-on-year to Rub 34.8 billion (Rub 33.1 billion) driven by a steady demand for pumps, compressors and oil & gas equipment
- Revenue increased by 3% year-on-year to Rub 32.4 billion (Rub 31.5 billion)
- EBITDA[1] totaled Rub 5.2 billion, down 14% year-on-year (Rub 6.1 billion); EBITDA margin was 16.2% compared to 19.4% in the previous year
- Operating profit was Rub 4.2 billion, almost flat year-on-year; operating margin stood at 13%
- Profit for the period from continuing operations reached Rub 2.1 billion, down 12% year-on-year; earnings per share (EPS) were Rub 16.79 (Rub 17.99)
- Profit for the period from continuing operations reached Rub 2.1 billion, down 12% year-on-year
- Profit for the period including the results of discontinued operations decreased from Rub 2.3 billion to Rub 1.15 billion; earnings per share (EPS) were Rub 8.99 (Rub 17.91)
- Net debt decreased by 8% year-on-year to Rub 11.1 billion (Rub 12.1 billion), resulting in Net debt-to-EBITDA ratio at 2.1x (2.0x)
- Return on capital employed ROCE[2] was 13.9% versus 18.7% in the previous year

Group performance

The Group’s backlog as of December 31, 2013 amounted to Rub 22.3 billion, up 18% year-on-year, caused mainly by the growth in the oil & gas equipment.

The backlog of orders in all business segments, excluding industrial pumps, demonstrated positive dynamics in the reporting period. In the oil & gas equipment business segment, HMS Group more than doubled its backlog, successfully replacing the Vankor contract with a new promising Rub 5.7 billion contract, and the segment’s backlog achieved Rub 8 billion as of 31 December 2013.

In the compressors business segment, the backlog grew by 17% to Rub 2.3 billion supported by a stable inflow of orders for compressors. Meanwhile, the core industrial pumps business segment showed negative dynamics in 2013: its backlog decreased by a quarter to Rub 8.8 billion as a result of delay in launch of new large projects by Russian oil and gas majors due to uncertainties in the economy. In the EPC business segment, HMS Group built up a solid Rub 3.3 billion backlog in the reporting period, up 72% year-on-year. Both sub-segments of the division — project and design (EP) and construction (C) — grew by 77% and 65% year-on-year respectively.

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[1]**EBITDA** - is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expenses, warranty provisions, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects of non-recurring income and expenses on the results of the operating segments.

[2]**ROCE** - is calculated as EBIT divided by average total debt plus average equity

The order intake[3] in 2013 increased by 5% year-on-year to Rub 34.8 billion. The decrease in orders for industrial pumps was more than compensated by the growth of orders in all other business segments.

Stable performance of industrial pumps and compressors business segments was the main driver behind the Group's performance in 2013. The Group's revenue grew by 3% year-on-year to Rub 32,358 million. EBITDA declined 14% year-on-year to Rub 5,238 million, reflecting the lack of high-margin projects and poor performance of construction sub-segment. As a result, EBITDA margin for 12 months 2013 stood at 16.2%.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue from continuing operations	32,358	31,460	3%
EBITDA	5,238	6,101	(14)%
EBITDA margin	16.2%	19.4%	(320) bps

The Group's cost of sales, which traditionally accounts for about 70% of total revenue, grew by 7% year-on-year from Rub 21,627 million to Rub 23,238 million driven by a full year consolidation of KKM and Apollo in 2013 compared to their partial consolidation in 2012.

Rub million	**2013**	***% of revenue***	**2012**	***% of revenue***	**Change y-o-y**
Total cost of sales	**23,238**	***72%***	**21,627**	***69%***	**7%**
Supplies and raw materials	10,567	*33%*	10,935	*35%*	(3)%
Labour costs	5,374	*17%*	5,100	*16%*	5%
Cost of goods sold	2,799	*9%*	2,222	*7%*	26%
Other expenses	4,498	*14%*	3,370	*11%*	33%

The key components of cost of sales — supplies and raw materials combined with cost of goods sold — accounted for 41% in 2013, almost the same share as in 2012. Labour costs grew 5% year-on-year of Rub 5,374 million, or 17% of revenue.

Distribution and transportation expenses in absolute terms were up 11% year-on-year, and achieved Rub 1,377 million in 2013. As a percentage of revenue, they comprised 4% in both periods. General and administrative expenses totaled to Rub 3,970 million for 2013, up 5% year-on-year, but remained flat year-on-year at 12% as a percentage of revenue.

The Group's operating profit was almost flat year-on-year and totaled Rub 4,179 million in 2013. Operating margin stood at 13% in the reporting period. In 2013, the Group posted Rub 439 million impairment of the construction business and Rub 955 million extra gain from the bargain M&A, which contributed Rub 516 million to HMS' operating profit.

Interest expenses increased by 25% to Rub 1,522 million compared to Rub 1,220 million in 2012 and comprised 4.7% of revenue versus 3.9% in the previous year.

In 2013, the Group accrued an income tax expense of Rub 524 million. Effective tax rate decreased from 25% to 20% in 2013 due to non-taxable effects of the impairment of the construction business and the gain from the bargain M&A deals.

The Group's profit for the period including the results of discontinued operations decreased twofold to Rub 1,156 million mainly because of HMS' lower operating profit higher finance costs and the loss from SKMN.

[3]**intake** - Under management accounts

Segment performance

Industrial pumps business segment

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solution as well as pumps manufactured to standard specifications. It also provides aftermarket maintenance and repair services and other support for its products.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	17,595	17,066	3%
EBITDA	3,816	4,279	(11)%
EBITDA margin	21.7%	25.1%	(338) bps

The industrial pumps business segment's revenue increased by 3% year-on-year to Rub 17,595 million from Rub 17,066 million in 2012, while EBITDA decreased by 11% year-on-year to Rub 3,816 million. EBITDA margin stood at healthy 21.7%.

The segment's results in the reporting period were supported by the ESPO (+ Rub 2,303 million), Zapolyarye-Purpe (+ Rub 501 million) and Turkmenia (+ Rub 2,011 million) projects. Excluding these projects, industrial pumps demonstrated a 12% growth both in revenue and EBITDA year-on-year backed on a stable inflow of orders for standard and customized pumps.

Oil & gas equipment business segment

The oil & gas equipment business segment manufactures and installs modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure, which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	7,743	7,828	(1)%
EBITDA	883	1,397	(37)%
EBITDA margin	11.4%	17.8%	(644) bps

Revenue in the oil & gas equipment business segment demonstrated a minor decrease by 1% year-on-year in 2013 to Rub 7,743 million, compared to Rub 7,828 million in 2012. The segment's EBITDA dropped by 37% year-on-year to Rub 883 million in the reporting period versus Rub 1,397 million in 2012. Last year, the segment implemented a lucrative Vankor project, which contributed Rub 2,709 million to its revenue. Excluding Vankor, the segment's revenue grew by 51% year-on-year. In 2013, the oil & gas equipment business segment served exclusively small and medium-sized orders for standard tanks and vessels and measuring equipment. Achieved EBITDA margin at 11.4% in 2013 is an average margin for that type of business activity.

Compressors business segment

The compressors business segment designs, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, petrochemical, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.

Rub million	**2013**	**2012***	**Change y-o-y**
Revenue	4,207	3,066	37%
EBITDA	572	266	115%
EBITDA margin	13.6%	8.7%	490 bps

**including the results of KKM for the full 2012 year*

KKM was the key contributor to the segment's results as an impact of project and design center NIITK, bought in 2Q 2013, was immaterial. The contracts, signed by KKM since its joining HMS Group, boosted the compressors segment's revenue and EBITDA, which grew by 37% and 115% year-on-year respectively. In 2013, EBITDA margin achieved 13.6%.

Integration of KKM is far from completion. According to the integration plan, a number of issues are to be addressed to reach sustainability and further growth of the segment.

Engineering, procurement and construction (EPC) business segment

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects for customers in the oil and gas upstream and midstream and water utilities sectors.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue EPC	2,808	5,140	(45)%
Project and Design	2,209	2,204	0%
Construction	599	2,936	(80)%
EBITDA EPC	(204)	341	(160)%
Project and Design	267	125	114%
Construction	(472)	216	(318)%
EBITDA margin EPC	(7.3)%	6.6%	(1,392) bps
Project and Design	12.1%	5.7%	644 bps
Construction	(78.8)%	7.4%	(8,621) bps

Discontinued operations (results of SKMN)

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	2,647	2,545	(45)%
EBITDA	(43)	112	(132)%
EBITDA margin	(2.6)%	4.4%	(659) bps

The EPC business segment delivered weak results in 2013 with revenue declining almost twofold to Rub 2,808 million and EBITDA turning negative to Rub −204 million.

The segment's poor performance was attributable to the construction sub-segment, which generated negative Rub −472 million EBITDA in the reporting period. Revenue in the construction sub-segment declined from Rub 2,936 to Rub 599 million. Project and design sub-segment's profitability growth was not able to offset the weak performance of the construction business in 2013. And as a result, the EPC segment's EBITDA margin turned at negative 7.3%.

FINANCIAL PERFORMANCE

Cash flows performance*

Rub million	**2013**	**2012**	**Change y-o-y**
Net cash from operating activities	4,728	3,322	42%
Net cash used in investing activities	(2,420)	(8,310)	(71)%
Net cash (used in)/from financing activities	(2,072)	4,864	(143)%
Free cash flow (FCF)	2,308	(4 987)	(146)%

**from continuing operations*

Operating cash flow for 12 months 2013 grew by 42% from Rub 3,322 million to Rub 4,728 million.

Working capital totaled Rub 5,198 million, down 23% year-on-year to Rub 5,198 million and comprised 16% of total revenue versus 21% for the previous period. Key factors beyond working capital decline were optimisation of payables and receivables; payments received under executed large contracts; advance payments under new contracts.

Absence of large M&A deals substantially decreased outflow from investing activities, which equaled to Rub -2,420 million (-71% year-on-year). Capital expenditures were up 7% to Rub 1,553 million for 12 months 2013.

Rub 2,072 million outflow of net cash used in financing activity was mostly attributable to repayments of borrowings and dividend payments.

Rub 2,072 million outflow of net cash used in financing activity was a result of repayments of borrowings.

Free cash flow turned positive and totaled Rub 2,308 million for 12 months 2013.

Debt and liquidity position

Rub million	**2013**	**2012**	**Change y-o-y**
Total debt	12,687	13,410	(5)%
Long-term debt	11,522	11,220	3%
Short-term debt	1,165	2,191	(47)%
Cash and cash equivalents at the end of the period	1,584	1,346	18%
Net Debt	11,102	12,064	(8)%
Net Debt/EBITDA	2.12	1.98	

Net Debt and Net Debt/EBITDA may differ from the calculations of numbers as a result of rounding

HMS Group significantly reduced its total debt at 2013-end to Rub 12,687 million from Rub 16,202 million on 1 October 2013. Debt reduction was a result of managerial activities on working capital optimisation, including more active work with suppliers and decrease in inventories, and large payments received on new and some executing contracts. By the end of the year, over 90% of the total debt was represented by long-term facilities.

Net debt decreased to Rub 11,102 million, while Net debt-to-EBITDA ratio amounted to 2.1x. Under a new Net debt-to-EBITDA bank maintenance covenant with a 4.5x threshold, it implies ample headroom for the next 12 months.

As of 1 January 2014, an average interest rate was 9.5% for all loans, including FX-denominated.

Solid liquidity position with Rub 1.6 billion in cash covered HMS's short-term debt of Rub 1.2 billion, with committed unused credit lines of Rub 3 billion.

HMS KEY PROJECTS

Projects on track

In 2013, HMS Group continued to participate in another stage of one of the landmark projects in the Russian oil sector — construction of the East Siberia — Pacific Ocean (ESPO) pipeline. As part of the ESPO-1 Expansion contract we delivered 12 trunk pumps and auxiliary equipment for 3 pump stations to the customer's site. In 2014 the scope of work under contract includes the installation and supervision of the equipment.

HMS Group made good progress in the execution of its key project in the water utility sector comprising delivery of three customized water pump stations for irrigation to Turkmenistan. We completed the design stage and delivered the largest portion of the contracted equipment which will be followed by the installation stage.

In the power generation sector, we completed the implementation of approximately 50% of the contracts for design and delivery of equipment for reactor blocks of Leningradskaya NPP and Novovoronezhskaya NPP.

In 2013, we produced and delivered a compressor station for the project for the Usinsky gas refinery modernisation project. The compressor station, with a capacity of 270 million m^3 pa, was designed by NIITurbocompressor (NIITK) and produced by Kazankompressormash (KKM) and was tailored to specific requirements of the customer.

New projects

In July 2013, HMS signed a contract for the production and delivery of 8 trunk pipeline pump units for the Zapolarye — Purpe Oil Pipeline totaling Rub 1.5 billion in value. The project is designed to bring crude oil produced in the northern areas of the Yamalo-Nenetsk and Krasnoyarsk regions to markets through the ESPO pipeline. The designed capacity of the 500 km pipeline of up to 45 million tonnes pa, is expected to be reached by the end of 2016. Under this contract with Transneft, in the reporting period HMS Group manufactured equipment for testing, which is scheduled for 2014. Equipment delivery will start upon the completion of testing.

In August 2013, HMS Group signed a contract for the manufacturing and delivery of a compressor station worth Rub 943 million. Under the contract, we will deliver the booster compressor station to a customer's site. The unit, based on a gas-turbine engine and manufactured by Kazankompressormash (KKM), will be installed at a petrochemical complex in the South of Russia, as a part of the client's modernisation programme of the existing production facilities in order to ensure the maximisation of gas processing at the plant. During the second part of 2013, we developed the project documentation and signed contracts with suppliers of key components.

In December 2013, HMS Group signed a Rub 5.7 billion contract to supply an integrated solution for a major Siberian gas field. During next 2 years, we will design, manufacture, deliver, supervise and test complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components.

RESEARCH AND DEVELOPMENT

HMS Group continuously strengthens its research and development capabilities in order to reach sustainable organic growth. Aspired by the Company`s strategy aimed at establishing the best R & D in Russia and CIS countries HMS Group engineers continued to design and provide to its customers innovative solutions meeting any given specific requirements.

Last year was marked with further developments in the field of *Delium pumps* product line elaboration. These next generation double suction pumps have a wide operational capacities and can be used in almost all industries. These highly efficient pumps are characterized by excellent absorbing capacity and water proof design that increases efficiency and reduces wear and sputtering.

HMS Group continues to strengthen its expertise in pumps designed according to the international standards. In 2013 our engineers introduced a new line of up-to-date pumping equipment. For example, a *new high-pressure BB5 pump* designed and manufactured according to API610 with new high speed hydraulics. This new product has a complete skid with pump motor turbo gear, pressure lubrication system and a new configuration of hydraulic components. It can be used at the most critical stages of technological process in various industries, including petrochemical, chemical, oil upstream and thermal power.

- *New vertical high-pressure pump VS6 pump, especially designed for offshore application according to API610 and NORSOK standards,* was successfully tested including noise hood and sound intensity measurement. The pump is manufactured in super duplex stainless steel with new inlet- outlet casing form.
- Among other innovative solutions was the introduction of *a new vertical single stage OH3 pump in titanium, especially designed for offshore according to API610 and NORSOK* standards.

Following the ever increasing customer demand for the measuring equipment and in order to enhance the expertise in the development of this type of equipment HMS Group in association with Tyumen State University has developed *a new metrological stand*, which will allow the testing and metrological calibration of up-to-date multiphase measuring units.

One of the key innovations of HMS Group in this field is *the Mera MR measuring unit with NetOil&Gas (NOG) mass flow meter*, which was tested successfully throughout the last year on a number of oil and gas fields developed by leading Russian oil&gas companies. The equipment features an automated mobile measuring unit used to measure the mass flow rate of oil and gas taking into account the water cut without a separator. The first contract for the delivery of this measuring unit was signed in December 2013.

In 2013 HMS Group has successfully accomplished a milestone acquisition in terms of the reinforcement and promotion of its compressor equipment business. The existing innovative capacity of our R&D is complemented by the strong expertise of one of the leading Russian institutes focused on compressor technologies- *NIITurbocompressor (NIITK).*

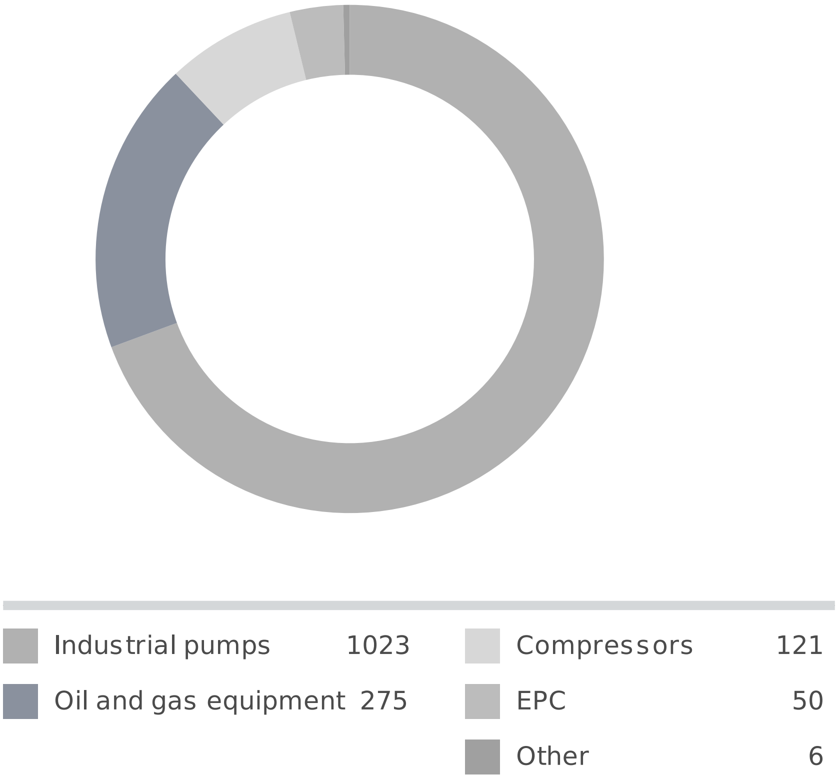
Thus, a number of new solutions were introduced, such as the new compressor unit based on a new 25 MW gas turbine *driver which is level up from conventional 16 MW* and a *compressor stations of low and high pressure that were developed based on a new type of air pumps*.

HMS Group owned portfolio of more than 260 patents reflects our R&D commitment. In 2013 HMS Group filed 32 new patents increasing the overall number by 20%. This patent portfolio is primarily focused on pumping and compressor equipment, including borehole pump units, double suction pumps, centrifugal and screw compressors, as well as measuring equipment, including units for oil production rate measurement and various preliminary filters etc.

INVESTMENT ACTIVITIES

HMS Group continuously updates its manufacturing facilities and seeks to implement the latest technologies to produce modern equipment meeting its clients' requirements. In 2013, Rub 1.5 billion was invested by the Group's entities as part of their modernisation programmes. The top priorities for the Group's investment activities included product quality improvement, production of new types of equipment and an increase in its technological capability at key enterprises.

2013 maintenance CAPEX breakdown by business segments, mn Rub



Industrial pumps

Nasosenergomash (NEM) put into operation a new casting shop with total capacity of up to 4 thousand tonnes of casting products per year. The large-scale modernisation programme targets an increase in pumps output to cover growing market demand as well as production quality and specific technical improvements. The updated shop is designed to produce a steel casting up to 2 tonnes and an iron casting up to 3 tonnes. A new technological line with a continuous spiral mixer fully eliminates human intervention in the production process, ensuring a sustainable level of high quality casting shapes produced at the shop.

In 2013, we updated all technological production lines for oil processing pumps at our *Bobruisk Mashine Building Plant (BMBP)* and improved the manufacturing buildings at *Promburvod (PBV).* At *HMS Pumps* we started the implementation of a technological re-equipment of a casting shop and the construction of a new pump testing stand.

Oil and gas equipment

In 2013, *Sibneftemash* launched a new production site for separating equipment production, which significantly improves the technological capacity of the enterprise. The shop was equipped with modern facilities including a portal plasma- and gas-cutting device to cut sheets 120 mm thick; equipment to roll sheets up to 40 mm thick and 3 m wide; a high-tech welding column for the automatic welding of tanks and vessels; and a special stand to test durability and density of new products. Currently, Sibneftemash can produce gas, oil and gas, and flare separators. We have already signed several contracts for production of this equipment. At full capacity, the new shop is expected to increase the volume of tanks and vessels produced by Sibneftemash by about 37%.

Compressors

At *Kazankompressormash (KKM)* we modernized the centrifugal complex used for processing compressor bodies and covers. The new equipment will increase theoutput from 20 to 30 compressor bodies per year and simultaneously decrease production time. We also developed a plan for further modernisation of the enterprise to be implemented in 2014-2015, which includes an upgrade of the casting shop, a transfer to cold fix mixture technology and the installation of modern controls and measuring equipment.

SOCIAL RESPONSIBILITY

HMS Group fully recognises the responsibility to all of its stakeholders and communicates with them on a regular basis. The Group contributes to the social development and quality of life improvement in local communities in the regions where it operates.

People and their workplace

Employees are one of the core assets of HMS Group and we are committed to attracting and retaining the best people, encouraging and developing them to achieve their full potential.

Our HR policy is aimed at maintaining a healthy and diverse environment where employees feel valued and respected. The Group promotes cooperation between experts within production units as well as between subsidiaries.

In 2013, HMS Group personnel was reinforced by internal staff rotation as a growing number of internal candidates made the transition to senior and middle management roles. During the year, HMS Group companies continued to recruit apprentices in line with its carefully developed apprenticeship scheme. A number of students from universities and colleges undertake work experience with HMS Group companies, offering them a wide range of opportunities. As of 31 December 2013, HMS Group employed over 16 thousand people.

HMS Group has been improving its health and safety standards over the past year. Several courses and trainings on behavioral safety, fire and environment were held at all production sites and zero accident frequency rates were reported at every subsidiary comprising HMS Group.

Encouraging a healthy lifestyle is one of the Group's employee engagement priorities and sport is one its core values. In 2013, HMS Group held a number of family and sporting competitions and others events that over the years have become traditions in the corporate life of HMS Group subsidiaries.

Environmental initiatives

One of HMS Group's main priorities is a responsible approach to the consumption of natural resources. HMS Group strives to implement environmental and energy-saving technologies in the construction and operation of its production sites. Regardless of the fact that the environmental impact of HMS Group subsidiaries is low, all of the businesses focus on the efficient consumption of fuel, paper, water, electricity and heating.

Charity

HMS Group has a long-standing tradition of investing for the future by developing projects in local communities. On a broader scale, HMS Group seeks to support charity initiatives, create jobs and business opportunities that strengthen local economies and support community development projects.

Throughout 2013, HMS Group sponsored projects supporting culture and arts, healthy lifestyles and education. In Kazan (Russia), HMS Group supported the Federation of Ice-Hockey, in Minsk (Belarus), the Center of Culture and Sport, and, in Sumi (Ukraine), HMS Group provided for the needs of local hospitals and a charitable fund for the promotion of sporting activities among young people.

The main charitable focus is health care institutions, children from low-income and vulnerable families and orphanages. As a part of this commitment, HMS Group supports a number of schools and kindergartens in the Livny (Orlov region, Russia), and continues to be a dedicated sponsor of the boarding school #66 in Tyumen (Russia). In Moscow, HMS Group provides support for the Preobrazhensk cadet corps and assists in hosting "Music quarter" musical festivals for disabled children.

Throughout the past year, HMS Group companies helped to host local events, such as the City day in Livny and Goessnitz (Germany). Apollo Goessnitz, a newly acquired German subsidiary of HMS Group, also helped rebuild the city after major floods.

Average Headcount

(as of December 31, 2013)

	2007	2008	2009	2010	2011	2012	2013
Industrial pumps	5,249	5,635	5,862	6,868	6,877	8,449	8,757
Oil&Gas equipment	2,042	2,002	2,112	2,130	2,469	2,447	2,394
Engineering, procurement, construction	2,239	2,235	1,767	3,175	3,071	3,662	2,131
Compressors						2,370	2,647
Other	128	183	211	235	251	281	303
Total	**9,658**	**10,055**	**9,952**	**12,408**	**12,669**	**17,209**	**16,232**

Corporate governance

Board of directors and its committees

Risk management and internal control

HMS global depositary receipts

Corporate governance

Board of directors and its committees

As of December 31, 2013.

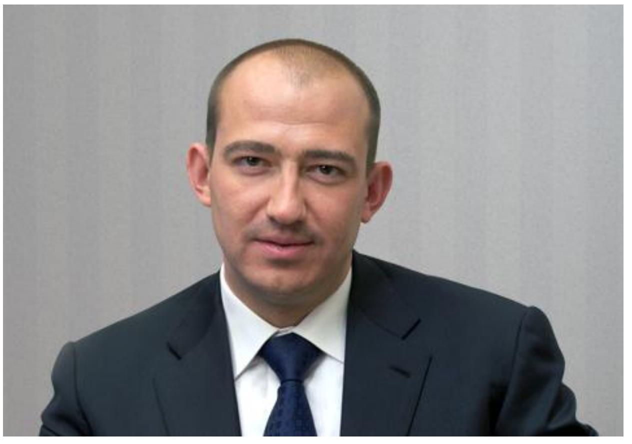
The Board of Directors consists of nine (9) members.

Mr. German A. Tsoy

Chairman of the Board of Directors, non-executive director

Mr. Tsoy was appointed as Chairman of the Board of Directors in October 2010. Prior to that he has, as one of the founders of the Group, held various executive positions within HMS Group since its establishment in 1993. Mr. Tsoy has more than 20 years of industry experience. He graduated from Frunze Polytechnic Institute (currently the I. Razzakov Kyrgyz State Technical University) where he gained a degree in electrical engineering in 1985. He graduated from Buguruslan Flying School of Civil Aviation with a degree in civil aviation in 1979. Mr. Tsoy served as General Director of OOO HMS-Holding from 2008 until 2009 and has served as its President since 2009.

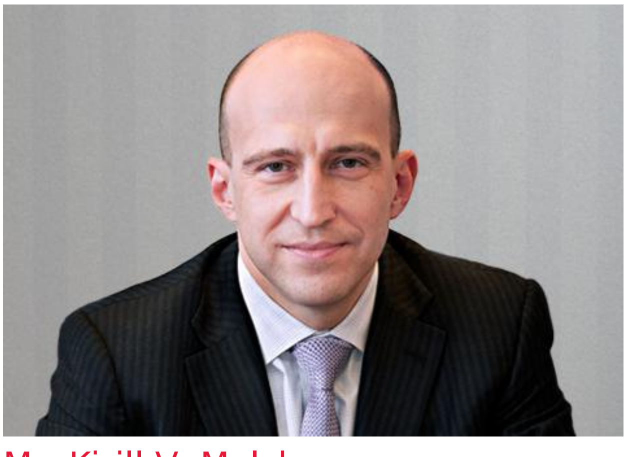
Executive Directors



Mr. Artem V. Molchanov

Member of the Board of Directors, Managing Director (CEO)

Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010.
Mr. Molchanov became the President of HMS Group in 2008. As one of the founders of the Group, he has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov has more than 20 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics), where he gained a degree in industrial economics.



Mr. Kirill V. Molchanov

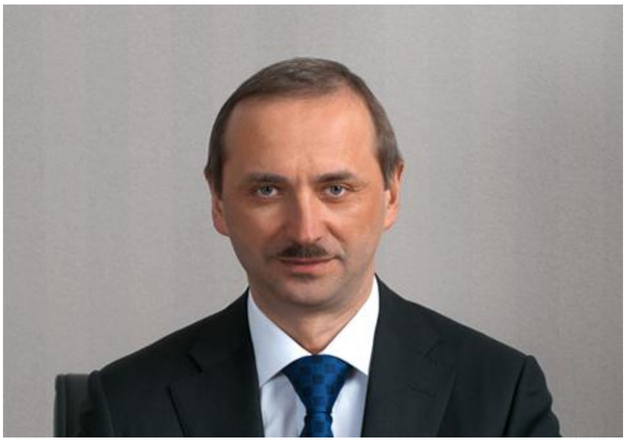
Member of the Board of Directors

Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010 and has served as Vice President of HMS Group since 2008. As one of the founders of the Group, he has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov has 20 years of industry experience. He graduated from Bauman Moscow Higher Technical School (currently Bauman Moscow State Technical University) with a degree in electromechanical engineering. He has graduated from the Judge Business School, University of Cambridge with an executive MBA degree.

Mr. Nikolai N. Yamburenko

Member of the Board of Directors

Mr. Yamburenko was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Industrial Pumps Business Unit, the position he has held since 2005. Prior to joining the Group, Mr. Yamburenko was the CEO of Livhydromash (HMS Pumps), which is now part of the Group. Mr. Yamburenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.



Mr. Yury N. Skrynnik

Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Compressor Business Unit, a position he has held since its establishment in 2012.

Previously he held the position of Director for Strategic Marketing. Prior to joining HMS Group, he served as the Chief Representative of OAO Sumy Frunze NPO (Ukraine) in Russia from 1999 until 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of OOO Machines, Equipment, Technologies, Products and Services from 1992 until 1999. From 1986 until 1988, he served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology). Mr. Skrynnik has more than 20 years of science and management experience. He graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from The Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering and Ecology) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and 20 inventions.

Non-executive Directors

Mr. Vladimir V. Lukyanenko

Member of the Board of Directors

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in October 2010. He has also served as the Chairman of the Supervisory Board of OAO Sumy Frunze NPO (Ukraine) from 2003 until 2007. Mr. Lukyanenko has more than 20 years of industry experience. He graduated from Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology), where he gained a degree in mechanical engineering in 1991.

Mr. Andreas S. Petrou

Member of the Board of Directors

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2010. From 1989 until 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing interests of the Government of the Republic of Cyprus. From 1987 until 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law office. He is an honours graduate of the Law School of Democrious University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

Mr. Philippe Delpal

Member of the Board of Directors

Mr. Delpal was appointed as an independent non-executive member of the Board of Directors in December 2010 and is the head of the Audit Committee. Mr. Delpal has had a career in banking, most recently as Chairman of BNP Paribas Vostok in Moscow. He is now an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity firms in Russia. He is also currently serving as a non-executive director for Orient Express Bank OJSC (Russia), Eastern European Trust (London, an LSE-listed investment trust managed by Blackrock) and Komercijalna Banka AD (Serbia). Prior to that, Mr. Delpal founded Cetelem Russia in 2006 and served as its CEO from 2006 until 2010. From 2004 until 2006, as a CEO, he developed Rusfinance Bank (Societe Generale Group) up to the #2 position in Russia for car lending. In addition, Mr. Delpal has over eight years of experience as an auditor at Societe Generale. He graduated from the Telecom Paris University with a degree in IT, Telecoms and Economics. He has been living in Russia since 2004.

Mr. Gary S. Yamamoto

Member of the Board of Directors

Mr. Yamamoto was appointed as an independent non-executive member of the Board of Directors and the head of the Remuneration Committee in December 2010. Prior to joining the Group, he served as Chief Executive Officer at Borets International during 2009. Mr. Yamamoto has served as the President of Yamamoto Consulting since 2008. He served as a member of the Board of Directors at Radius Servis from 2007 until 2008. Prior to this, Mr. Yamamoto enjoyed a 20-year career with Schlumberger Limited, and from 2003 until 2008, served as Vice President of Schlumberger Russia. Mr. Yamamoto has more than 20 years of management experience. He graduated from the University of California, Berkeley, with a degree in engineering in 1988. Mr. Yamamoto is a member of the Society of Petroleum Engineers and the Independent Directors Association.

PERFORMANCE OF THE BOARD IN 2013

In 2013 the Board of Directors held 4 ordinary meetings, all of which occurred in Limassol, Cyprus. During 2013 the Board of Directors continued to work on the development of the Company's mid-term and long-term financial and business strategy, including investment plans, M&A activities, budgeting and general corporate development.

Throughout the year the Board of Directors paid close attention to the improvement of the Company's internal control and risk management systems.

At its meetings the Board of Directors reviewed other issues connected with the activities of the Company within its remit, including the approval of corporate reports.

The Board of Directors' Committees

The Company has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the Committees main activities during 2013 is set out below.

Audit Committee

General overview

The Audit Committee comprises 3 directors, 2 of whom are independent, and expects to meet 3 to 4 times each year. Currently, the Audit Committee is chaired by Philippe Delpal; its other members are Gary S. Yamamoto and Vladimir V. Lukyanenko.

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; (ii) the effectiveness of the Group's internal controls and risk management systems; (iii) auditors' reports; and (iv) the terms of appointment and remuneration of the auditor.

The Audit Committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. The Audit Committee also supervises the submission by the Group of financial information and a number of other audit-related issues and assesses the efficiency of work of the Chairman of the Board of Directors.

Performance in 2013

In 2013, 2 meetings of the Audit Committee were held. The main issues the Audit Committee oversaw in 2013 were the preliminary review of IFRS financial statements (including goodwill impairment at the end of 2013), internal control and risk-management, including the audit plan.

The Audit Committee supervised the internal and external audit procedures and annual tax strategy implementation in the year. The Audit Committee adopted relevant decisions and recommendations to the Board of Directors with regards to internal control efficiency.

Remuneration Committee

General overview

The Remuneration Committee comprises 4 directors and expects to meet at least once each year. Currently, the Remuneration Committee is chaired by Gary S. Yamamoto, an independent director; its other members are Vladimir V. Lukyanenko, German Tsoy and Philippe Delpal. 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.

Performance in 2013

In 2013 one meeting of the Remuneration Committee was held. The main matters reviewed by the Remuneration Committee were the Senior Management Compensation Scheme and Succession Planning Scenarios for 2013.

The Remuneration Committee summarized best international practices in order to adopt relevant decisions and recommendations to the Board of Directors with regards to the Company's CEO Compensation Targets.

External Audit of Financial Statements

Every year the Company elects an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company in compliance with IFRS. The external auditor also prepares reviews of the consolidated interim condensed financial information of the Company in compliance with IFRS requirements. The external auditor of the Company is selected from the "top four" auditing companies after a thorough review of their respective proposals. Following that review, the Audit Committee gives its recommendations to the Board of Directors regarding the candidacy of the external auditor and the amount of the auditor's compensation, and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2013, based on the recommendation of the Audit Committee, the Board of Directors selected PricewaterhouseCoopers Audit to conduct the audit of the financial statements of the Company for the year 2013, and it continues in that capacity.

Directors Compensation

The Compensation consists of annual remuneration paid to independent directors for their services in full positions. Total independent directors' compensation represented by short-term employee benefits in the consolidated income statement was Euro 195,000 for the year ended December 31, 2013.

RISK MANAGEMENT AND INTERNAL CONTROL

Overview

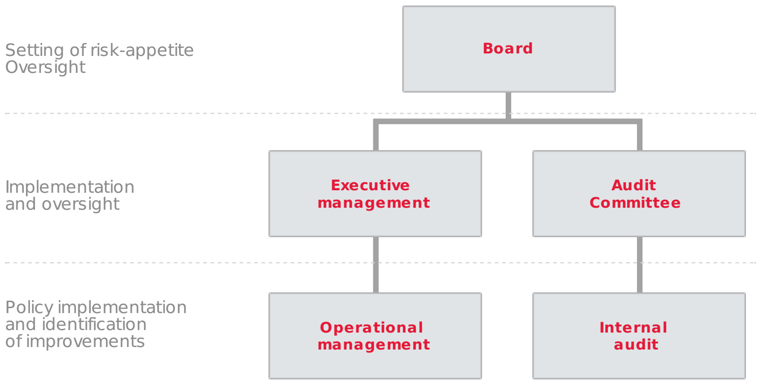
The Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. In order to minimise the negative impact of such risks and to benefit from available opportunities, a risk management and internal control system has been established and integrated into the Group's operations. The overall objective of such system is to obtain reasonable assurance that the Group's goals and objectives will be achieved.

The main principle in the design and maintenance of such systems is that the expected benefits should outweigh costs associated with them.

Key features of the Group's internal control system over financial reporting

The Group uses a formal risk management program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company. Risks are classified according to their possibility and significance; and different strategies are used to manage identified risks. This process is regularly reviewed by the Board in accordance with applicable guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.



Internal control and risk management monitoring is performed through internal and external assurance providers, which include:

- Financial statement audits performed by external auditors. Discussion by the Audit Committee of the results of the audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters.
- Review and formal approval of the financial results by the CEO, CFO, Audit Committee and the Board.
- Board and sub-committee approval and monitoring of operating, financial and other plans.
- Consolidation and verification of correct identification and proper assessment of critical business risks. The Audit Committee reviews changes to the risk profiles, together with progress on actions for key risks on a regular basis.
- Internal audit function. The Head of Internal Audit functionally reports to the Audit Committee and administratively to the First Deputy CEO. The internal audit department activities are performed in accordance with an audit plan and incorporate review of material controls, including financial, compliance and operational controls. The results of each audit are discussed in detail with the companies and business units concerned and action plans agreed.

Continuous improvement

HMS Group’s goal is to continuously improve its governance and risk management sub-systems. We assess findings of audits and internal investigations and use them to adjust our internal processes and procedures.

The key features of the risk management process include:

- gathering and analysis of information, related to internal and external factors, which can negatively impact the achievement of the Group’s objectives,
- identification of the possible level of negative impact of various events on operational and financial results in accordance with applicable risk-assessment methods,
- setting appropriate risk-tolerance levels,
- ranging risks according to their significance and probability,
- making appropriate decisions to manage identified risks,
- actively monitoring the steps taken to control the most significant risks.

Principal risks and uncertainties

The relationship between the main categories of the risks we encounter and how they affect our strategy is shown in the table below.

Strategy Risk	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing long-term suppliers
Global political and economic risks	×	×	×	×		
Sales	×	×	×	×		
Project execution risks	×	×	×	×	×	×
Human Capital	×	×	×	×		
Acquisitions and disposals	×	×	×	×		
Fraud and corruption risks	×	×	×	×	×	×
Technology		×				
Legislation and regulations	×	×	×	×		
Product liability and litigation	×	×	×		×	×
Financial risks	×	×	×	×		

Below is a summary of the principal risks facing the Group’s business. The Group also faces other risks, both known and unknown; some of them apply to similar companies operating both in Russian and international market.

Global political and economic risks

The Group may be exposed to various political, economic and other risks not only in the countries where it has primary production facilities (Russia, Ukraine, Belarus), but also in jurisdictions where the Group has other interests (e.g. EPC projects in the Middle East and Central Asia). The Group has not to date been significantly affected by recent developments in Ukraine but, in the event of a deterioration in the situation in that country, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

The introduction of new regulations or the imposition of trade barriers or international sanctions could disrupt the Group's business activities or impact on the Group's customers, suppliers or other parties with which it does business. In some instances, this could have a material adverse effect on the Group's financial position and prospects.

Sales

The Group's business depends on the levels of capital investment and maintenance expenditures by the Group's customers, which in turn are affected by numerous factors, including the state of global and Russian economies, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment and other support for the Group's customers or in state-sponsored infrastructure projects.

The Group's business depends on the award of contracts and renewals and extensions of existing contracts; also the Group relies on a limited number of key customers and contracts, and may incur losses due to unfavorable terms of contracts with certain large customers.

Project execution risks

Since the Group's contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in the EPC segment). The Group seeks to mitigate these risks through its efforts to improve profitability and cost control, in part relying on volume growth and an increasing share of high-margin integrated solutions services.

Human Capital

The ability to achieve the Group's strategic goals highly depends on our most important asset — our people. We develop and remunerate our employees using leading HR practices. In line with Group's growth strategy, we aim to attract talented employees from the market and continuously improve our recruitment methods.

The success of the Group's businesses depends heavily on the continued service of its key senior managers. These individuals possess industry specific skills in the areas of sales and marketing, engineering and manufacturing that are critical to the growth and operation of the Group's businesses. While the Group has entered into employment contracts with its senior managers, the retention of their services cannot be guaranteed. The Group is not insured against damages that may be incurred in case of loss or dismissal of its key specialists or managers. Moreover, the Group may be unable to attract and retain qualified personnel to succeed such managers. If the Group suffers an extended interruption in its services due to the loss of one or more such managers, its business, financial condition, results of operations, prospects may be materially adversely affected.

Acquisitions

The Group cannot be certain that the anticipated cash flows, synergies and cost savings from acquisitions or other transactions will materialize or reach expected levels. Inefficient integration of the newly acquired businesses poses a risk to the Group's operations. Any failure to successfully integrate the operations of the Group companies could adversely affect the Group's business, financial condition and results of operations.

Since its formation in 1993, the Group has completed a number of acquisitions involving the purchase of industrial pumps, modular equipment manufacturing and EPC services companies, and the Group expects to make additional acquisitions in the future. The integration of these and future acquisitions into the Group's operations poses significant management, administrative and financial challenges.

The integration process may result in unforeseen difficulties and could require significant time and attention from management that would otherwise be directed at developing the Group's existing business.

Fraud and corruption risks

Fraud and corruption are pervasive and inherent risks of any business operations. There is always some potential for fraud and other dishonest activity at all levels of a business, from factory worker level to senior management. Efficient operations and optimal use of resources depends on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

HMS Group promotes ethical behavior among its employees and maintains dedicated violations reporting channels to raise concerns within the Group through an ethics hotline available 24/7. The Group's internal audit and/or security department perform investigations into alleged fraud and misconduct cases. If necessary, the results of such investigations are provided to the CEO, the Board, the management and Audit Committee, as necessary.

As the Group operates in a number of jurisdictions around the world, the Board and senior management also put a strong emphasis on corporate compliance with applicable regulation, including anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

The Group has implemented procedures to ensure that all employees are aware of the requirements of the Group's anti-corruption policies, with a particular focus on those roles most exposed to the risk of breach.

Legislation and regulations

Recent Russian government initiatives, which are currently under consideration, are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating operating assets located in Russia, HMS Group recognises that these developments may have significant implications for its business and development plans. HMS Group continues to monitor these developments.

HMS GDRS

As of December 31, 2013, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of Euro 1,171,634.27 divided into 117,163,427 shares with par value of Euro 0.01 per share.

The shares of HMS Group are not traded.

In February 2011, the Company signed a depositary agreement with The Bank of New York Mellon (BNY Mellon), under which the issue of Global Depositary receipts (GDRs) for HMS Group shares was initiated.

As of December 31, 2013, the total number of GDRs issued in exchange for shares of HMS Group amounted to 48,004,000 GDRs or approximately 41% of the Company's issued share capital.

Information on HMS Group Plc GDRs:

Ticker	HMSG
Exchange	London Stock Exchange
Reg S	US40425X2099
Rule 144 A	US40425X1000
Ratio, GDR : common shares	1:1
Effective Date	Feb 11, 2011
Underlying ISIN	CY0104230913
Depositary bank	BNY Mellon

From the beginning of 2013, equity investors started to leave emerging markets, preferring to invest in developed markets despite their ongoing problems with debt and uncertainties with quantative easing programmes. As a result, most developed equity markets demonstrated a noticeable growth by the end of 2013.

Being a developing country, Russia felt pressure from this global trend. The dynamics of funds investing in Russia was mostly negative for the whole year, which contributed to the RTS index decreasing by 5.5% in 2013.

HMS's GDR price performance in 2013 can be divided into two periods. From January to the beginning of June, the GDRs were traded within the range of USD 4.22-3.50. Following the release of HMS's financial results for the Q1 coupled with a reduction in expected earnings for the full year due to the anticipated delay in large tenders, HMS's GDR price started to decrease until it reached its low for the year of USD 2.10. During the second half of the year, HMS shares were traded at the average price of USD 2.50.

GDR price, US $

Price and Trading volume of HMS Groups GDRs

	Minimum	Maximum	At the end of period
2011	3.98	8.25	4.41
2012	3.90	5.98	4.22
2013			
Quarter 1	3.42	4.23	3.65
Quarter 2	2.45	3.75	2.45
Quarter 3	2.10	2.90	2.55
Quarter 4	2.15	2.70	2.50

Source: Bloomberg

Major Shareholders of HMS Group as of December 31, 2013

Vladimir Lukyanenko	27.4%	Management	24.4%
German Tsoy	19.8%	Treasuries	1.6%
		Free-float	26.9%

Financials

IFRS Consolidated Financial Statements and Independent Auditor's Report

IFRS Parent Company Financial Statements and Independent Auditor's Report

HMS Hydraulic Machines & Systems Group plc

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

31 December 2013

Contents

Board of Directors

Mr. German A. Tsoy
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Yury N. Skrynnik
Executive Director

Mr. Nikolai N. Yamburenko
Executive Director

Mr. Vladimir V. Lukyanenko
Non-executive Director
Member of the Remuneration and Audit Committees

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

Mr. Andreas S. Petrou
Non-executive Director

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

Board support

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

Company Secretary

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

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2013. 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

In December 2013, HMS Group sold 67.3% shares in Trest Sibkomplektmontazhnaladka OJSC (SKMN) (Note 15), having recognised a loss from disposal of RR 746 million. The performance of SKMN represented a separate major line of business of the operating segment "Engineering, procurement and construction". Consequently, operating results of disposed subsidiary as well as loss from its disposal were presented as discontinued operations in consolidated statement of profit or loss and other comprehensive income. The review of the Group's operating performance for 2013, discussed below, exclude the results of SKMN.

Solid performance of industrial pumps and compressors business segments was the main driver behind the Group's performance in 2013. The Group's revenue grew by 3% year-on-year to RR 32,358 million. EBITDA declined by 14% year-on-year to RR 5,238 million, reflecting lack of high-margin projects and poor performance of construction sub-segment. As a result, EBITDA margin for 2013 stood at 16.2%.

The Group's operating profit remained flat year-on-year at RR 4.2 billion in 2013. Operating margin stood at 13% in the reporting period. In 2013, the Group posted impairment of the construction business assets of RR 439 million and extra gain from the bargain acquisitions of RR 955 million which as a result contributed RR 516 million to the Group's operating profit.

Profit for the year from continuing operations decreased by 11.5% to RR 2,073 million, mainly due to increased finance costs.

Principal risks and uncertainties

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

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

The Board has a formal 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 2013 are set out on page 10 of the consolidated financial statements.

Dividends

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

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

At the Annual General Meeting in June 2013 the Company's shareholders approved the final dividend in respect of the year ended 31 December 2012 of 6.82 Russian Roubles per ordinary share amounting to a total dividend of RR 791,637 thousand has been approved. These dividends were paid in July 2013.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2013.

On 24 April 2014, the Board of Directors recommended a payment of dividend in respect of the year ended 31 December 2013 in the amount of RR 3.41 per ordinary share, amounting to a total dividend of RR 399,527 thousand, calculated taking into account the total quantity of shares issued. Declaration and payment of dividend in respect of the year ended 31 December 2013 is subject to the approval of the Company's shareholders. These consolidated financial statements do not reflect this dividend payable.

Share capital

At 31 December 2013, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 24 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 2013 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 shall retire by rotation and are entitled to run for re-election. German A. Tsoy, Vladimir V. Lukyanenko and Philippe Delpal 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 2013 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 2013	Interest in the share capital of the Company at 24 April 2014
Vladimir V. Lukyanenko	27.4%	27.4%
German A. Tsoy	19.8%	19.8%
Nikolai N. Yamburenko	6.2%	6.2%
Artem V. Molchanov	6.1%	6.1%
Yury N. Skrynnik	3.0%	3.0%
Kirill V. Molchanov	1.8%	1.8%
Philippe Delpal	0.017%	0.017%

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

Events after the balance sheet date

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

The Board Committees

The Group has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other members are Gary S. Yamamoto and Vladimir V. Lukyanenko. 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 four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Vladimir V. Lukyanenko, Philippe Delpal and German A. Tsoy 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.

Corporate governance

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

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2013 amounted to RR 8,769 thousand (2012: RR 7,845 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 115,067 thousand for the year ended 31 December 2013 (2012: RR 228,019 thousand). See also Note 34.

Branches

The Company did not operate through any branches during the year ended 31 December 2013.

Treasury shares

On 21 May 2012, the Board unanimously resolved that it is in the best interest of the Company to buy back GDRs from the market for the total amount of up to USD 25 million. During the year ended 31 December 2013, a wholly-owned subsidiary of the Group acquired 1,641,139 GDRs of the Company from the market for a cost of RR 177,331 thousand representing 1.40% of its issued share capital (2012: 244,385 GDRs of the Company for a cost of RR 31,507 thousand representing 0.21% of its issued share capital). The voting and dividend rights of these GDRs are suspended.

During the year ended 31 December 2013, 66,080 GDRs of the Company representing 0.06% of its issued share capital were sold by a wholly-owned subsidiary of the Group for a total consideration of RR 7,511 (2012: no treasury shares sold).

At 31 December 2013, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (2012: 244,385) of its own GDRs for a total cost of RR 201,205 thousand (2012: RR 31,507 thousand).

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2014, 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, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. The audit committee has conducted a tender process for the selection of the Group's auditor for 2014. The result of this tender will be discussed at the Board of Directors and a recommendation will be made for the Annual General Meeting to approve the selection of external auditors.

By order of the Board

Artem V. Molchanov
Director
Limassol
24 April 2014

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 62) 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 2013 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
24 April 2014	24 April 2014

Independent Auditor's report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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.

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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 2013, 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 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 those 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.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 24 April 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2013	31 December 2012*
ASSETS			
Non-current assets:			
Property, plant and equipment	6	14,215,280	14,415,505
Other intangible assets	7	1,447,716	955,447
Goodwill	8	5,145,730	5,188,993
Investments in associates	10	127,423	124,963
Deferred income tax assets	26	199,132	252,772
Other long-term receivables	14	375,123	155,234
Total non-current assets		**21,510,404**	**21,092,914**
Current assets:			
Inventories	12	5,476,236	6,825,999
Trade and other receivables and other financial assets	13	10,367,771	10,313,226
Current income tax receivable		122,805	126,782
Cash and cash equivalents	11	1,584,222	1,346,082
Restricted cash	11	8,055	56,385
		17,559,089	**18,668,474**
Non-current assets held for sale		-	47,850
Total current assets		**17,559,089**	**18,716,324**
TOTAL ASSETS		**39,069,493**	**39,809,238**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	48,329	48,329
Share premium	24	3,523,535	3,523,535
Treasury shares	24	(201,205)	(31,507)
Other reserves		(191,585)	(191,463)
Currency translation reserve		(170,541)	(347,264)
Retained earnings		6,692,152	6,667,165
Equity attributable to the shareholders of the Company		**9,700,685**	**9,668,795**
Non-controlling interest		**3,543,343**	**3,870,032**
TOTAL EQUITY		**13,244,028**	**13,538,827**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	11,521,956	11,219,833
Finance lease liability	17	1,799	10,072
Deferred income tax liability	26	1,807,980	1,914,077
Pension liability	18	442,326	481,031
Provisions for liabilities and charges	23	58,450	46,663
Other long-term payables	22	372,643	325,835
Total non-current liabilities		**14,205,154**	**13,997,511**
Current liabilities:			
Trade and other payables	20	8,880,799	8,795,207
Short-term borrowings	16	1,164,640	2,190,520
Provisions for liabilities and charges	23	200,997	299,407
Finance lease liability	17	9,489	7,568
Pension liability	18	69,869	54,740
Current income tax payable		212,434	26,349
Other taxes payable	21	1,082,083	899,109
Total current liabilities		**11,620,311**	**12,272,900**
TOTAL LIABILITIES		**25,825,465**	**26,270,411**
TOTAL EQUITY AND LIABILITIES		**39,069,493**	**39,809,238**

* These amounts reflect adjustments made in connection with the completion of purchase price allocation (Note 9) and the adoption of the revised IAS 19 (R) (Note 5).

Approved for issue and signed on behalf of the Board of Directors on 24 April 2014.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

The accompanying notes on pages 13 to 62 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2013	2012*
Continuing operations			
Revenue	27	32,358,148	31,459,887
Cost of sales	28	(23,237,679)	(21,626,879)
Gross profit		**9,120,469**	**9,833,008**
Distribution and transportation expenses	29	(1,376,855)	(1,239,423)
General and administrative expenses	30	(3,970,123)	(3,796,457)
Other operating expenses, net	31	(109,813)	(553,759)
Impairment of assets of construction business	4	(439,119)	-
Excess of fair value of net assets acquired over the cost of acquisition	9	954,814	-
Operating profit		**4,179,373**	**4,243,369**
Finance income	32	160,320	113,282
Finance costs	33	(1,740,990)	(1,246,382)
Share of results of associates	10	(2,269)	443
Profit before income tax		**2,596,434**	**3,110,712**
Income tax expense	26	(523,564)	(768,471)
Profit for the year from continuing operations		**2,072,870**	**2,342,241**
Discontinued operations			
Loss for the year from discontinued operations	15	(917,355)	(30,222)
Profit for the year		**1,155,515**	**2,312,019**
Shareholders of the Company		1,041,801	2,097,834
Non-controlling interest		113,714	214,185
Profit for the year		**1,155,515**	**2,312,019**
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		31,424	(33,666)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		217,297	(129,227)
Currency translation differences of associates	10	4,729	(5,285)
Other comprehensive income/(loss) for the year		**222,026**	**(134,512)**
Total comprehensive income for the year		**1,408,965**	**2,143,841**
Total comprehensive income attributable to:			
Shareholders of the Company		1,237,709	1,952,469
Non-controlling interest		171,256	191,372
Total comprehensive income for the year		**1,408,965**	**2,143,841**
Total comprehensive income attributable to shareholders of the Company			
Continuing operations		2,141,912	1,962,085
Discontinued operations	15	(904,203)	(9,616)
		1,237,709	**1,952,469**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	24	**8.99**	**17.91**
From continuing operations		16.79	17.99
From discontinued operations		(7.80)	(0.08)

* These amounts reflect adjustments made in connection with the change in presentation of discontinued operations (Note 15), with the completion of purchase price allocation (Note 9) and the adoption of the revised IAS 19 (R) (Note 5).

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2013	2012*
Cash flows from operating activities			
Profit before income tax		2,596,434	3,110,712
Adjustments for:			
Depreciation and amortisation	6, 7	1,340,568	986,363
Loss from disposal of property, plant and equipment and intangible assets	31	6,774	27,798
Finance income	32	(160,320)	(113,282)
Finance costs	33	1,740,990	1,246,382
Pension expenses	18	3,033	85,439
Warranty provision	28	16,851	10,490
Write-off of receivables		15,111	12,073
Provision for impairment of accounts receivable	30	87,114	27,543
Impairment of taxes receivable	31	-	11,741
Provision for obsolete inventories	28	78,456	98,743
Provision for VAT receivable	30	(8,663)	3,178
Provisions for legal claims	31	(80,040)	115,451
Impairment of assets of construction business	4	439,119	-
Excess of fair value of net assets acquired over the cost of acquisition	9	(954,814)	-
Foreign exchange income, net	31	(4,259)	(11,303)
Net monetary effect on non-operating items		(5,080)	10,777
Provision for tax risks	30	(16,243)	(2,882)
Share of results of associates	10	2,269	(443)
Operating cash flows before working capital changes		**5,097,300**	**5,618,780**
Decrease/(increase) in inventories		1,013,976	(1,493,529)
(Increase)/decrease in trade and other receivables		(575,904)	959,647
Increase in taxes payable		266,639	168,775
Increase in accounts payable and accrued liabilities		1,107,615	445,954
Decrease/(increase in) restricted cash		48,330	(31,072)
Cash from operations		**6,957,956**	**5,668,555**
Income tax paid		(801,604)	(1,296,273)
Interest paid		(1,428,345)	(1,049,973)
Net cash from operating activities – continuing operations		4,728,007	3,322,309
Net cash used in operating activities – discontinued operations		(204,945)	(231,121)
Net cash from operating activities		**4,523,062**	**3,091,188**
Cash flows from investing activities			
Repayment of loans advanced		31,202	27,866
Loans advanced		(242,480)	(32,784)
Loans provided to discontinued operations		(614,012)	(273,170)
Proceeds from sale of property, plant and equipment and intangible assets		93,996	13,248
Interest received		91,346	92,744
Proceeds from government grant	22	60,000	-
Dividends received		1,399	976
Purchase of property, plant and equipment		(1,466,308)	(1,373,884)
Cash disposed from disposal of subsidiary		(9,975)	-
Acquisition of intangible assets		(86,702)	(74,616)
Acquisitions of subsidiaries, net of cash acquired	9, 10	(278,465)	(6,689,967)
Net cash from investing activities – continuing operations		(2,419,999)	(8,309,587)
Net cash used in investing activities – discontinued operations		45,000	(174,276)
Net cash used in investing activities		**(2,374,999)**	**(8,483,863)**
Cash flows from financing activities			
Repayments of borrowings		(20,929,874)	(15,550,153)
Proceeds from borrowings		19,898,643	22,000,957
Payment for finance lease		(7,580)	(2,960)
Acquisition of non-controlling interest in subsidiaries	9	-	(445)
Buy back of issued shares	24	(177,331)	(31,507)
Proceeds from the sale of treasury shares	24	7,511	-
Dividends paid to non-controlling shareholders of subsidiaries	24	(72,003)	(51,856)
Dividends paid to the shareholders of the Company		(791,637)	(1,499,692)
Net cash from financing activities – continuing operations		(2,072,271)	4,864,344
Net cash from financing activities – discontinued operations		154,662	273,170
Net cash (used in)/from financing activities		**(1,917,609)**	**5,137,514**
Net increase/(decrease) in cash and cash equivalents – continuing operations		**235,737**	**(122,934)**
Net decrease in cash and cash equivalents – discontinued operations		**(5,283)**	**(132,227)**
Inflation effect on cash		**-**	**(277)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**7,686**	**3,057**
Cash and cash equivalents at the beginning of the year		**1,346,082**	**1,598,463**
Cash and cash equivalents at the end of the year		**1,584,222**	**1,346,082**

* These amounts reflect adjustments made in connection with the change in presentation of discontinued operations (Note 15), with the completion of purchase price allocation (Note 9) and the adoption of the revised IAS 19 (R) (Note 5).

(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 1 January 2012		**48,329**	**3,523,535**	**-**	**122,852**	**(228,760)**	**6,116,729**	**9,582,685**	**2,477,177**	**12,059,862**
Effect of retrospectively adopting IAS19 (R)*		**-**	**-**	**-**	-	**-**	(13,447)	(13,447)	(8,175)	**(21,622)**
Effect of hyperinflation on opening retained earnings		**-**	**-**	**-**	**-**	**-**	(7,438)	(7,438)	(7,517)	**(14,955)**
Balance at 1 January 2012*		**48,329**	**3,523,535**	**-**	**122,852**	**(228,760)**	**6,095,844**	**9,561,800**	**2,461,485**	**12,023,285**
Profit for the year*		-	-	- -	-	-	2,097,834	2,097,834	214,185	**2,312,019**
Other comprehensive income/(loss)										
Remeasurements of post-employment benefit obligations*		-	-	-	-	-	(26,861)	(26,861)	(6,805)	(33,666)
Change in cumulative currency translation reserve		-	-	-	-	(113,219)	-	(113,219)	(16,008)	**(129,227)**
Share of comprehensive income from associates		-	-	-	-	(5,285)	-	(5,285)	-	**(5,285)**
Total comprehensive income for the year*		**-**	**-**	**-**	**-**	**(118,504)**	**2,070,973**	**1,952,469**	**191,372**	**2,143,841**
Buy back of issued shares	24	-	-	(31,507)	-	-	-	(31,507)	-	**(31,507)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(51,856)	**(51,856)**
Dividends declared to the shareholders of the Company	24	-	-	-	-	-	(1,499,692)	(1,499,692)	-	**(1,499,692)**
Total distributions to owners of the Company		-	-	(31,507)	-	-	(1,499,692)	(1,531,199)	(51,856)	**(1,583,055)**
Business combinations	9	-	-	-	-	-	-	-	1,269,516	**1,269,516**
Recognition of redemption liability, related to acquisition of share in subsidiary	9	-	-	-	(314,315)	-	-	(314,315)	-	**(314,315)**
Acquisition of non-controlling interest in subsidiaries	9	-	-	-	-	-	40	40	(485)	**(445)**
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**(31,507)**	**(314,315)**	**-**	**(1,499,652)**	**(1,845,474)**	**1,217,175**	**(628,299)**
Balance at 31 December 2012*		**48,329**	**3,523,535**	**(31,507)**	**(191,463)**	**(347,264)**	**6,667,165**	**9,668,795**	**3,870,032**	**13,538,827**
Effect of hyperinflation on opening retained earnings		**-**	**-**	**-**	**-**	**-**	(7,810)	(7,810)	(6,045)	**(13,855)**
Balance at 1 January 2013		**48,329**	**3,523,535**	**(31,507)**	**(191,463)**	**(347,264)**	**6,659,355**	**9,660,985**	**3,863,987**	**13,524,972**
Profit for the year		-	-	-	-	-	1,041,801	1,041,801	113,714	**1,155,515**
Other comprehensive income										
Remeasurements of post-employment benefit obligations		-	-	-	-	-	19,185	19,185	12,239	**31,424**
Change in cumulative currency translation reserve		-	-	-	-	171,994	-	171,994	45,303	**217,297**
Share of comprehensive income from associates		-	-	-	-	4,729	-	4,729	-	**4,729**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**176,723**	**1,060,986**	**1,237,709**	**171,256**	**1,408,965**
Buy back of issued shares	24	-	-	(177,331)	-	-	-	(177,331)	-	**(177,331)**
Sale of treasury shares	24	-	-	7,633	(122)	-	-	7,511	-	**7,511**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(72,080)	**(72,080)**
Dividends declared to the shareholders of the Company	24						(791,637)	(791,637)	-	**(791,637)**
Total contributions by and distributions to owners of the Company		-	-	(169,698)	(122)	-	(791,637)	(961,457)	(72,080)	(1,033,537)
Business combinations	9	-	-	-	-	-	-	-	187,502	**187,502**
Acquisition of non-controlling interest in subsidiaries	9	-	-	-	-	-	(260,924)	(260,924)	(638,865)	**(899,789)**
Effect of the Group restructuring on non-controlling interest	9	-	-	-	-	-	24,372	24,372	(24,372)	**-**
Disposal of subsidiary	15	-	-	-	-	-	-	-	55,915	**55,915**
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**(169,698)**	**(122)**	**-**	**(1,028,189)**	**(1,198,009)**	**(491,900)**	**(1,689,909)**
Balance at 31 December 2013		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**(170,541)**	**6,692,152**	**9,700,685**	**3,543,343**	**13,244,028**

* These amounts reflect adjustments made in connection with the completion of purchase price allocation (Note 9) and the adoption of the revised IAS 19 (R) (Note 5).

1 General Information

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

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

At 31 December 2013, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2012: 71.51%), including shares in form of GDRs. At 31 December 2013 and 2012, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Group

The Group's majority activities and customers are located in Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 35).

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments. The future economic and regulatory situation may differ from management's current expectations.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Further to the above refer to Note 39 which highlights subsequent events relating to the recent affairs in Ukraine where one of the Group's subsidiaries operates.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2013 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 where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3 Summary of Significant Accounting Policies (continued)

Non-controlling interests in subsidiaries are identified separately within the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income or loss is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 jointly controlled entity.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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 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.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

At 31 December 2013 and 2012, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2013	**31 December 2012**	**2013**	**2012**
1 USD = RR	32.7292	30.3727	31.9063	31.0742
1 EUR = RR	44.9699	40.2286	42.4001	39.9083
1 UAH = RR	3.9720	3.7590	3.9110	3.8432
1 BYR = RR	0.00343	0.00353	0.00358	0.00373

Accounting for the effect of inflation. Since the fourth quarter of 2011, Belorussian economy has been considered to be hyperinflationary. IAS 29, Financial Reporting in Hyperinflationary Economies, has been applied to restate the financial statements of the Group's subsidiaries based in Belorussia before they are included in these consolidated financial statements. The restatement has been calculated by means of conversion factors derived from the Belorussia Consumer Price Index (CPI) complied by the National Statistical Committee of the Republic of Belarus. The conversion factors used to restate the accompanying financial statements at 31 December 2013 were as follows:

Date	Conversion factors
31 December 2012	1.1647
31 December 2013	1.0000

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

(i) all amounts are stated in terms of the measuring unit current at 31 December 2013;

(ii) monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2013;

(iii) non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2013), equity components are restated by applying the relevant conversion factors;

(iv) property, plant and equipment are restated by applying the change in the index from the date of the transaction or, if applicable, from the date of the acquisition of subsidiary by the Group to 31 December 2013. Depreciation is based on the restated amounts;

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

(vi) all items in the cash flow statement are expressed in terms of the measuring unit current at 31 December 2013;

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

The effect of applying IAS 29 is summarized as follows: revenue increased by RR 56,845 (2012: RR 81,838), net monetary gain recognised of RR 16,698 (2012 loss: RR 25,751) (Note 31), loss for the period increased by RR 32,876 (2012: RR 46,692). Also, the restatement led to the effect on opening retained earnings in amount of RR 13,114 (31 December 2012: RR 14,955).

3 Summary of Significant Accounting Policies (continued)

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

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

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

Current and non-current assets and liabilities. The classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months after the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months after the reporting date. In 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, the management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

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

Land and construction in progress are not depreciated.

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

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

Intangible assets are amortised using the straight-line method over their useful lives, with the exception of customer relationships and 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	5-20
Licensed technology	1-18
Software licenses	1-7
Customer relationships and order backlog	2-9
Trademarks	5-16
Websites	2-10

3 Summary of Significant Accounting Policies (continued)

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 non-current 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 balance sheet.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 legislation. 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.

3 Summary of Significant Accounting Policies (continued)

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 a 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 may be small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

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

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

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

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

Past service costs are recognised immediately in profit and loss.

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

Share-based compensation. In 2011, the Group's Board of Directors awarded cash-settled share appreciation rights to certain employees (Note 25). The Group applies IFRS 2, Share-based Payments, to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for cash-settled share-based payments to employees based on the fair value of the award, subject to remeasurement at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of share-based payments is calculated by the Group using the Monte-Carlo simulation model.

The fair value of the awards granted, related to the reporting period, is recognised as a general and administration expense with a corresponding increase in other long-term payables over the vesting period. The decrease in fair value of the awards granted during the reporting period is recognised as income within general and administration expenses with a corresponding decrease in other long-term payables.

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

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

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

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

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

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and 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 owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The Group also changed the classification of revenue in compliance with changes in internal management reporting (Note 27). Additionally, revenue and expenses of Trest Sibkomplektmontazhnaladka OJSC, the Group's subsidiary, were reclassified as results of discontinued operation due to disposal of this subsidiary in December 2013 (Note 15).

The reconciliation of revenue in accordance with old and new presentation is as follows:

	2012 (before reclassification)	Reclassification due to changes in management reporting	Revenue from discontinued operations	Revenue gross-up due to disposal of SKMN	2012 (after reclassification)
Revenue from construction and design and engineering services	12,194,447	(5,075,255)	(2,471,531)	325,501	4,973,162
Sales of pumps	10,319,617	3,360,240	-	-	13,679,857
Sales of oil and gas equipment	8,311,259	163,969	(19,915)	-	8,455,313
Sales of compressor equipment	1,030,649	950,660	-	-	1,981,309
Sales of repair services for oil and gas equipment	729,372	(729,372)	-	-	-
Sales of other services and goods	1,070,300	1,329,758	(53,639)	23,827	2,370,246
Total revenue	**33,655,644**	**-**	**(2,545,085)**	**349,328**	**31,459,887**

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

The Company accounts for construction projects, design and engineering projects and certain other long-term contracts using the 'percentage-of-completion method'. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that 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 2013, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 7,010,678 (Note 19).

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

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

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

The Group plans to apply percentage of completion method to accounting for this project. At 31 December 2013, advances received in relation to this project amounted to RR 1,494,337, net of VAT, and were included in payables due to customers for construction work.

(b) Provisions for claims received and legal proceedings

In 2012, the Group had to unilaterally terminate the provision of construction services under a specific construction contract due to significant uncertainties and risks associated with the performance of this contract. At 31 December 2012, the management estimated and recognised in the consolidated financial statements those losses that were known or probable, though there was still significant uncertainty concerning potential future losses, primarily related to the Group's obligations under the aforementioned construction contract to reimburse the customer for the excess cost over the contracted price of construction work performed by other parties hired by the customer due to the Group's termination of construction services under the contract.

During 2012 and 2013, the Group had a number of lawsuits and at the same time held extensive negotiations with the customer, which led to the cancellation of all lawsuits and signing off the additional agreement in the beginning of 2014. As a result of this agreement, the Group did not recognise any additional material losses in relation to this contract.

(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 2013 would be either increase or decrease by RR 105,180 (2012: RR 79,689).

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

At 31 December 2013, the Group performed an impairment test of certain cash generating units. 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 5 years. In preparing budgets, management considered past performance as well as its projections on the respective CGU's future development and performance, including synergy effects. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs.

The key assumptions to which the calculation of value-in-use is most sensitive include WACC, revenue increase rates, operating margin rates and working capital turnover period through budgeted five-year period. If the key assumptions, used in value-in-use calculations, do not prove to be correct, certain assets, including goodwill, allocated to the respective CGU, may be subject to impairment. For more details relating to the key assumptions used as well as sensitivity analysis information refer to Note 8.

As a result of the impairment test, the Group recognised the impairment of assets of its subsidiary, Tomskgazstroy OJSC, which is mainly involved in construction and repair of gas pipelines and which belongs to the reportable segment "Engineering, procurement and construction" of the Group. This impairment was basically caused by a significant deterioration of the oil and gas construction market in 2013, through continuing decrease in margins and decrease in volume of the oil and gas construction works available for the independent contractors.

The fair value less costs to sell was determined as a recoverable amount of this CGU and was calculated by reference to an active market of relevant assets of the CGU.

Based on the results of these calculations, the Group impaired goodwill related to Tomskgazstroy OJSC for RR 16,757 (Note 8) and recognised impairment charge in relation to its property, plant and equipment for RR 224,187 (Note 6). Additionally, the Group recognised impairment of inventory of Tomskgazstroy OJSC for RR 75,869 and wrote off the accumulated deferred tax asset in amount of RR 122,306. At 31 December 2013, the recoverable amount of this CGU was approximately RR 500 million.

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

(e) Tax legislation

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

(f) Related party transactions

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

(j) Deferred income tax asset recognition

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

(h) Government grants

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash OJSC has signed cooperation agreement with the Ministry of Education and Science of the Russian Federation, under which the Group is entitled to a partial refund of capital expenditures incurred in Tyumen region of the Russian Federation (Note 22). Such reimbursements are made after supporting documents have been submitted to the relevant authority in the form of a direct grant of public funds. The grant is subject to certain conditions set for the period till 2020 inclusive, including amounts of own investments, volume of production produced by the results of development, number of jobs created and safeguarded, number of students involved in the execution of the project. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with required conditions. The management believes that the Group will be able to comply with the conditions stipulated by the agreement.

5 New Standards, Amendments and Interpretations

Certain new standards, amendments and interpretations became effective for the Group from 1 January 2013:

Amendments to IAS 1, Presentation of financial statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The amended standard resulted in changed presentation of the Group's consolidated financial statements, but did not have any impact on measurement of transactions and balances.

IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7, Financial Instruments: Disclosures. The Group provides these disclosures in Note 38.

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations (continued)

Amended IAS 19, Employee benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. IAS 19 (R) has been applied by the Group retrospectively. The material impacts of IAS 19 (R) on the Group's consolidated financial statements are as follows:

(i) Until 31 December 2012, the Group's unvested past service costs were amortised on a straight line basis over the vesting period. Upon transition to the IAS 19 (R), past service costs are recognised in profit or loss when they occur.

(ii) The adoption of the revised standard affected the presentation of financial statements as actuarial gains and losses are now recognised in other comprehensive income and permanently excluded from profit or loss for post-employment benefits. Until 31 December 2012, the Group's accounting policy was to recognise actuarial gains and losses immediately in full amount in profit or loss as they arise.

(iii) Social funds contribution or other taxes levied on benefit payments or contributions to the plan are included in the measurement of the benefit obligation.

The impact of changes in accounting policies on these consolidated financial statements was as follows:

	31 December 2012 Effect of adopting IAS 19 (R)
Retained earnings	(30,097)
Non-controlling interest	(6,805)
Total effect on equity	**(36,902)**
Pension liability – non-current portion	33,547
Pension liability – current portion	3,355
Total effect on liabilities	**36,902**

	2012 Effect of adopting IAS 19 (R)
Cost of sales	(11,302)
Distribution and transportation expenses	(301)
General and administrative expenses	(14,262)
Other comprehensive income:	
Remeasurements of post-employment benefit obligations	33,666

The effect of the change in accounting policies on the consolidated statement of cash flows was immaterial.

As the changes, resulted from the retrospective application of IAS 19 (R) did not have significant impact on the consolidated statement of financial position at 1 January 2012, the Group did not present the consolidated statement of financial position and related information in the notes as of that date.

Amendments to IFRS 7, Offsetting Financial Assets and Financial Liabilities Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group concluded that these amendments do not have any effect on its consolidated financial statements.

Amendments to IAS 12, Recovery of Underlying Assets (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012; EU effective date, annual periods beginning on or after 1 January 2013). The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment was incorporate into IAS 12 after excluding guidance regarding investment property measured at fair value. The Group concluded that these amendments do not have any effect on its consolidated financial statements.

5 New Standards, Amendments and Interpretations (continued)

Amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011; EU effective date, annual periods beginning on or after 1 January 2013). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. The amendments are not relevant to the Group.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual period beginning on or after 1 January 2013). IFRIC 20, Stripping costs in the production phase of a surface mine, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The interpretation did not have an impact on the Group’s consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”*,* retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group’s consolidated financial statements.

Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government Loans (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The amendments are not relevant to the Group.

The Group has also early adopted the following amendments to standards:

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. As a result the Group has not disclosed this information in these consolidated financial statements.

Certain new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 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).

5 New Standards, Amendments and Interpretations (continued)

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

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

The Group will adopt IFRS 10, IFRS 11, IFRS 12 and revised IAS 27 from 1 January 2014. The adoption is not expected to have a material impact on the Group's financial position or operations but will require additional disclosures to be presented in the consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date, annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group does not expect that the adoption of this amendment will have any material impact on its consolidated financial statements.

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

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

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

Amendments to IAS 32*, *Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

5 New Standards, Amendments and Interpretations (continued)

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013; EU effective date, annual periods beginning on or after 1 January 2014). The amendments clarify the transition guidance in IFRS 10, Consolidated Financial Statements*.* Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 21, Levies* (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

5 New Standards, Amendments and Interpretations (continued)

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

6 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 2012	**264,526**	**4,784,421**	**3,363,785**	**251,789**	**435,831**	**848,309**	**9,948,661**
Additions	16	124,523	605,772	47,162	112,405	651,030	1,540,908
Transfers	-	83,013	113,646	-	20,324	(216,983)	-
Acquisitions through business combinations (Note 9)	1,179,527	3,357,065	866,067	9,715	72,568	52,058	5,537,000
Effect of hyperinflation on profit or loss	-	26,645	46,394	1,653	7,332	-	82,024
Disposals	-	(26,870)	(29,542)	(6,330)	(26,122)	(20,547)	(109,411)
Translation to presentation currency	(1,562)	(28,321)	(55,134)	(1,422)	(5,162)	(20,295)	(111,896)
Balance at 31 December 2012	**1,442,507**	**8,320,476**	**4,910,988**	**302,567**	**617,176**	**1,293,572**	**16,887,286**
Additions	15,520	172,867	460,536	30,018	93,018	698,486	1,470,445
Transfers	-	381,629	635,723	-	32,052	(1,049,404)	-
Acquisitions through business combinations (Note 9)	24,936	122,860	32,706	2,394	7,386	6,274	196,556
Effect of hyperinflation on profit or loss	-	21,855	50,366	1,636	7,542	-	81,399
Disposal of subsidiaries (Note 15)	(38,333)	(427,069)	(387,786)	(31,044)	(25,947)	(1,290)	(911,469)
Disposals	(2,203)	(69,993)	(94,763)	(19,059)	(42,350)	(30,185)	(258,553)
Translation to presentation currency	3,727	27,008	46,414	638	5,527	22,510	105,824
Balance at 31 December 2013	**1,446,154**	**8,549,633**	**5,654,184**	**287,150**	**694,404**	**939,963**	**17,571,488**
Accumulated depreciation and impairment							
Balance at 1 January 2012	**-**	**(432,105)**	**(953,849)**	**(122,898)**	**(213,497)**	**(507)**	**(1,722,856)**
Effect of hyperinflation on profit or loss	-	(1,884)	(9,420)	(282)	(674)	-	(12,260)
Eliminated on disposals	-	5,627	11,031	5,814	23,455	-	45,927
Depreciation expense	-	(251,378)	(396,156)	(35,454)	(113,905)	-	(796,893)
Translation to presentation currency	-	2,564	9,815	476	1,446	-	14,301
Balance at 31 December 2012		**(677,176)**	**(1,338,579)**	**(152,344)**	**(303,175)**	**(507)**	**(2,471,781)**
Effect of hyperinflation on profit or loss	-	(2,408)	(12,688)	(413)	(2,174)	-	(17,683)
Eliminated on disposals	-	9,641	59,310	8,169	33,448	393	110,961
Depreciation expense	-	(343,595)	(558,556)	(38,302)	(111,348)	-	(1,051,801)
Impairment charge	(7,993)	(63,781)	(146,286)	(1,593)	(4,534)	-	(224,187)
Disposal of subsidiaries (Note 15)	-	-	102,283	175,115	16,440	16,892	310,730
Translation to presentation currency	-	(2,896)	(7,519)	(312)	(1,720)	-	(12,447)
Balance at 31 December 2013	**(7,993)**	**(1,080,215)**	**(1,902,035)**	**(9,680)**	**(373,063)**	**16,778**	**(3,356,208)**
Carrying amount							
Carrying amount at 1 January 2012	**264,526**	**4,352,316**	**2,409,936**	**128,891**	**222,334**	**847,802**	**8,225,805**
Carrying amount at 31 December 2012	**1,442,507**	**7,643,300**	**3,572,409**	**150,223**	**314,001**	**1,293,065**	**14,415,505**
Carrying amount at 31 December 2013	**1,438,161**	**7,469,418**	**3,752,149**	**277,470**	**321,341**	**956,741**	**14,215,280**

At 31 December 2013, the Group's property, plant and equipment for a total of RR 579,916 had been pledged as security for certain borrowings (31 December 2012: RR 1,667,752), including RR 164,882 related to undrawn credit facilities (31 December 2012: RR 346,422) (Note 16).

Construction-in-progress includes advances for capital expenditures for a total of RR 148,456 at 31 December 2013 (31 December 2012: RR 121,219).

At 31 December 2013, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 270,915 (31 December 2012: RR 367,748).

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 five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 8. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

(in thousands of Russian Roubles, unless otherwise stated)

6 Property, Plant and Equipment (continued)

Based on the results of impairment tests the Group recognised an impairment of property, plant and equipment of Tomskgazstroy OJSC in amount of RR 224,187 at 31 December 2013 and for the year then ended (at 31 December 2012 and for the year then ended: no impairment charge).

7 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 2012	**8,998**	**27,620**	**80,764**	**507,628**	**90,862**	**1,293**	**717,165**
Additions	3,172	19,147	56,813	-	58	-	79,190
Acquisitions through business combinations (Note 9)	96,861	-	21,591	402,507	106,780	-	627,739
Disposals	(519)	(11,124)	(23,932)	-	-	(12)	(35,587)
Translation to presentation currency	1,308	(368)	(848)	3,869	(569)	(4)	3,388
Balance at 31 December 2012	**109,820**	**35,275**	**134,388**	**914,004**	**197,131**	**1,277**	**1,391,895**
Additions	14,573	27,403	44,584	-	56	86	86,702
Acquisitions through business combinations (Note 9)	417,760	14,889	-	281,282	-	-	713,931
Disposal of subsidiaries (Note 15)	-	-	(58)	-	-	-	(58)
Disposals	(4,066)	(7,816)	(35,859)	-	-	(69)	(47,810)
Translation to presentation currency	11,811	962	921	26,436	487	(1)	40,616
Balance at 31 December 2013	**549,898**	**70,713**	**143,976**	**1,221,722**	**197,674**	**1,293**	**2,185,276**
Accumulated amortisation and impairment							
Balance at 1 January 2012	**(3,663)**	**(11,477)**	**(30,832)**	**(156,922)**	**(16,066)**	**(334)**	**(219,294)**
Amortisation on disposals	519	9,094	21,811	-	-	2	31,426
Amortisation expense	(8,736)	(9,776)	(35,161)	(174,348)	(20,997)	(172)	(249,190)
Translation to presentation currency	120	118	311	(15)	76	-	610
Balance at 31 December 2012	**(11,760)**	**(12,041)**	**(43,871)**	**(331,285)**	**(36,987)**	**(504)**	**(436,448)**
Amortisation on disposals	1,504	6,971	34,610	-	2,556	69	45,710
Amortisation expense	(66,563)	(9,958)	(43,943)	(187,553)	(30,942)	(142)	(339,101)
Disposal of subsidiaries (Note 15)	-	-	31	-	-	-	31
Translation to presentation currency	(1,863)	(209)	(298)	(5,271)	(112)	1	(7,752)
Balance at 31 December 2013	**(78,682)**	**(15,237)**	**(53,471)**	**(524,109)**	**(65,485)**	**(576)**	**(737,560)**
Carrying amount							
Carrying amount at 1 January 2012	**5,335**	**16,143**	**49,932**	**350,706**	**74,796**	**959**	**497,871**
Carrying amount at 31 December 2012	**98,060**	**23,234**	**90,517**	**582,719**	**160,144**	**773**	**955,447**
Carrying amount at 31 December 2013	**471,216**	**55,476**	**90,505**	**697,613**	**132,189**	**717**	**1,447,716**

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	2013	**2012**
Gross book value	5,305,991	2,476,724
Accumulated impairment	(116,998)	(116,998)
Carrying amount at 1 January	**5,188,993**	**2,359,726**
Acquisitions of subsidiaries (Note 9)	-	2,819,151
Disposal of subsidiaries (Note 15)	(95,691)	-
Impairment of goodwill	(16,757)	-
Effect of translation to presentation currency	69,185	10,116
Carrying amount at 31 December	**5,145,730**	**5,188,993**
Gross book value	5,184,604	5,305,991
Accumulated impairment	(38,874)	(116,998)
Carrying amount at 31 December	**5,145,730**	**5,188,993**

(in thousands of Russian Roubles, unless otherwise stated)

8 Goodwill (continued)

Goodwill is allocated to cash generating units, 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 2013	31 December 2012
Kazankompressormash OJSC (Note 9)	2,242,341	2,242,341
Giprotyumenneftegaz OJSC ("GTNG")*	1,481,442	1,481,442
Apollo Goessnitz GmbH (Note 9)	656,111	586,926
Sibneftemash OJSC	511,784	511,784
EPF "SIBNA" Inc. OJSC	117,308	117,308
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Dimitrovgradkhimmash OJSC	64,027	64,027
Trest Sibkomplektmontazhnaladka OJSC (Note 15)	-	95,691
Tomskgazstroy OJSC	-	16,757
Total carrying amount of goodwill	**5,145,730**	**5,188,993**

* 25% of the goodwill arisen on the acquisition of GTNG relates to the synergies with Oil and gas equipment segment of the Group.

The recoverable amount of each CGU was determined based on value-in-use calculations, with the exception of Tomskgazstroy OJSC CGU, for which the recoverable amount was determined based on the fair value less costs to sell (Note 4). These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year 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.

Based on the results of impairment tests the Group recognised impairment of goodwill of Tomskgazstroy OJSC at 31 December 2013 and for the year then ended for a total amount of RR 16,757 (31 December 2012: no impairment of goodwill). Refer to Note 4.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	31 December 2013	31 December 2012
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%	13.5%
For other CGUs:		
Forecast period	5 years	5 years
Growth rate beyond 5 years	3.0%	3.0%
Pre-tax discount rate	19.4-19.8%	12.8-17.9%

9 Business Combinations

Acquisition of NIITurbokompressor named after V.B.Shnepp CJSC

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

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

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

A gain of RR 843,941, representing the amount of the Group's share in the fair value of net assets acquired in excess of the acquisition cost, has been recorded in the consolidated statement of profit or loss and other comprehensive income. This excess amount resulted from the Group's strong negotiating position with the selling shareholders, which, among other factors, was due to the Group's dominant position as a main customer of the acquired company, resulting from KKM's acquisition in June-July 2012.

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

Acquisition of Noyabrskneftegazproekt LLC

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

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

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

Acquisition of Kazankompressormash OJSC

In 2012, in a series of transactions the Group acquired 77.80% of ordinary shares in Kazankompessormash OJSC ("KKM") for RR 5,524,510 paid in cash. The Group acquired control over Kazankompessormash OJSC in July 2012. Based on the acquired entity's share capital structure, 77.80% of ordinary shares represented the effective interest of 74.35% of its total equity. The acquired entity, located in Kazan, is one of the leading manufacturer of centrifugal and screw compressors in Russia.

The acquired company contributed revenue of RR 1,426,253 and loss after income tax of RR 93,553 to the Group for the period from the date of acquisition to 31 December 2012. Had the acquisition occurred on 1 January 2012, the revenue from the acquired business would have been RR 3,065,909 and loss after income tax would have been RR 100,531 for the year ended 31 December 2012.

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The purchase price allocation was finalised within 12 months after the acquisition of control over Kazankompessormash OJSC and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition	Final value at the date of acquisition
Property, plant and equipment	5,266,711	5,266,711
Other intangible assets	19,971	309,502
Other long-term receivables	3,459	3,459
Inventories	630,582	597,976
Trade and other receivables and other financial assets	801,529	801,482
Cash and cash equivalents	2,742	2,742
Deferred income tax liability	(824,460)	(875,836)
Pension liability – non-current portion	(48,077)	(57,898)
Other long-term payables	(5,195)	(5,195)
Trade and other payables	(1,241,440)	(1,241,440)
Short-term borrowings	(267,446)	(267,446)
Short-term provisions for liabilities and charges	(31,812)	(31,812)
Other taxes payable	(78,464)	(78,464)
Pension liability – current portion	(11,036)	(9,283)
Fair value of net assets	**4,217,064**	**4,414,498**
Less: Non-controlling interest	(1,081,687)	(1,132,329)
Fair value of acquired interest in net assets	**3,135,377**	**3,282,169**
Goodwill	2,389,133	2,242,341
Total purchase consideration	**5,524,510**	**5,524,510**
Less: cash and cash equivalents acquired in a business combination	(2,742)	(2,742)
Outflow of cash and cash equivalents on acquisition	**5,521,768**	**5,521,768**

Acquisition of Apollo Goessnitz GmbH

In August 2012, the Group acquired 75% in Apollo Goessnitz GmbH for purchase consideration of EUR 25 million (RR 988,383). Apollo Goessnitz GmbH is the worldwide operating manufacturer of centrifugal pumps and system equipment, located in Goessnitz (Thuringia), Germany.

The acquired company contributed revenue of RR 485,707 and profit after income tax of RR 37,089 to the Group for the period from the date of acquisition to 31 December 2012. Had the acquisition occurred on 1 January 2012, the revenue from the acquired business would have been RR 842,356 and profit after income tax would have been RR 23,965 for the year ended 31 December 2012.

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

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Purchase price allocation for the acquisition is as follows:

(in thousands of Russian Roubles, unless otherwise stated)

9 Business Combinations (continued)

	Fair value at the date of acquisition
Property, plant and equipment	270,289
Other intangible assets	318,238
Other long-term receivables	2,713
Inventories	190,329
Trade and other receivables and other financial assets	262,112
Cash and cash equivalents	26,124
Long-term borrowings	(145,776)
Deferred income tax liability	(125,664)
Finance lease liability – non-current portion	(12,954)
Trade and other payables	(191,132)
Short-term provisions for liabilities and charges	(9,995)
Finance lease liability – current portion	(7,299)
Other taxes payable	(28,225)
Fair value of net assets	**548,760**
Less: Non-controlling interest	(137,187)
Fair value of acquired interest in net assets	**411,573**
Goodwill	576,810
Total purchase consideration	**988,383**
Less: cash and cash equivalents acquired in a business combination	(26,124)
Outflow of cash and cash equivalents on acquisition	**962,259**

The goodwill is primarily attributable to the profitability of the acquired business as well as to synergy expected to be realised in relation to the Group's production of industrial pumps.

At the date of acquisition of 75% share in Apollo Goessnitz GmbH, the Group also entered into call and put options agreement, under which the Group has a right to acquire the remaining 25% share in Apollo Goessnitz GmbH, while the holders of this non-controlling interest have the right to sell it to the Group (Notes 22, 38).

Acquisition of non-controlling interest in subsidiary

At the date of its acquisition by the Group, NIITK had 14.98% share in Kazankompressormash OJSC, consequently, as a result of this acquisition, the Group increased its ownership interest in Kazankompressormash OJSC from 74.35% to 89.33% decreasing the non-controlling interest by RR 635,533.

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

On 25 May 2012, the Group acquired an additional 0.02% interest in Nasosenergomash OJSC for RR 43, paid in cash. As a result of this transaction, the Group increased its ownership interest in Nasosenergomash OJSC from 83.31% to 83.33% decreasing the non-controlling interest by RR 298.

In December 2012, the Group acquired an additional 0.02% interest in Sibneftemash OJSC for RR 382, paid in cash. As a result of this transaction, the Group increased its ownership interest in Sibneftemash OJSC from 98.59% to 98.61% decreasing the non-controlling interest by RR 187.

Payment for share in Dimitrovgradkhimmash OJSC

In January 2012, the Group paid cash of RR 205,940 for 11% share in Dimitrovgradkhimmash OJSC, acquired at the end of December 2011. Following this acquisition, the Group obtained control over Dimitrovgradkhimmash OJSC by increasing its share from 40% to 51%.

(in thousands of Russian Roubles, unless otherwise stated)

10 Investments in Associates

The Group's investments in associates are as follows:

	2013	2012
Carrying amount at 1 January	**124,963**	**129,805**
Dividends	-	-
Share of after tax results of associates	(2,269)	443
Effect of other changes, including translation to presentation currency	4,729	(5,285)
Carrying amount at 31 December	**127,423**	**124,963**

At 31 December 2013, the Group owned 47.47% 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. At the end of March 2013, the Group acquired 0.29% of ordinary shares in VNIIAEN OJSC for RR 131 paid in cash, increasing its share in associate from 47.18% to 47.47%.

The table below summarises financial information of VNIIAEN OJSC:

	Total assets	Total liabilities	Revenue	Loss after tax
At 31 December 2013 and for the year then ended	198,085	(22,531)	76,402	(4,780)
At 31 December 2012 and for the year then ended	196,608	(25,286)	66,625	939

Investments in associates at 31 December 2013 include goodwill of RR 44,088 (31 December 2012: RR 44,088).

At 31 December 2013, after the disposal of controlling share in Trest Sibkomplektmontazhnaladka OJSC (Note 15), the Group held a direct non-controlling share in Trest Sibkomplektmontazhnaladka OJSC of 32.71%, which corresponded to effective share of 15.01%. As of 31 December 2013, the Group's management impaired this remaining interest in Trest Sibkomplektmontazhnaladka OJSC in full amount, as the management concluded that no economic benefits will be obtained by the Group from this investment.

11 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2013	31 December 2012
Cash on hand	1,539	2,076
RR denominated balances with banks	513,404	344,850
Foreign currency denominated balances with banks	462,934	52,165
RR denominated bank deposits	477,273	835,837
Foreign currency denominated bank deposits	114,791	108,848
Other cash equivalents	14,281	2,306
Total cash and cash equivalents	**1,584,222**	**1,346,082**

At 31 December 2013, the closing balance of short-term bank deposits denominated in RR comprised short-term bank deposits in three banks with 3.0-10.5% annual interest rate (31 December 2012: 2.5-10.5% – three banks).

At 31 December 2013, the closing balance of short-term bank deposits denominated in foreign currency comprised short-term bank deposits in one bank (31 December 2012: four banks). Annual interest rate of short-term bank deposits denominated in UAH was 14.0-17.0% (31 December 2012: 9.6% in USD, 10.0-18.5% in UAH and 30.0% in BYR).

Restricted cash. Restricted cash of RR 8,055 (31 December 2012: RR 56,385) represents minimum balances for settlement, corporate plastic cards accounts and letters of credit.

12 Inventories

	31 December 2013	31 December 2012
Raw materials and supplies	2,536,327	3,237,899
Work in progress	1,675,233	1,961,110
Finished goods and goods for resale	1,578,425	1,883,357
Provision for obsolete inventories	(313,749)	(256,367)
Total inventories	**5,476,236**	**6,825,999**

At 31 December 2013, inventories of RR 65,273 were pledged as collateral for certain borrowings (31 December 2012: RR 327,038, including RR 205,059 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 28.

(in thousands of Russian Roubles, unless otherwise stated)

13 Trade and Other Receivables and Other Financial Assets

	31 December 2013	31 December 2012
Trade receivables	5,705,736	4,740,651
Less: provision for impairment of trade receivables	(192,459)	(121,928)
Short-term loans issued	107,228	16,369
Bank promissory notes receivable	-	74,421
Bank deposits	285,526	404,193
Other receivables	420,544	96,854
Less: provision for impairment of other receivables	(10,095)	(11,689)
Receivable due from customers for construction work (Note 19)	1,487,658	1,894,968
Less: provision for receivable due from customers for construction work	-	(95,560)
Financial assets within trade and other receivables, net	**7,804,138**	**6,998,279**
Prepayments and advances to suppliers and subcontractors	1,172,729	1,695,757
Less: provision for impairment of advances to suppliers	(38,697)	(77,276)
VAT receivable	1,419,227	1,693,674
Less: provision for VAT receivable	(6,987)	(14,937)
Other taxes receivable	17,361	17,729
Non-financial assets within other receivables, net	**2,563,633**	**3,314,947**
Total trade and other receivables and other financial assets	**10,367,771**	**10,313,226**

Included in VAT receivable at 31 December 2013 is VAT related to advances received from customers in amount of RR 834,353 (31 December 2012: RR 1,248,771). This amount will be recovered as goods, work and services are provided after the reporting date. Also, VAT receivable includes export tax which will reduce VAT payable to the state budget after confirmation from tax authorities is received after the reporting date.

At 31 December 2013, short-term bank deposits and trade receivables arising from certain sales contracts in amount of RR 7,645 (31 December 2012: RR 13,067) and RR 218,600 (31 December 2012: RR 392,099), respectively, were pledged as collateral for certain borrowings (Note 16).

At 31 December 2013, trade receivables of RR 192,459 (31 December 2012: RR 121,928) and other financial receivables of RR 10,095 (31 December 2012: RR 107,249) 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 provision for impairment of financial assets within trade and other receivables are presented below:

	2013		2012	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment of financial assets at 1 January	**121,928**	**107,249**	**96,481**	**108,765**
Provision for receivables impairment	88,681	5,100	25,561	-
Unused amounts reversed	-		-	(1,514)
Disposal of subsidiaries	(18,167)	(102,254)	-	-
Effect of translation to presentation currency	17	-	(114)	(2)
Provision for impairment of financial assets at 31 December	**192,459**	**10,095**	**121,928**	**107,249**

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

	2013	2012
Provision for impairment of non-financial assets at 1 January	**92,213**	**49,152**
Provision for receivables impairment	85,511	44,752
Unused amounts reversed	(8,663)	-
Disposal of subsidiaries	(125,101)	-
Effect of translation to presentation currency	1,724	(1,691)
Provision for impairment of non-financial assets at 31 December	**45,684**	**92,213**

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

	31 December 2013	31 December 2012
RR	7,118,259	6,528,945
USD	392,841	221,872
EUR	261,741	217,666
BYR	20,698	13,562
UAH	10,599	16,234
Total financial assets within trade and other receivables	**7,804,138**	**6,998,279**

(in thousands of Russian Roubles, unless otherwise stated)

14 Other Long-term Receivables

	31 December 2013	31 December 2012
Long-term loans issued	337,630	34,776
Long-term bank deposits	30,300	114,928
Financial assets within other long-term receivables	**367,930**	**149,704**
Other non-current assets	7,193	5,530
Non-financial assets within other long-term receivables	**7,193**	**5,530**
Total other long-term receivables	**375,123**	**155,234**

15 Discontinued Operations

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

The results of discontinued operations were as follows:

	2013	2012
Revenue	1,647,208	2,545,085
Expenses	(1,861,305)	(2,574,840)
Loss before income tax	(214,097)	(29,755)
Income tax expense	42,732	(467)
Loss net of tax	**(171,365)**	**(30,222)**
Net loss on disposal	(745,990)	-
Loss for the period	**(917,355)**	**(30,222)**
Attributable to:		
Shareholders of the Company	(904,203)	(9,616)
Non-controlling interest	(13,152)	(20,606)

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

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

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2013	31 December 2012
Long-term unsecured bank loans and bonds:					
Bonds 1	10.10%	RR	January 2018	2,992,598	-
Bonds 2	10.75%	RR	February 2015	2,992,403	2,985,608
Unsecured loan 1	10.05%	RR	September 2018	1,830,000	-
Unsecured loan 2	10.20%	RR	December 2016	1,200,000	-
Unsecured loan 3	5.00%	EUR	December 2019	1,169,217	1,045,944
Unsecured loan 4	9.50%	RR	May 2015	543,558	1,259,732
Unsecured loan 5	LIBOR+5.60%	USD	October 2015	515,527	148,107
Unsecured loan 6	9.95%	RR	August 2016	296,242	-
Unsecured loan 7	10.50%	RR	August 2015	17,000	-
Unsecured loan 8	EURIBOR+3.75%	EUR	June 2014	14,653	14,388
Unsecured loan 9	10.65%	RR	-	-	2,996,000
Unsecured loan 10	8.55%	RR	-	-	2,234,457
Unsecured loan 11	11.00%	RR	-	-	343,180
Unsecured loan 12	11.05%	RR	-	-	150,000
Unsecured loan 13	10.95%	RR	-	-	150,000
Other unsecured loans 14	11.00%	USD	February 2014-September 2015	34,910	38,158
				11,606,108	**11,365,574**
Long-term secured bank loans:					
Secured loan 15	EURIBOR+3.79%	EUR	December 2014	181,777	151,724
Secured loan 16	10.00%	USD	December 2015	36,722	8,596
Secured loan 17	EURIBOR+6.00%	EUR	March 2016	12,979	16,411
Secured loan 18	EURIBOR+5.00%	EUR	February 2014	12,112	32,817
Secured loan 19	11.50%	USD	September 2015	10,767	-
Secured loan 20	EURIBOR+6.00%	EUR	August 2014	3,699	6,682
Secured loan 21	8.50%	RR	-	-	103,682
Secured loan 22	10.00%	USD	-	-	35,160
Other secured loans 23	12.00%-16.00%	RR	-	-	12,528
Other secured loans 24	10.00%	USD	-	-	6,678
				258,056	**374,278**
Less: current portion of long-term borrowings				(342,208)	(520,019)
Total long-term borrowings				**11,521,956**	**11,219,833**

	Interest rate	Denominated in	31 December 2013	31 December 2012
Short-term unsecured loans:				
Unsecured bank loan 1	11.00%	RR	350,000	349,000
Unsecured bank loan 2	9.80%	RR	140,000	-
Unsecured bank loan 3	11.00%	RR	25,000	-
Unsecured bank loan 4	10.55%	RR	-	420,823
Unsecured bank loan 5	11.00%	RR	-	200,000
Unsecured bank loan 6	10.00%	RR	-	105,000
Unsecured bank loan 7	10.00%	RR	-	100,000
Unsecured bank loan 8	8.00%	RR	-	100,000
Unsecured bank loan 9	11.00%	RR	-	50,000
Unsecured bank loan 10	11.00%	RR	-	37,000
Other unsecured loans 11	0.00%-10.50%	RR, EUR	4,962	9,187
			519,962	**1,371,010**
Short-term secured bank loans:				
Secured loan 12	11.50%	USD	27,732	-
Secured loan 13	14.10%	RR	10,335	-
Secured loan 14	11.50%	USD	6,525	6,057
Secured loan 15	16.50%	RR	4,771	4,783
Secured loan 16	52.00%	BYR	3,419	-
Secured loan 17	10.50%	RR	-	70,000
Secured loan 18	10.68%	RR	-	50,000
Secured loan 19	6.28%	USD	-	13,759
			52,782	**144,599**
Current portion of long-term borrowings			342,208	520,019
Interest payable			249,688	154,892
Total short-term borrowings			**1,164,640**	**2,190,520**

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings (continued)

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

	31 December 2013	31 December 2012
RR	10,655,288	11,885,254
EUR	1,394,941	1,268,395
USD	632,834	256,704
BYR	3,533	-
Total borrowings	**12,686,596**	**13,410,353**

In February 2012, HYDROMASHSERVICE CJSC, the Group's subsidiary, issued RR 3,000,000 of bonds through RTS-MICEX, bearing semi-annual coupon at 10.75% per annum, repayable in February 2015. HMS Hydraulic Machines & Systems Group plc, the parent company of the Group, and HMS Pumps OJSC, the subsidiary of the Group, issued guarantees in respect of these bonds. At 31 December 2013, the outstanding amount was RR 2,992,403 (31 December 2012: RR 2,985,608), net of unamortised transaction costs of RR 7,597 (31 December 2012: RR 14,392).

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

At 31 December 2013, the Group pledged property, plant and equipment, inventories and short-term bank deposits in total amount of RR 579,916, RR 65,273 and RR 7,645 (31 December 2012: RR 1,667,752, RR 121,979 and RR 13,067), respectively.

At 31 December 2013 and 2012, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2013, the Group recognised trade receivables under these sales contracts in amount of RR 218,600 (31 December 2012: RR 392,099).

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

At 31 December 2013 and 2012, the fair value of long-term and short-term borrowings approximated their carrying amount.

The Group has not entered into any hedging agreements in respect of its foreign currency obligations or interest rate.

17 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 12.01% at 31 December 2013 (31 December 2012: 13.15%) and are effectively collateralised by the leased assets, as the assets revert to the lessor in the event of default.

	Minimum lease payments at 31 December		Discounted value of minimum lease payments at 31 December	
	2013	**2012**	**2013**	**2012**
Finance lease payable:				
Not later than 1 year	10,372	9,373	9,489	7,568
Later than 1 year and not later than 5 years	1,909	10,961	1,799	10,072
Total	**12,281**	**20,334**	**11,288**	**17,640**
Future finance charges on finance lease	(993)	(2,694)	-	-
Present value of liabilities	**11,288**	**17,640**	**11,288**	**17,640**
Short-term finance lease liabilities		**-**	**9,489**	**7,568**
Long-term finance lease liabilities		**-**	**1,799**	**10,072**

(in thousands of Russian Roubles, unless otherwise stated)

18 Retirement Benefit Obligations

The entities within the Group provide post-employment and other long-term payments of a defined benefit nature to its 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.

Liability arisen from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using Projected Unit Credit Method as required by IAS 19, Employee Benefits. Assumptions were determined based on market conditions as at statement of financial position dates.

The following assumptions were used for the actuarial assessment at 31 December 2013 and 2012:

	31 December 2013	31 December 2012
Discount rate	8.0%	7.0%
Inflation	5.1%	5.6%
Expected annual increase in salaries	6.7%	6.7%
Mortality	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognised in profit or loss:

	2013	2012*
Service cost	(36,408)	40,822
Current service cost	*27,629*	*24,765*
Past service cost and gain from curtailment of plans	*(64,037)*	*16,057*
Interest expense	40,428	36,814
Net actuarial (gain)/loss on other long-term employment benefit obligations	(1,031)	7,424
Net monetary loss	44	379
Net periodic benefit expense	**3,033**	**85,439**

* Amounts for the year ended 31 December 2012 reflect adjustments made in connection with the adoption of IAS 19 (R) (Note 5).

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 2012	**364,279**	**23,358**	**387,637**
Current service cost	20,917	3,848	24,765
Interest expense	34,876	1,938	36,814
Past service cost	11,322	4,735	16,057
Benefits paid	(23,404)	(7,144)	(30,548)
Liabilities acquired in business combinations (Note 9)	58,841	8,340	67,181
Effect of translation to presentation currency	(7,125)	(100)	(7,225)
Remesuarements, including:	33,666	7,424	41,090
actuarial loss from changes in financial assumptions	*50,021*	*3,385*	*53,406*
experience (gain)/loss	*(16,355)*	*4,039*	*(12,316)*
Present value of defined benefit obligations at 31 December 2012	**493,372**	**42,399**	**535,771**
Current service cost	21,698	5,931	27,629
Interest expense	37,732	2,696	40,428
Past service cost and gain from curtailment of plans	(61,315)	(2,722)	(64,037)
Benefits paid	(38,690)	(6,205)	(44,895)
Liabilities acquired in business combinations (Note 9)	43,218	339	43,557
Effect of translation to presentation currency	6,049	-	6,049
Remeasurements, including:	(31,276)	(1,031)	(32,307)
actuarial loss from changes in demographic assumptions	*986*	-	*986*
actuarial gain from changes in financial assumptions	*(46,352)*	*(2,827)*	*(49,179)*
experience loss	*14,090*	*1,796*	*15,886*
Present value of defined benefit obligations at 31 December 2013	**470,788**	**41,407**	**512,195**

* Amounts for the year ended 31 December 2012 reflect adjustments made in connection with the adoption of IAS 19 (R) (Note 5).

(in thousands of Russian Roubles, unless otherwise stated)

18 Retirement Benefit Obligations (continued)

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 2013	31 December 2012*
Short-term	69,869	54,740
Long-term	442,326	481,031
Present value of defined benefit obligations at the end of the year	**512,195**	**535,771**

* Amounts reflect adjustments made in connection with the adoption of IAS 19 (R) (Note 5).

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

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

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

The weighted average duration of the defined benefit obligations was 9 years at 31 December 2013 (31 December 2012: 9 years).

The expected contributions under voluntary pension programs in 2014 are expected in the amount close to RR 69,869.

For the year ended 31 December 2013, mandatory social contributions in relation to the continuing operations amounted to RR 1,848,127 (2012: RR 1,644,703).

19 Construction Contracts

During 2013 and 2012, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

	2013	2012
Construction contracts revenue	7,010,678	10,048,279
Contract cost expensed	(5,617,603)	(7,339,141)
Gross margin	**1,393,075**	**2,709,138**

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 2013**	**31 December 2012**
Aggregate amount of contract cost incurred	5,502,655	8,706,306
Aggregate amount of recognised profits	1,661,799	1,680,870
Aggregate amount of recognised losses	(185,185)	(137,941)
Less: Progress billings	(5,491,611)	(8,354,267)
Gross amount due from customers for contract work	**1,487,658**	**1,894,968**

Contracts with net amount owed by the Group	**31 December 2013**	**31 December 2012**
Aggregate amount of contract cost incurred	4,284,662	14,974,852
Aggregate amount of recognised profits	2,506,263	6,013,911
Aggregate amount of recognised losses	(6,215)	(253,739)
Less: Progress billings	(9,160,363)	(21,178,935)
Gross amount due to customers for contract work	**(2,375,653)**	**(443,911)**

	31 December 2013	31 December 2012
Advances from customers, related to construction contracts	238,539	749,683
Retentions	166,131	243,546

(in thousands of Russian Roubles, unless otherwise stated)

20 Trade and Other Payables

	31 December 2013	31 December 2012
Trade payables	2,342,452	2,764,033
Other payables	105,181	123,112
Financial trade and other payables	**2,447,633**	**2,887,145**
Advances from customers	2,553,279	3,911,273
VAT on advances from customers included in receivables due from/payables due to customers for construction work	652,151	582,902
Payables due to customers for construction work (Note 19)	2,375,653	443,911
Wages and salaries payable	852,083	969,976
Other non-financial payables	**6,433,166**	**5,908,062**
Total trade and other payables	**8,880,799**	**8,795,207**

21 Other Taxes Payable

	31 December 2013	31 December 2012
VAT	861,546	665,753
Social funds contribution	140,657	152,026
Personal income tax	58,035	56,105
Property tax	15,590	18,124
Land tax	3,388	3,341
Transport tax	2,065	2,613
Other taxes	802	1,147
Total other taxes payable	**1,082,083**	**899,109**

Included in VAT payable at 31 December 2013 is VAT related to advances paid to suppliers and subcontractors in amount of RR 127,828 (31 December 2012: RR 347,563).

22 Other Long-term Payables

	31 December 2013	31 December 2012
Redemption liability (Note 9, 38)	284,076	320,903
Deferred income	60,000	-
Liability on incentive plan (Note 25)	-	2,250
Other long-term payables	28,567	2,682
Total other long-term payables	**372,643**	**325,835**

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash OJSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project for development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. The project is realised together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash OJSC is expected to receive from the Federal budget the funds in amount of RR 150,000 for realisation of this project; additionally, not less than RR 150,000 should be invested by the Group. At 31 December 2013, the Group obtained government grants in amount of RR 60,000 and recognised them in deferred income.

23 Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2012	**94,654**	**31,352**	**47,745**	**19,125**
Additional provisions	-	15,311	112,262	-
Unused amounts reversed	(1,693)	-	-	(2,882)
Effect of translation to presentation currency	(274)	-	(130)	-
Business combinations	27,958	-	2,642	-
At 31 December 2012	**120,645**	**46,663**	**162,519**	**16,243**
Additional provisions	8,419	11,787	-	-
Unused amounts reversed	-	-	(78,516)	(16,243)
Effect of translation to presentation currency	822	-	78	-
Disposal of subsidiaries	(10,396)	-	(2,574)	-
At 31 December 2013	**119,490**	**58,450**	**81,507**	**-**

(in thousands of Russian Roubles, unless otherwise stated)

23 Provisions for Liabilities and Charges (continued)

Warranty. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 177,940 has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns (31 December 2012: RR 167,308).

Legal claims. The balance at 31 December 2013 is expected to be utilised by the end of 2014. 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.

24 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 01 January 2012	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**-**
During 2012	-	-	-	-	(31,507)
At 31 December 2012	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(31,507)**
During 2013	-	-	-	-	(169,698)
At 31 December 2013	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(201,205)**

At 31 December 2013 and 2012, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

Treasury shares. During 2013, 1,641,139 GDRs of the Company representing 1.40% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 177,331 (2012: 244,385 GDRs for a total consideration of RR 31,507). The voting and dividend rights of these GDRs are suspended.

During 2013, 66,080 GDRs of the Company representing 0.06% of its issued share capital were sold by a wholly-owned subsidiary of the Group for a total consideration of RR 7,511 (2012: no treasury shares sold).

At 31 December 2013, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (2012: 244,385) of its own GDRs for a total cost of RR 201,205 thousand (2012: RR 31,507 thousand).

Dividends. No interim dividends were declared by the Board of Directors during the year ended 31 December 2013.

At the Annual General Meeting, the Company's shareholders will consider a 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 399,527, 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 2014.

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

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

For the years ended 31 December 2013 and 2012, earnings per share are calculated as follows:

	2013	2012
Profit for the year attributable to ordinary shareholders	1,041,801	2,097,834
Weighted average number of ordinary shares outstanding (thousands)	115,887	117,129
Basic and diluted earnings per ordinary share (expressed in RR per share)	**8.99**	**17.91**

(in thousands of Russian Roubles, unless otherwise stated)

25 Share-based Compensation

In 2011, the Group established an incentive plan (the "Plan") for executive directors and senior employees of the Group in which the grant of share appreciation rights up to 2,577,595 shares (the "Bonus Fund") was approved.

In accordance with the Plan terms, the distribution of the Bonus Fund to qualifying participants was expected to be made in four tranches for 25% portion of the Bonus Fund to be distributed in each tranche. The number of awards to which a qualifying participant is entitled to, in relation to the first and the second 25% portions of the Bonus Fund, was determined by the Board of Directors in December 2011 and September 2012, respectively. The next two steps of distribution of the Bonus Fund were scheduled for September 2013 and January 2015 ("Program Reserve"), respectively.

Share appreciation rights granted had an exercise price of USD 9.25 (280.95 Russian Roubles) less dividends per share, which were expected to be paid by the Company for the period from January 2012 to April 2015. Share appreciation rights granted vested at the end of a 3-year service period, starting from 31 December 2011, and were exercisable in form of cash payments to the Program participants in April 2015.

The vesting of share appreciation rights was contingent on the market capitalisation of the Company, calculated on the basis of average quoted price of the Company's GDRs at London Stock Exchange during the period from 15 November 2014 to 31 December 2014. The share appreciation rights would be vested if the capitalisation of the Company during the period above is more or equal USD 2 billion.

The fair value of the awards granted was estimated using a Monte-Carlo model. The fair value was then amortised on appropriate basis over the requisite service periods of the awards, which was the period from the service commencement date to the vesting date of the relevant tranche.

For the year ended 31 December 2011, the Group recognised share-based compensation expense of RR 6,797 in general and administrative expenses in the consolidated statement of comprehensive income and for the year ended 31 December 2012 a gain of RR 4,547 was recognised. In 2013, due to continuing decrease in quoted price of the Company's GDRs, the Group derecognised previously accumulated liability, accounting for a gain of RR 2,250.

26 Income Taxes

Income tax expense for the year ended 31 December 2013 and 2012 included:

	2013	2012
Current tax	975,893	976,180
Deferred tax	(452,329)	(207,709)
Total income tax expense	**523,564**	**768,471**

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

	2013	2012
Profit before income tax	**2,596,434**	**3,110,712**
Estimated tax charge at applicable tax rates of 19.5% (2012: 20.3%)	(507,189)	(630,688)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	190,963	-
Effect of revaluation of assets for taxation purposes	13,434	17,047
Dividend withholding tax provision	(55,611)	(44,705)
Social expenditures and charity non-deductible for tax purposes	(31,344)	(35,827)
Impairment of previously recognised deferred tax assets	(24,461)	-
Effect of adjustment resulting from intra-group sales of shares in subsidiaries	(20,248)	-
Write-off of previously recognised deferred tax assets due to intended liquidation of subsidiaries	(13,718)	-
Non-temporary impact of monetary gains and losses	(12,067)	(13,522)
Impairment of goodwill	(3,351)	-
Re-measurement of deferred taxes – change in the Ukrainian tax rate	(1,507)	(5,266)
Other non-deductible expenses not subject to tax	(58,465)	(55,510)
Total income tax expense	**(523,564)**	**(768,471)**

(in thousands of Russian Roubles, unless otherwise stated)

26 Income Taxes (continued)

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), 16-19% (Ukrainian tax legislation), 18% (Belorussian tax legislation), 28.3% (German tax legislation) and 12.5% (Cypriot tax legislation), accordingly. With effect from 1 January 2011 a new Tax code is applied in the Ukraine, which provides for the gradual decrease of profit tax rate from 23% to 16% during 2011-2014. Consequently, at 31 December 2013 and at 31 December 2012, deferred tax assets and liabilities of Ukrainian entities of the Group were measured at the rates, which will be enacted at the time when respective deferred assets and liabilities are utilised.

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.

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

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

(in thousands of Russian Roubles, unless otherwise stated)

26 Income Taxes (continued)

	1 January 2012	Credited/ (charged) to profit or loss	Business combinations (Note 9)	Deferred tax related to discontinued operations	Translation differences recognised in equity	Inflation effect on deferred tax balance for the year	31 December 2012
Deferred tax liabilities							
Property, plant and equipment	(646,664)	(4,711)	(1,004,910)	2,071	(6,232)	(8,903)	(1,669,349)
Intangible assets	(93,575)	38,836	(150,390)	200	(1,579)	-	(206,508)
Non-current assets held for sale	(9,880)	17	-	293	-	-	(9,570)
Short-term trade and other receivables and other financial assets	(399,078)	399,078	-	-	-	-	-
Finance lease liability	-	133	(452)	(2)	(8)	-	(329)
Trade and other payables	(578,968)	235,222	(19,487)	(52,037)	318	-	(414,952)
Short-term borrowings	-	(470)	-	-	(1)	-	(471)
Long-term borrowings	(2,389)	(2,979)	-	-	-	-	(5,368)
Withholding tax provision	(78,947)	34,242	-	-	-	-	(44,705)
	(1,809,501)	**699,368**	**(1,175,239)**	**(49,475)**	**(7,502)**	**(8,903)**	**(2,351,252)**
Deferred tax assets							
Inventories	724,520	(503,846)	(37,274)	35,997	(7,801)	11,865	223,461
Short-term trade and other receivables and other financial assets	-	(74,715)	200,274	(25,180)	12,088	-	112,467
Cash and cash equivalents	-	-	6	-	-	-	6
Other long-term receivables	530	(2,581)	2,586	(5)	(16)	-	514
Share of results of associates	5,058	1,270	-	-	-	-	6,328
Long-term provisions for liabilities and charges	11,357	16,464	-	-	(894)	-	26,927
Loss carried forward	129,474	36,378	2,632	56,428	45		224,957
Other taxes payable	2,899	(2,116)	3,217	-	-	-	4,000
Finance lease liability	2	(2)	-	-	-	-	-
Short-term borrowings	28	(28)	-	-	-	-	-
Short-term provisions for liabilities and charges	51,644	34,555	2,298	3,291	(501)	-	91,287
	925,512	**(494,621)**	**173,739**	**70,531**	**2,921**	**11,865**	**689,947**
Total net deferred tax liability	**(883,989)**	**204,747**	**(1,001,500)**	**21,056**	**(4,581)**	**2,962**	**(1,661,305)**

At 31 December 2013, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 9,412,732 (31 December 2012: RR 7,982,368) 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.

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

27 Revenue

	2013	2012*
Sales of pumps	12,745,240	13,679,857
Sales of oil and gas equipment	8,559,116	8,455,313
Sales of compressor equipment	4,734,082	1,981,309
Revenue from construction and design and engineering services	3,465,451	4,973,162
Sales of other services and goods	2,854,259	2,370,246
Total revenue	**32,358,148**	**31,459,887**

* These amounts reflect adjustments made in connection with the change in presentation of discontinued operations (Note 15) and changes in the classification of revenue (Note 3).

(in thousands of Russian Roubles, unless otherwise stated)

28 Cost of Sales

	2013	2012
Supplies and raw materials	10,567,089	10,934,560
Labour costs	5,374,499	5,100,255
Cost of goods sold	2,798,614	2,221,593
Depreciation and amortisation	1,095,699	781,024
Construction and installation works of subcontractors	628,034	795,055
Change in work in progress and finished goods	555,596	(989,651)
Utilities	424,919	359,394
Provision for obsolete inventories	78,456	98,743
Warranty provision	16,851	10,490
Defined benefits scheme expense	5,342	66,204
Other expenses	1,692,580	2,249,212
Total cost of sales	**23,237,679**	**21,626,879**

29 Distribution and Transportation Expenses

	2013	2012
Transportation expenses	549,464	418,882
Labour costs	468,363	460,643
Lease expense	59,542	26,931
Depreciation and amortisation	48,543	31,652
Insurance	44,130	35,898
Entertaining costs and business trip expenses	39,865	30,696
Advertising	34,209	59,305
Customs duties	13,078	9,834
Products certification	10,381	6,553
Agency services	6,527	4,814
Property, plant and equipment repair and maintenance	5,161	4,502
Packaging and storage expenses	2,428	29,109
Defined benefits scheme expense	902	1,715
Other expenses	94,262	118,889
Total distribution and transportation expenses	**1,376,855**	**1,239,423**

30 General and Administrative Expenses

	2013	2012
Labour costs	2,595,917	2,547,705
Depreciation and amortisation	190,711	168,335
Taxes and duties	190,560	137,981
Audit and consultancy services	139,685	134,248
Bank services	114,328	99,638
Property, plant and equipment repair and maintenance	99,866	94,818
Entertaining costs and business trip expenses	93,562	98,093
Provision for impairment of accounts receivable	87,114	27,543
Stationary and office maintenance	59,902	70,584
Lease expense	44,742	26,852
Security	44,694	38,073
Telecommunications services	37,906	39,982
Insurance	33,667	33,257
Training and recruitment	21,463	29,185
Provision for tax risks	(16,243)	(2,882)
Provision for VAT receivable	(8,663)	3,178
Defined benefits scheme expense	(3,211)	17,520
Other expenses	244,123	232,347
Total general and administrative expenses	**3,970,123**	**3,796,457**

During the year ended 31 December 2013, the Company incurred fees of RR 2,140 for statutory audit services (2012: RR 1,883). In addition, audit and consultancy services stated above include fees of RR 126 (2012: RR 50) for tax consultancy services and RR 1,077 (2012: RR 955) for other assurance services charged by the Company's statutory auditor.

(in thousands of Russian Roubles, unless otherwise stated)

31 Other Operating Expenses, Net

	2013	2012
Charity, social expenditures	149,876	122,189
Fines and late payment interest under contracts	80,799	197,379
Loss on transaction with securities	31,034	-
Loss from disposal of property, plant and equipment and intangible assets	6,774	27,798
Depreciation of social assets	5,615	5,352
Provision for legal claims	(80,040)	115,451
Gain on revaluation of redemption liability (Note 38)	(50,354)	-
Gain on purchase/sale of foreign currency	(28,747)	(21,562)
Net monetary (gain)/loss	(16,698)	25,751
Foreign exchange gain from non-financial activities, net	(4,259)	(11,303)
Expenses related to acquisition of subsidiaries and potential acquisitions	-	78,709
Impairment of taxes receivable	-	11,741
Other expenses, net	15,813	2,254
Total other operating expenses, net	**109,813**	**553,759**

32 Finance Income

	2013	2012
Interest income	155,242	122,085
Foreign exchange gain/(loss) from deposits, net	5,078	(8,803)
Total finance income	**160,320**	**113,282**

33 Finance Costs

	2013	2012
Interest expenses	1,521,528	1,219,664
Foreign exchange loss from borrowings, net	159,700	19,064
Discounting of financial assets	44,327	-
Finance expenses related to redemption liability (Note 9)	13,527	6,588
Finance lease expenses	1,908	1,066
Total finance costs	**1,740,990**	**1,246,382**

34 Balances and Transactions with Related Parties

At 31 December 2013, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2012: 71.51%), including shares in form of GDRs. At 31 December 2013 and 2012, 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 2013**		**31 December 2012**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	25	15,064	1,145	25,256
Accounts payable	3,915	102,933	2,658	167,091

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

(in thousands of Russian Roubles, unless otherwise stated)

34 Balances and Transactions with Related Parties (continued)

Transactions with related parties	2013		2012	
	Associates	Other	Associates	Other
Sales of goods and finished products	17,193	55,833	12,163	51,194
Dividends received	-	742	660	583
Sales of raw materials	18	8	504	565
Sales of services	1,036	3,376	492	1,165
Rent income	227	57	229	200
Sales of property, plant and equipment	1,441	-	-	-
Purchase of services	(44,300)	(61,707)	(35,873)	(43,877)
Purchase of raw materials	(37,717)	(9,960)	(23,812)	(740)
Purchase of intangible assets	(18,811)	-	(20,388)	-
Rent expense	(9,602)	(94)	(10,736)	(222)
Purchase of property, plant and equipment	(1,935)	-	(3,028)	-

Key management compensation

Key management compensation amounted to RR 279,960 for the year ended 31 December 2013 (2012: RR 514,211) 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 8,769 (2012: RR 7,845) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 115,067 for the year ended 31 December 2013 (2012: RR 228,019).

For the year ended 31 December 2013, dividends of RR 68,100 were accrued and paid by the Group's subsidiary to the holder of non-controlling interests who is a member of key management (2012: RR 33,512).

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

35 Contingencies and Commitments

(i) Legal proceeding

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements. Also refer to Note 4.

(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.

35 Contingencies and Commitments (continued)

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

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

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

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

(iii) Environmental matters

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

(iv) Insurance policies

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

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with the Group’s associate. At 31 December 2013, commitments for purchase of the services amounted to RR 367,175 (31 December 2012: RR 402,033).

At 31 December 2013, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 270,915 (31 December 2012: RR 367,748).

During the year ended 31 December 2013, the Group’s subsidiary HMS Neftemash OJSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project for development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. The project is realised together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash OJSC is expected to receive from the Federal budget the funds in amount of RR 150,000 for realisation of this project; additionally, not less than RR 150,000 should be invested by the Group. Also refer to Note 22.

(in thousands of Russian Roubles, unless otherwise stated)

35 Contingencies and Commitments (continued)

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

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets and certain other requirements. At 31 December 2013, the Group was in compliance with all its loan covenants.

36 Segment Information

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

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

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

	31 December 2013	31 December 2012
1	HMS Pumps OJSC	HMS Pumps OJSC
2	HMS Household Pumps OJSC	HMS Household Pumps OJSC
3	Livnynasos OJSC	Livnynasos OJSC
4	Nasosenergomash OJSC	Nasosenergomash OJSC
5	Trade house HYDROMASHSERVICE Ukraine LLC	Trade house HYDROMASHSERVICE Ukraine LLC
6	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
7	Plant Promburvod OJSC	Plant Promburvod OJSC
8	HMS-Promburvod CJSC	HMS-Promburvod CJSC
9	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
10	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
11	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH

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

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

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

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

1	Tomskgazstroy OJSC	Tomskgazstroy OJSC
2	Giprotyumenneftegaz OJSC	Giprotyumenneftegaz OJSC
3	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC
4	Noyabrskneftegazproekt LLC	-
5	-	HYDROMASHSERVICE CJSC

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

The table below contains **other** companies that did not fall under the above listed operating segments.

1	HMS Group Management LLC	HMS Group Management LLC
2	HMS Group OJSC	HMS Group OJSC
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	-	HMS-Holding CJSC

Due to disposal of Trest Sibkomplektmontazhnaladka OJSC, the Group's subsidiary, in December 2013, and classification of its results as discontinued operations (Note 15), information related to this entity has been excluded from the results of EPC segment for the years ended 31 December 2013 and 2012.

Geographically, management considers the performance of their subsidiaries in Russia, Ukraine, Belorussia, Germany and location of the customers where the Group performs its trade and commercial activities.

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

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

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

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

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

Disclosures by segments	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
External revenue	17,595,245	7,742,714	4,206,584	2,808,482	5,123	-	**32,358,148**
Intersegment revenue	189,075	303,693	55,873	46,860	1,398,844	-	**1,994,345**
EBITDA, management report[1]	3,816,496	882,917	571,577	(204,346)	182,223	(10,427)	**5,238,440**

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

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2012 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
External revenue	17,065,522	7,827,850	1,426,253	5,139,862	400	-	**31,459,887**
Intersegment revenue	420,993	86,924	-	1,857	1,416,801	-	**1,926,575**
EBITDA, management report[1]	4,278,902	1,397,043	88,582	341,492	(19,484)	14,414	**6,100,949**

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

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

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

	2013					
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Total
Revenue, management report	17,784,320	8,046,407	4,262,457	2,855,342	1,403,967	**34,352,493**
Less intersegment revenue	(189,075)	(303,693)	(55,873)	(46,860)	(1,398,844)	**(1,994,345)**
Revenue, IFRS	**17,595,245**	**7,742,714**	**4,206,584**	**2,808,482**	**5,123**	**32,358,148**

	2013						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
EBITDA from continuing operations, management report[1]	**3,816,496**	**882,917**	**571,577**	**(204,346)**	**182,223**	**(10,427)**	**5,238,440**
Depreciation and amortisation	(511,618)	(145,433)	(385,469)	(265,368)	(32,680)	-	(1,340,568)
Non-monetary items[2]	14,643	(11,396)	(19,030)	(35,123)	950	-	(49,956)
Excess of fair value of net assets acquired over the cost of acquisition	-	-	843,941	110,873	-	-	954,814
Impairment of assets of construction business	-	-	-	(439,119)	-	-	(439,119)
Other operating (expenses)/ income, net[3]	(165,757)	14,066	(38,050)	(47,550)	47,015	6,038	(184,238)
Operating profit/(loss) from continuing operations, IFRS	**3,153,764**	**740,154**	**972,969**	**(880,633)**	**197,508**	**(4,389)**	**4,179,373**
Finance income							160,320
Finance costs							(1,740,990)
Share of results of associate							(2,269)
Profit before income tax from continuing operations, IFRS							**2,596,434**

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

	2012					
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Total
Revenue, management report	17,486,515	7,914,774	1,426,253	5,141,719	1,417,201	**33,386,462**
Less intersegment revenue	(420,993)	(86,924)	-	(1,857)	(1,416,801)	**(1,926,575)**
Revenue, IFRS	**17,065,522**	**7,827,850**	**1,426,253**	**5,139,862**	**400**	**31,459,887**

	2012						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
EBITDA from continuing operations, management report	**4,278,902**	**1,397,043**	**88,582**	**341,492**	**(19,484)**	**14,414**	**6,100,949**
Depreciation and amortisation	(406,214)	(148,015)	(158,006)	(245,335)	(28,793)	-	(986,363)
Non-monetary items[2]	(300,384)	(48,078)	(22,949)	(58,670)	(8,180)	-	(438,261)
Other operating (expenses)/ income, net[3]	(349,576)	(10,911)	(12,568)	1,219	(82,404)	21,284	(432,956)
Operating profit/(loss) from continuing operations, IFRS	**3,222,728**	**1,190,039**	**(104,941)**	**38,706**	**(138,861)**	**35,698**	**4,243,369**
Finance income							113,282
Finance costs							(1,246,382)
Share of results of associate							443
Profit before income tax from continuing operations, IFRS							**3,110,712**

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

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

(in thousands of Russian Roubles, unless otherwise stated)

36 Segment Information (continued)

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 2013	Consolidated revenue for 2012	Non-current assets at 31 December 2013	Non-current assets at 31 December 2012
Total revenue/ non-current assets	32,358,148	31,459,887	20,808,726	20,559,945
Including				
Russia	26,957,961	29,683,765	17,114,235	17,460,770
Turkmenistan	2,317,328	8,295	-	-
Kazakhstan	986,294	485,271	-	-
Germany	518,966	108,955	1,240,747	1,152,154
Belorussia	312,410	366,446	609,979	498,348
Ukraine	280,988	290,302	1,843,765	1,448,673
Iraq	173,695	28,945	-	-
Bulgary	159,250	-	-	-
Other	651,256	487,908	-	-

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

37 Financial Risk Management

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The table below summarise the Group’s exposure to foreign currency exchange rate risk at 31 December 2013 and 2012. 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 2013			31 December 2012		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	834,673	(687,328)	147,345	287,980	(266,772)	21,208
EUR	27,323	(1,625,888)	(1,598,565)	53,698	(1,251,645)	(1,197,947)
Total	**861,996**	**(2,313,216)**	**(1,451,220)**	**341,678**	**(1,518,417)**	**(1,176,739)**

At 31 December 2013, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 23,575 (2012: RR 3,393) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash and trade receivables.

At 31 December 2013, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 255,770 (2012: RR 191,672) higher/lower, 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 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.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk since both its finished products and purchased raw materials are not traded on a public market.

(iii) 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 2013, 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 64,519 (2012: RR 102,699) lower/higher, as a result of higher/lower interest expense on variable interest liabilities.

(b) Credit risk

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

	31 December 2013	31 December 2012
Trade and other receivables (Note 13, 14)		
- Trade receivables	5,513,277	4,618,723
- Other financial receivables	2,658,791	2,529,260
Cash and cash equivalents (Note 11)		
- Bank balances (incl. restricted cash)	1,590,738	1,400,391
- Cash on hand	1,539	2,076
Total on-balance sheet exposure	**9,764,345**	**8,550,450**
Total maximum exposure to credit risk	**9,764,345**	**8,550,450**

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 2013	31 December 2012
Expert RA[(4)]	A	86,542	163,719
Fitch[(3)]	BBB+ – B	1,182,851	1,046,939
S&P's[(2)]	BBB- – B-	151,313	36,189
Moody's[(1)]	Baa2 – Ba3	127,648	104,157
Moody's[(1)]	less than B3	18,091	17,318
Other	-	24,293	32,069
Total		**1,590,738**	**1,400,391**

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

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)

37 Financial Risk Management (continued)

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

	31 December 2013		31 December 2012	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Not overdue and not impaired	**4,297,347**	**2,537,511**	**3,277,397**	**2,498,507**
Total past due but not impaired, including:	**1,215,930**	**121,280**	**1,341,326**	**30,753**
- less than 60 days overdue	549,402	71,358	500,775	5,807
- 61 to 180 days overdue	226,633	1,107	430,762	16,323
- 181 to 365 days overdue	128,982	610	191,018	442
- over 365 days overdue	310,913	48,205	218,771	8,181
Individually impaired (gross), including:	**192,459**	**10,095**	**121,928**	**107,249**
- not overdue	7,808	584	2,495	779
- less than 60 days overdue	12,422	-	1,712	3
- 61 to 180 days overdue	57,088	-	9,855	-
- 181 to 365 days overdue	7,596	5,182	2,620	3,940
- over 365 days overdue	107,545	4,329	105,246	102,527
Less provision for impairment	**(192,459)**	**(10,095)**	**(121,928)**	**(107,249)**
Total	**5,513,277**	**2,658,791**	**4,618,723**	**2,529,260**

At 31 December 2013, out of total past due but not impaired trade receivables overdue for more than 365 days, RR 146,450 corresponds to trade and other payables of RR 141,365, related to the same contract.

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

Agency	Rating	31 December 2013	31 December 2012
S&P's(2)	A – A-	21,361	19,109
Expert RA(4)	A	90,100	150,000
Moody's(1)	Aa2	11,467	10,251
Moody's(1)	Baa2 – Ba2	100,100	1,815
Fitch(3)	BBB – BB	85,000	113,310
S&P's(2)	B+ – B	3,716	268,873
Moody's(1)	less than B3	4,082	-
Other national rating agency	less than B-	-	30,184
Total		**315,826**	**593,542**

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

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) at 31 December 2013 is RR 8,172,068 (31 December 2012: RR 7,147,983).

Credit risks 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 2013	25	5,083,650	61%
At 31 December 2012	23	4,332,747	59%

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.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

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 2013 and 2012:

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

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2012**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bonds[1]	3,106,650	321,600	321,600	3,160,800	-
Bank loans[1]	10,303,609	2,914,679	4,177,907	4,519,080	552,058
Other loans[1]	94	94	-	-	-
Finance lease liabilities[1]	17,640	9,373	9,269	1,692	-
Trade accounts payable	2,764,033	2,764,033	-	-	-
Other financial payables[1]	444,015	123,112	-	364,070	-

[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 long-term 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.

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

The table below analyses credit lines of the Group at 31 December 2013 and 2012:

	31 December 2013	**31 December 2012**
Credit lines	7,374,329	7,720,585
Undrawn credit facilities	6,218,563	3,754,991

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. In perspective, the Group's strategy is to maintain the liquidity ratio at 1.50.

	31 December 2013	**31 December 2012**
Liquidity ratio	1.51	1.53
Current assets	17,559,089	18,716,324
Current liabilities	11,620,311	12,272,900

To manage the targeted liquidity ratio the Group 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.

(in thousands of Russian Roubles, unless otherwise stated)

37 Financial Risk Management (continued)

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 2013, the Group's strategy have been to maintain the gearing ratio at the level not exceeding 200%.

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

	31 December 2013	**31 December 2012**
Long-term borrowings	11,521,956	11,219,833
Short-term borrowings	1,164,640	2,190,520
Total debt	**12,686,596**	**13,410,353**
Cash and cash equivalents	(1,584,222)	(1,346,082)
Net debt	**11,102,374**	**12,064,271**
Equity attributable to the shareholders of the Company	9,700,685	9,668,795
Non-controlling interest	3,543,343	3,870,032
Total capital	**13,244,028**	**13,538,827**
Gearing ratio	**84%**	**89%**

38 Fair Value of Financial Instruments

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level 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 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. Carrying amounts of liabilities carried at amortised cost approximate fair values. The fair value of borrowings and issued bonds were included in Level 2 and 1, respectively. At 31 December 2013, the fair value of bonds was RR 1,801 lower then their carrying amounts.

38 Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value. In 2012, the Group entered into call and put options agreement, under which the Group has a right to acquire the remaining 25% share in Apollo Goessnitz GmbH, while the holders of this non-controlling interest have the right to sell it to the Group. The options may be executed starting from 3 years after the options agreement date. The exercise price is determined based on EBITDA multiple and net debt level of Apollo Goessnitz GmbH for the year, preceeding the year of option execution, applying discounting factor. As in the calculation of the option fair value is not based on observable market data (unobservable inputs are used), it was defined as Level 3.

At 31 December 2013, the present value of the redemption liability amounted to RR 284,076 (31 December 2012: RR 320,903) (Note 22). The increase in redemtion liability in relation to the discounting effect of RR 13,527 was recognised in finance expenses (Note 33) and the decrease in redemtion liability in relation to changes in underlying assumptions of RR 50,354 was recognised in other operating income (Note 31). EBITDA used for the calculation of the present value of the redemption liability at 31 December 2013 approximated to RR 152,403, net debt - RR 143,859 (31 December 2012: EBITDA - RR 189,168, net debt - RR 173,418).

The sensitivity of fair value measurements disclosed below shows the direction that an increase or decrease in the respective input variables would have on the valuation result. Increase in the EBITDA multiple would lead to an increase in estimated value. However, an increase in the discount rate would lead to a decrease in value. Thus, if the EBITDA multiple would be decreased/increased by 10%, the fair value of the option would be decreased/increased by RR 31,736, decrease/increase of discount rate by 100 basis points would increase the fair value of the option by RR 4,361/ decrease fair value of option by RR 4,258.

39 Subsequent Events

Litigation against the Company. 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 declares 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.

Ukraine's operating environment. The Ukrainian economy is characterised by relatively high economic and political risks. In 2013, the world demand for Ukraine's main export commodities, steel and iron ore, was weak. The year was marked by one of the record crop harvests; however world prices for wheat, corn and sunflower seed reduced significantly due to peak harvests in other crop producing regions. In 2013, Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the exchange rate of the national currency, the Ukrainian Hryvnia. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with International Monetary Fund, and to pay the current and past purchases of natural gas. The anticipated association agreement with the European Union was not signed at the end of November. The government announced a deal with the Russian Federation for the purchase of Ukrainian Government bonds up to USD 15 billion, of which USD 3 billion was provided in December 2013. The political system of Ukraine experienced instability in late 2013 and early 2014 with a number of protests against the government's actions, ending with a change in political leadership and early elections planned at the end of May 2014. The Russian government suspended the support of the Ukrainian government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. In 2014, the Ukrainian Hryvnia devalued against the major world currencies.

The Group has not to date been significantly affected by recent developments in Ukraine but, in the event of a deterioration in the situation in that country, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

Deoffshorisation. Recent Russian government initiatives, which are currently under consideration, are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating assets located in Russia, the Company recognizes that these developments may have significant implications for its business and development plans. The Company continues to monitor these developments.

HMS Hydraulic Machines & Systems Group plc

International Financial Reporting Standards Parent Company Financial Statements and Independent Auditor's Report

31 December 2013

Contents

Board of Directors

Mr. German A. Tsoy
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Yury N. Skrynnik
Executive Director

Mr. Nikolai N. Yamburenko
Executive Director

Mr. Vladimir V. Lukyanenko
Non-executive Director
Member of the Remuneration and Audit Committees

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

Mr. Andreas S. Petrou
Non-executive Director

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

Board support

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

Company Secretary

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

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2013. The parent company 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 activity of the Company is the holding of investments.

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 Company’s business

The net profit of the Company for the year ended 31 December 2013 was 959,973 RR thousand (2012: RR 1,509,077) arising mainly as a result of dividend income in amount of RR 880,715 thousand (2012: RR 1,591,200). At 31 December 2013, the total assets of the Company were RR 4,155,436 thousand (31 December 2012: RR 3,840,687 thousand) and net assets were RR 3,781,163 thousand (31 December 2012: RR 3,612,827 thousand). The financial position and financial performance of the Company as presented in the financial statements are considered satisfactory.

Principal risks and uncertainties

The Company’s critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 15 to the financial statements.

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Company 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 Company’s results for the year ended 31 December 2013 are set out on page 10 of the parent company financial statements.

Dividends

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

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

At the Annual General Meeting in June 2013 the Company’s shareholders approved the final dividend in respect of the year ended 31 December 2012 of RR 6.82 per ordinary share, amounting to a total dividend of RR 791,637 thousand. These dividends were paid in July 2013.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2013.

On 24 April 2014, the Board of Directors recommended a payment of dividend in respect of the year ended 31 December 2013 in the amount of RR 3.41 per ordinary share, amounting to a total dividend of RR 399,527 thousand, calculated taking into account the total quantity of shares issued. Declaration and payment of dividend in respect of the year ended 31 December 2013 is subject to the approval of the Company's shareholders. These financial statements do not reflect this dividend payable.

Share capital

At 31 December 2013, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 9.

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 Company is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Company. 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 Company'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 2013 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 shall retire by rotation and are entitled to run for re-election. German A. Tsoy, Vladimir V. Lukyanenko and Philippe Delpal 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 2013 and the date of approval of these parent company financial statements are shown below:

Director	Interest in the share capital of the Company at 31 December 2013	Interest in the share capital of the Company at 24 April 2014
Vladimir V. Lukyanenko	27.4%	27.4%
German A. Tsoy	19.8%	19.8%
Nikolai N. Yamburenko	6.2%	6.2%
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 financial statements.

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 17 to the financial statements.

The Board Committees

The Company has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other members are Gary S. Yamamoto and Vladimir V. Lukyanenko. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Company's financial statements, including its annual and interim financial statements, and the effectiveness of the Company'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 Company of financial information and a number of other audit-related issues.

Remuneration Committee. The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Vladimir V. Lukyanenko, Philippe Delpal and German A. Tsoy are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Company'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.

Corporate governance

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

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2013 amounted to RR 8,769 thousand (2012: RR 7,845 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 115,067 thousand for the year ended 31 December 2013 (2012: RR 228,019 thousand).

Branches

The Company did not operate through any branches during the year ended 31 December 2013.

Treasury shares

On 21 May 2012, the Board unanimously resolved that it is in the best interest of the Company to buy back GDRs from the market for the total amount of up to USD 25 million. During the year ended 31 December 2013, a wholly-owned subsidiary of the Company acquired 1,641,139 GDRs of the Company from the market for a cost of RR 177,331 thousand representing 1.40% of its issued share capital (2012: 244,385 GDRs of the Company for a cost of RR 31,507 thousand representing 0.21% of its issued share capital). The voting and dividend rights of these GDRs are suspended.

During the year ended 31 December 2013, 66,080 GDRs of the Company representing 0.06% of its issued share capital were sold by a wholly-owned subsidiary of the Company for a total consideration of RR 7,511 (2012: no treasury shares sold).

At 31 December 2013, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (2012: 244,385) of its own GDRs for a total cost of RR 201,205 thousand (2012: RR 31,507 thousand).

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2014, 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, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. The audit committee has conducted a tender process for the selection of the Group's auditor for 2014. The result of this tender will be discussed at the Board of Directors meeting and a recommendation will be made for the Annual General Meeting to approve the selection of external auditors.

By order of the Board

Artem V. Molchanov
Director
Limassol
24 April 2014

Directors' Responsibility Statement

The Company's Board of Directors is responsible for the preparation of 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 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 financial statements (presented on pages 9 to 27) give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Plc at 31 December 2013 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 financial statements are in agreement with the books;
- the 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 financial statements.

By order of the Board

Artem V. Molchanov
Director
24 April 2014

Kirill V. Molchanov
Director
24 April 2014

Independent auditor's report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the financial statements

We have audited the accompanying financial statements of parent company HMS Hydraulic Machines & Systems Group Plc (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the 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 financial statements

The Board of Directors is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of parent company HMS Hydraulic Machines & Systems Group Plc as at 31 December 2013, 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 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 those books.
- The Company's 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 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 financial statements.

Other matters

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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The opinion in that report is not qualified.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 24 April 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets:			
Investments in subsidiaries	8	4,115,140	3,808,262
Total non-current assets		**4,115,140**	**3,808,262**
Current assets:			
Other receivables	7	40,114	3,590
Cash and cash equivalents	6	182	28,530
Restricted cash	6	-	305
Total current assets		**40,296**	**32,425**
TOTAL ASSETS		**4,155,436**	**3,840,687**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	48,329	48,329
Share premium	9	3,563,424	3,563,424
Retained earnings		169,410	1,074
TOTAL EQUITY		**3,781,163**	**3,612,827**
LIABILITIES			
Non-current liabilities:			
Other payables	10	-	2,250
Total non-current liabilities		-	**2,250**
Current liabilities:			
Short-term borrowings	14	5,006	-
Financial guarantee contracts	14	363,512	213,411
Other taxes payable		-	14
Other payables		5,755	12,185
Total current liabilities		**374,273**	**225,610**
TOTAL LIABILITIES		**374,273**	**227,860**
TOTAL EQUITY AND LIABILITIES		**4,155,436**	**3,840,687**

Approved for issue and signed on behalf of the Board of Directors on 24 April 2014.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2013	2012
Revenue	14	880,715	1,591,200
General and administrative expenses	12	(36,377)	(44,225)
Other operating income, net	13	159,673	40,907
Operating profit		**1,004,011**	**1,587,882**
Finance income		4	-
Finance costs	14	(6)	-
Profit before income tax		**1,004,009**	**1,587,882**
Income tax expense	11	(44,036)	(78,805)
Profit for the year and total comprehensive income for the year		**959,973**	**1,509,077**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities			
Profit before income tax		1,004,009	1,587,882
Adjustments for:			
Amortisation of financial guarantees	14	(159,026)	(51,288)
Finance income		(4)	-
Finance costs	14	6	-
Provision for impairment of accounts receivable	12	2,789	-
Foreign exchange translation differences	13	(647)	694
Operating cash flows before working capital changes		**847,127**	**1,537,288**
Increase in other receivables		(39,027)	(1,599)
Decrease in other taxes payable		(14)	(1)
(Decrease)/ increase in other payables		(6,447)	7,958
Restricted cash		305	(305)
Cash generated from operations		**801,944**	**1,543,341**
Tax paid	11	(44,036)	(78,805)
Net cash generated from operating activities		**757,908**	**1,464,536**
Cash flows from financing activities			
Loans received from related party	14	5,000	-
Dividends paid to the shareholders	9	(791,637)	(1,499,692)
Net cash used in financing activities		**(786,637)**	**(1,499,692)**
Net decrease in cash and cash equivalents		**(28,729)**	**(35,156)**
Effect of exchange rate changes on cash and cash equivalents		**381**	**694**
Cash and cash equivalents at the beginning of the year		**28,530**	**62,992**
Cash and cash equivalents at the end of the year	6	**182**	**28,530**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance at 1 January 2012		**48,329**	**3,563,424**	-	**(8,311)**	**3,603,442**
Profit for the year and total comprehensive income for the year		-	-	-	1,509,077	1,509,077
Dividends declared to the shareholders the Company	9	-	-	-	(1,499,692)	(1,499,692)
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**-**	**(1,499,692)**	**(1,499,692)**
Balance at 31 December 2012		**48,329**	**3,563,424**	**-**	**1,074**	**3,612,827**
Profit for the year and total comprehensive income for the year		**-**	**-**	**-**	**959,973**	**959,973**
Dividends declared to the shareholders of the Company	9	-	-	-	(791,637)	(791,637)
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**-**	**(791,637)**	**(791,637)**
Balance at 31 December 2013		**48,329**	**3,563,424**	-	**169,410**	**3,781,163**

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, by the end of the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders for deemed dividend distribution purposes at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. Special contribution for defence rate increased to 17% in respect of profits of year of assessment 2009 and to 20% in respect of profits of years of assessment 2010 and 2011 and is reduced back to 17% in respect of profits of years of assessment 2012 onwards. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year by the end of the period of two years from the end of the year of assessment to which the profits refer. This special contribution for defence is paid by the Company for the account of the shareholders.

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.

Approval of the financial statements. These financial statements were authorised for issue by the Board of Directors of the Company on 24 April 2014.

Global depository receipts. Global depository receipts each representing one ordinary share of the Company are listed on the London Stock Exchange International Main Market following the IPO in February 2011.

Principal activities. The principal activity of the Company is the holding of investments.

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

Consolidated financial statements. The Company also prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the requirements of Cyprus Companies Law, Cap. 113; these parent company financial statements should be read in conjunction with the consolidated financial statements.

At 31 December 2013, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2012: 71.51%), including shares in form of GDRs. At 31 December 2013 and 2012, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Company

The Company's subsidiaries mainly operate in the Russian Federation.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments. The future economic and regulatory situation may differ from management's current expectations.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Further to the above refer to Note 17 which highlights subsequent events relating to the recent affairs in Ukraine.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2013 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39, Financial Instruments: Recognition and Measurement, relating to portfolio hedge accounting.

The Company has prepared these parent company financial statements for compliance with the requirements of Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with IFRS, as adopted by EU, and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group).

Users of these parent company financial statements should read them together with the Group's consolidated financial statements at and for the year ended 31 December 2013 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and of the Group.

Functional and presentation currency. Functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's functional currency and presentation currency is Russian Rouble ("RR").

Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective 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 functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

At 31 December 2013 and 2012, the principal rates of exchange used for translating foreign currency balances were:

	2013	**2012**
1 USD = RR	32.7292	30.3727
1 EUR = RR	44.9699	40.2286

Financial assets. All financial assets of the Company 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 Company's loans and receivables comprise loans receivable, other 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. 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 other receivables is established when there is objective evidence that the Company 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 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 receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand and deposits held at call with banks. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

3 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company 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.

Other payables. 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.

Financial guarantees. Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at the fair value on the date the guarantee was given. Financial guarantee liabilities are then amortised on a straight-line basis in the statement of profit or loss and other comprehensive income over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period. Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investments in subsidiaries in the financial statements of the Company.

Income taxes. 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.

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. 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 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 assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the income tax assets and liabilities relate to income taxes levied by the same taxation authority.

Investments in subsidiaries. Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of the any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

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. Such costs are initially presented within other reserves and subsequently reclassified as a deduction to share premium upon issuance of shares.

Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

3 Summary of Significant Accounting Policies (continued)

Dividends. Dividend distribution to the Company's shareholders is recognised as a liability in the Company's 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.

Share-based compensation. In 2011, the Company's Board of Directors awarded cash-settled share appreciation rights to certain employees (Note 10). The Company applies IFRS 2, Share-based Payments, to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for cash-settled share-based payments to employees based on the fair value of the award, subject to remeasurement at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of share-based payments is calculated by the Company using the Monte-Carlo simulation model.

As the awards are granted to employees of the operating subsidiaries of the Group, the Company recognises compensation costs for share-based payments as an investment in respective entities in its parent company financial statements with a corresponding increase in the other payables over the vesting period.

Dividend income. Dividend income is recognized when the right to receive payment is established.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company 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.

Fair value of guarantees issued. Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on valuation techniques including reference to prices of similar instruments and recent arm's length transactions. As a result the fair value of additional guarantees issued during 2013 to secure the obligations of the subsidiary in relation to non-convertible bonds and the bank loan agreements was estimated in the amount of RR 309,128 (2012: RR 264,699) on initial recognition and was recognised as cost of investment of the Company in that subsidiary (Note 8). As the calculation of the fair value of guarantees is not based on observable market data (unobservable inputs are used), it was defined as Level 3.

At 31 December 2013 and for the year then ended, the management of the Company did not exercise other judgements and did not make estimates and assumptions that would have significant effect on the amounts recognised in the parent company financial statements.

5 New Standards, Amendments and Interpretations

Certain new standards, amendments and interpretations became effective for the Company from 1 January 2013:

Amendments to IAS 1, Presentation of financial statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The amended standard resulted in changed presentation of the Company's financial statements, but did not have any impact on measurement of transactions and balances.

IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7, Financial Instruments: Disclosures.

Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company concluded that these amendments do not have any effect on its financial statements.

5 New Standards, Amendments and Interpretations (continued)

Amendments to IFRS 7, Offsetting Financial Assets and Financial Liabilities Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Company concluded that these amendments do not have any effect on its financial statements.

Amendments to IAS 12, Recovery of Underlying Assets (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012; EU effective date, annual periods beginning on or after 1 January 2013). The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment was incorporate into IAS 12 after excluding guidance regarding investment property measured at fair value. The Company concluded that these amendments do not have any effect on its financial statements.

Amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011; EU effective date, annual periods beginning on or after 1 January 2013). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. The amendments are not relevant to the Company.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual period beginning on or after 1 January 2013). IFRIC 20, Stripping costs in the production phase of a surface mine, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The interpretation did not have an impact on the Company's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Company's financial statements.

5 New Standards, Amendments and Interpretations (continued)

Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government Loans (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The amendments are not relevant to the Company.

The Company also has early adopted the following amendments to standards:

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

Certain new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 and which the Company has not early adopted (items marked with * have not been endorsed by the EU; the Company will only be able to apply new standards and interpretations when they are endorsed by the EU).

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

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

The Company will adopt IFRS 10, IFRS 11, IFRS 12 and revised IAS 27 from 1 January 2014. The adoption is not expected to have a material impact on the Company's financial position or operations but will require additional disclosures to be presented in the consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company does not expect that the adoption of this amendment will have any material impact on its consolidated financial statements.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

5 New Standards, Amendments and Interpretations (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

Amendments to IAS 32, ***Offsetting Financial Assets and Financial Liabilities*** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Company is considering the implications of the amendment and its impact on the Company.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013; EU effective date, annual periods beginning on or after 1 January 2014). The amendments clarify the transition guidance in IFRS 10, Consolidated Financial Statements*.* Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Company does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Company does not expect the amendments to have any material effect on its financial statements.

IFRIC 21, Levies* (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Company does not expect the amendments to have any material effect on its financial statements.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Company does not expect the amendments to have any material effect on its financial statements.

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

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations (continued)

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

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

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

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

6 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2013	**31 December 2012**
Cash at bank in RR	118	14,668
Cash at bank in USD	14	13,861
Cash at bank in EUR	50	1
Total cash and cash equivalents	**182**	**28,530**

Restricted cash

Restricted cash of RR305 as at 31 December 2012 represented minimum balance for corporate plastic card account. No such balance existed as at 31 December 2013.

(in thousands of Russian Roubles, unless otherwise stated)

7 Other Receivables and Other Financial Assets

	31 December 2013	31 December 2012
Other receivables	4,059	1,269
Less: provision for impairment of other receivables	(2,789)	-
Bank deposits	2,197	-
Financial assets within other receivables, net	**3,467**	**1,269**
Advances for acquisition of additional shares in subsidiary (Note 14)	30,000	-
Advances to subcontractors	2,253	2,321
Prepayment of fees to directors (Note 14)	4,394	-
Non-financial assets within other receivables, net	**36,647**	**2,321**
Total other receivables and other financial assets	**40,114**	**3,590**

8 Investments in Subsidiaries

Movement in investments in subsidiaries was as follows:

	2013	2012
At 1 January	**3,808,262**	**3,548,111**
Fair value of financial guarantees provided (Note 14)	309,128	264,699
Share-based compensation (Note 10)	(2,250)	(4,548)
At 31 December	**4,115,140**	**3,808,262**

Details of the investments in the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	%, interest held at 31 December 2013	%, interest held at 31 December 2012
H.M.S. Capital Limited	Cyprus	Holding company	100.00	100.00
H.M.S. Finance Limited	Cyprus	Financing company	100.00	100.00
Hydromashservice CJSC	Russia	Operating company	96.67	96.67
HMS Group OJSC	Russia	Holding company	99.99	99.99
HMS Neftemash OJSC	Russia	Operating company	1.96	1.96

Share-based compensation. In 2011, the Company charged RR 6,797 as an investment in operating entities of the Group, being the employers of participants in the cash-settled compensation plan, approved by the Company's Board of Directors at the end of 2011. In 2012, Company reduced investments in subsidiaries for this share-based compensation by RR 4,548. In 2013, the Company derecognised the investment in operating companies of the Group and other long-term payables in the amount of RR 2,250. Refer also to note 10.

9 Share Capital and Other Equity Items

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
At 1 January 2012	**117,163,427**	**0.01**	**48,329**	**3,563,424**
During 2012	-	-	-	-
At 31 December 2012	**117,163,427**	**0.01**	**48,329**	**3,563,424**
During 2013	**-**	**-**	**-**	**-**
At 31 December 2013	**117,163,427**	**0.01**	**48,329**	**3,563,424**

At 31 December 2013 and 31 December 2012, the Company's authorised share capital consisted of 120,705,882 ordinary shares with par value of EUR 0.01 each.

Treasury shares. During 2013, 1,641,139 GDRs of the Company representing 1.40% of its issued share capital were bought back by a wholly-owned subsidiary of the Company for a total consideration of RR 177,331 (2012: 244,385 GDRs for a total consideration of RR 31,507). The voting and dividend rights of these GDRs are suspended.

During 2013, 66,080 GDRs of the Company representing 0.06% of its issued share capital were sold by a wholly-owned subsidiary of the Company for a total consideration of RR 7,511 (2012: no treasury shares sold).

9 Share Capital and Other Equity Items (continued)

As at 31 December 2013, the Company, via a wholly-owned subsidiary, is holding 1,819,444 (2012: 244,385) of its own GDRs for a total cost of RR 201,205 thousand (2012: RR 31,507 thousand).

Dividends. No interim dividends were declared by the Board of Directors during the year ended 31 December 2013.

At the Annual General Meeting, the Company's shareholders will consider a 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 399,527, calculated taking into account the total quantity of shares issued. These 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 2014.

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

At the Annual General Meeting which took place in May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 12.8 Russian Roubles per ordinary share amounting to a total dividend of RR 1.499.692 has been approved. These dividends were paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2012.

10 Share-based Compensation

In 2011, the Group established an incentive plan (the "Plan") for executive directors and senior employees of the Group in which the grant of share appreciation rights up to 2,577,595 shares (the "Bonus Fund") was approved.

In accordance with the Plan terms, the distribution of the Bonus Fund to qualifying participants is made in four tranches for 25% portion of the Bonus Fund to be distributed in each tranche. The number of awards to which a qualifying participant is entitled to, in relation to the first and the second 25% portions of the Bonus Fund, was determined by the Board of Directors in December 2011 and September 2012, respectively. The next two steps of distribution of the Bonus Fund were scheduled for September 2013 and January 2015 ("Program Reserve"), respectively.

Share appreciation rights granted have an exercise price of USD 9.25 (280.95 Russian Roubles) less dividends per share, which are expected to be paid by the Company for the period from January 2012 to April 2015. Share appreciation rights granted vest at the end of a 3-year service period, starting from 31 December 2011, and are exercisable in form of cash payments to the Program participants in April 2015.

The vesting of share appreciation rights is contingent on the market capitalisation of the Company, calculated on the basis of average quoted price of the Company's GDRs at London Stock Exchange during the period from 15 November 2014 to 31 December 2014. The share appreciation rights will be vested if the capitalisation of the Company during the period above will be more or equal USD 2 billion.

The fair value of the awards granted was estimated using a Monte-Carlo model. The fair value is then amortised on appropriate basis over the requisite service periods of the awards, which is the period from the service commencement date to the vesting date of the relevant tranche.

For the year ended 31 December 2011 the Company recognised share-based compensation in the amount of RR 6,797 as an investment in operating companies of the Group being the employers of the Plan participants in the standalone statement of financial position (2012: RR 4,548 was recognised as a decrease in the investment). At 31 December 2012, accumulated obligations under the Plan in the amount of RR 2,250 were presented as other long-term payables in the statement of financial position. In 2013, due to continuing decrease in quoted price of the Company's GDRs, the Company derecognised the investment in operating companies of the Group and other long-term payables in the amount of RR 2,250.

(in thousands of Russian Roubles, unless otherwise stated)

11 Income Taxes

Income tax expense for the year ended 31 December 2013 and 2012 include:

	2013	**2012**
Current tax		
Corporation tax	-	2,245
Withholding tax on dividends receivable	44,036	76,560
Total income tax expense	**44,036**	**78,805**

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

	2013	**2012**
Profit before tax	**1,004,009**	**1,587,882**
Estimated tax charge at statutory rate of 12.5% (2012: 10%)	125,501	158,788
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax effect of expenses not deductible for tax purposes	2,692	4,275
Tax effect of income not subject to tax	(130,054)	(164,254)
Foreign withholding tax	44,036	76,560
Under-provision of prior year tax charge	-	2,245
Deferred tax not recognised on tax loss carry forward	1,861	1,191
Income tax charge	**44,036**	**78,805**

The Company is subject to corporation tax on taxable profits at the rate of 10% up to 31 December 2012, and at the rate of 12.5% as from 1 January 2013.

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. Dividends distributed to the Company by its Cyprus subsidiaries are exempt from income tax.

12 General and Administrative Expenses

	2013	**2012**
Legal, consulting and other professional services	15,776	27,093
Directors’ remuneration	8,769	7,845
Insurance	2,939	2,849
Entertaining costs and business trip expenses	2,869	3,334
Provision for impairment of accounts receivable	2,789	-
Auditors’ remuneration – statutory auditor	2,140	1,883
Bank services	556	605
Telecommunication services	538	583
Taxes and duties	1	30
Other expenses	-	3
Total general and administrative expenses	**36,377**	**44,225**

Legal, consulting and other professional services stated above include fees of RR 126 (2012: RR 50) for tax consultancy services and RR 1,077 (2012: RR 955) for other assurance services charged by the Company’s statutory auditor.

13 Other Operating Income, net

	2013	**2012**
Amortisation of financial guarantees (Note 14)	159,026	51,288
Expenses related to acquisition of subsidiaries and potential acquisitions	-	(9,687)
Foreign exchange gain/(loss), net	647	(694)
Total other operating income, net	**159,673**	**40,907**

(in thousands of Russian Roubles, unless otherwise stated)

14 Balances and Transactions with Related Parties

At 31 December 2013, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2012: 71.51%), including shares in form of GDRs. At 31 December 2013 and 2012, 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 HMS Hydraulic Machines & Systems Group Plc entered into significant transactions or has significant balances outstanding.

The Company's related party balances and transactions are disclosed below:

Balances with related parties	**31 December 2013**	**31 December 2012**
Accounts receivable		
H.M.S. Finance Limited	1,269	1,269
Prepayment of fees to directors	4,394	-
Advances for acquisition of additional shares in H.M.S. Capital Limited	30,000	-
Accounts payable		
H.M.S. Capital Limited	(225)	(201)

Transactions with related parties	**2013**	**2012**
Short-term loans from subsidiary		
H.M.S. Finance Limited (unsecured loan at 3.01% interest rate):		
At 1 January	**-**	**-**
Loans received	5,000	-
Interest charged	6	-
At 31 December	**5,006**	**-**

Transactions with related parties	**2013**	**2012**
Dividend received from subsidiaries		
Hydromashservice CJSC	451,242	1,531,200
HMS Group OJSC	402,043	-
HMS Neftemash OJSC	27,430	-
H.M.S. Finance Limited	-	60,000
Total	**880,715**	**1,591,200**

Guarantees in favour of subsidiaries. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations.

The Company has guaranteed the following obligations:

	31 December 2013	**31 December 2012**
Hydromashservice CJSC	7,815,001	5,981,608

(in thousands of Russian Roubles, unless otherwise stated)

14 Balances and Transactions with Related Parties (continued)

During the year ended 31 December 2013 and 2012 , the Company has acted as the guarantor for the obligation of its subsidiary for the unsecured non-convertible bonds issues and for the obligations of its subsidiary in accordance with the bank loan agreements. The guarantees were provided free of charge and are valid for three to five years or until all respective obligations are fully settled. The fair value of the additional guarantees issued during 2013 to secure the obligations of the subsidiary in relation to non-convertible bonds and bank loans was estimated at RR309.128 (2012: RR 264.669) on initial recognition and was included in the cost of investment in the subsidiary (Note 8). During the year ended 31 December 2013, the fair value of the guarantees is amortised through the statement of profit or loss and other comprehensive income in amount of RR 159,026 (2012: RR 51,288) (Note 13). At 31 December 2013, the unamortised balance of the guarantees is RR 363,512 (2012: RR 213,411). The liabilities are measured at the higher of (a) the amount initially recognised less cumulative amortisation and (b) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Key management compensation. The remuneration received by the Company’s Directors directly from the Company during the year ended 31 December 2013 amounted to RR 8,769 (2012: RR 7,845). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 115,067 for the year ended 31 December 2013 (2012: RR 228,019).

15 Financial Risk Management

Financial risk factors

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company’s overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance.

(a) Market risk

Foreign exchange risk. The Company 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 tables below summarise the Company’s exposure to foreign currency exchange rate risk at 31 December 2013 and 2012:

	31 December 2013			**31 December 2012**		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	2,211	(3,237)	(1,026)	14,165	(3,660)	10,505
EUR	50	(2,290)	(2,240)	1	(3,086)	(3,085)
Total	**2,261**	**(5,527)**	**(3,266)**	**14,166**	**(6,746)**	**7,420**

At 31 December 2013, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 205 (31 December 2012: loss in the amount of RR 2,101) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash balances.

At 31 December 2013, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 448 (31 December 2011: RR 617) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated other payables.

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

15 Financial Risk Management (continued)

(b) Credit risk

The Company 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. Company's financial assets which consist of cash and cash equivalents. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

At 31 December 2013, the Company had RR 76 (31 Deceber 2012: RR 23,887) of cash placed in a bank with Moody's rating of "Ca" and RR 106 (31 December 2012: 4,948) of cash placed in a bank with Fitch rating of "A".
(c) Liquidity risk

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

At 31 Decemder 2013 and 2012, the Company's financial liabilities are payable within one year.

The earliest period in which the maximum possible amount of obligation under financial guarantees (Note 14) could be called is less than one year.

Management of capital. The Company's objectives when managing capital are to safeguard the Company'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. At 31 December 2013 and 2012, capital consists of equity as shown at the Company's balance sheet.

16 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.

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. Carrying amounts of trade and other financial receivables approximate fair values. 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. Carrying amounts of liabilities carried at amortised cost approximate fair values. The fair value of borrowings were included in Level 2.

17 Subsequent Events

Litigation against the Company. 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 declares 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.

Ukraine's operating environment. The Ukrainian economy is characterised by relatively high economic and political risks. In 2013, the world demand for Ukraine's main export commodities, steel and iron ore, was weak. The year was marked by one of the record crop harvests; however world prices for wheat, corn and sunflower seed reduced significantly due to peak harvests in other crop producing regions. In 2013, Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the exchange rate of the national currency, the Ukrainian Hryvnia. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with International Monetary Fund, and to pay the current and past purchases of natural gas. The anticipated association agreement with the European Union was not signed at the end of November. The government announced a deal with the Russian Federation for the purchase of Ukrainian Government bonds up to USD 15 billion, of which USD 3 billion was provided in December 2013. The political system of Ukraine experienced instability in late 2013 and early 2014 with a number of protests against the government's actions, ending with a change in political leadership and early elections planned at the end of May 2014. The Russian government suspended the support of the Ukrainian government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. In 2014, the Ukrainian Hryvnia devalued against the major world currencies.

The Group has not to date been significantly affected by recent developments in Ukraine but, in the event of a deterioration in the situation in that country, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

Deoffshorisation. Recent Russian government initiatives, which are currently under consideration, are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating assets located in Russia, the Company recognizes that these developments may have significant implications for its business and development plans. The Company continues to monitor these developments.

Additional information

Additional information

Shareholder’s info

Information:

Company Name	HMS Hydraulic Machines & Systems Group Plc
Company Type	Public
Fiscal Year-End	December 31
Disclosure	LSE
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov

HMS Group Plc GDR details:

Ticker	HMSG
CUSIP	40425X209
Exchange	London Stock Exchange
ISIN	US40425X2099
Ratio	1:1
Depositary	BK (Sponsored)
Effective Date	Feb 11, 2011
Local Exchange	Not Traded
Underlying ISIN	CY0104230913
Country	Russia
Industry	OilEquip.,Serv.&Dist

GDRs holders' contacts

Contacts for inquiries regarding:

– advise of a change of name and/or address
– report lost/stolen GDR share certificates or the non-receipt of a dividend check
– request an election form for the scrip dividend program
– request forms to transfer GDRs
– report the death of a registered holder of GDR shares
– request a duplicate account statement
– have dividends electronically deposited to your bank account
– consolidate similar account registrations
– request general information about your shareholder account, etc.

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
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Tel: +1 888 737 2377(USA only)
Tel: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
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Tel: +7 495 730 6601
Fax: +7 495 730 6602
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