HMS Hydraulic Machines & Systems Group plc

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

31 December 2014

Contents

Board of Directors

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

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

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

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

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

Mr. Andreas S. Petrou
Non-executive Director

Board support

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

Company Secretary

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

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2014. 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 2014 was RR 459,579 thousand (2013: RR 959,973 thousand) arising mainly as a result of dividend income in amount of RR 554,100 thousand (2013: RR 880,715 thousand). At 31 December 2014, the total assets of the Company were RR 4,187,278 thousand (31 December 2013: RR 4,155,436 thousand) and net assets were RR 3,847,419 thousand (31 December 2013: RR 3,781,163 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 14 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 2014 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 2014 the Company's shareholders approved the final dividend in respect of the year ended 31 December 2013 of RR 3.41 per ordinary share amounting to a total dividend of RR 393,323 thousand has been approved. These dividends were paid in June-July 2014.

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

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

Share capital

At 31 December 2014, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01 each, 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 2014 and at the date of this report are shown on page 1.

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

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

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2014 and 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 2014	Interest in the share capital of the Company at 22 April 2015
Artem V. Molchanov	6.1%	6.1%
Yury N. Skrynnik	3.0%	3.0%
Kirill V. Molchanov	1.8%	1.8%
Philippe Delpal	0.017%	0.017%

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

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 16 to the financial statements.

The Board Committees

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

Audit Committee. The audit committee comprises two directors, both independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other member is Gary S. Yamamoto. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the 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 three directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Nikolai N. Yamburenko and Philippe Delpal are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the 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.

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

Corporate governance

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

Board and management remuneration

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

Branches

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

Treasury shares

On 21 May 2012, the Board unanimously resolved that it is in the best interest of the Company to buy back GDRs from the market for the total amount of up to USD 25 million. During the year ended 31 December 2013, a wholly-owned subsidiary of the 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. The voting and dividend rights of these GDRs are suspended. During 2014, there was no buy back of GDRs of the Company.

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

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

Going concern

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

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
22 April 2015

Directors' Responsibility Statement

The Company's Board of Directors is responsible for the preparation of 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 26) give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Plc at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

- proper books of account have been kept by the Company;
- the Company's 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	Kirill V. Molchanov
Director	Director
22 April 2015	22 April 2015

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 HMS Hydraulic Machines & Systems Group Plc (the "Company"), which comprise the statement of financial position as at 31 December 2014, 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.

Independent auditor's report
To the Members of HMS Hydraulic Machines & Systems Group Plc

Opinion

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

Report on other legal requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The 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 matter

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

Comparative figures

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

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

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol 22 April 2015

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets:			
Investments in subsidiaries	8	4,141,740	4,115,140
Total non-current assets		**4,141,740**	**4,115,140**
Current assets:			
Other receivables	7	43,403	40,114
Cash and cash equivalents	6	2,135	182
Total current assets		**45,538**	**40,296**
TOTAL ASSETS		**4,187,278**	**4,155,436**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	48,329	48,329
Share premium	9	3,563,424	3,563,424
Retained earnings		235,666	169,410
TOTAL EQUITY		**3,847,419**	**3,781,163**
LIABILITIES			
Current liabilities:			
Short-term borrowings	13	30,218	5,006
Financial guarantee contracts	13	244,435	363,512
Other payables		65,206	5,755
Total current liabilities		**339,859**	**374,273**
TOTAL LIABILITIES		**339,859**	**374,273**
TOTAL EQUITY AND LIABILITIES		**4,187,278**	**4,155,436**

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

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Revenue	13	554,100	880,715
General and administrative expenses	11	(157,309)	(36,377)
Other operating income, net	12	90,813	159,673
Operating profit		**487,604**	**1,004,011**
Finance income		10	4
Finance costs	13	(330)	(6)
Profit before income tax		**487,284**	**1,004,009**
Income tax expense	10	(27,705)	(44,036)
Profit for the year and total comprehensive income for the year		**459,579**	**959,973**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
Profit before income tax		487,284	1,004,009
Adjustments for:			
Amortisation of financial guarantees	13	(112,975)	(159,026)
Cancellation of financial guarantees	13	(6,102)	-
Finance income		(10)	(4)
Finance costs	13	12	6
Provision for impairment of accounts receivable	11	-	2,789
Foreign exchange translation differences	12	27,964	(647)
Operating cash flows before working capital changes		**396,173**	**847,127**
Increase in other receivables		(2,786)	(39,027)
Decrease in other taxes payable		-	(14)
Increase/(decrease) in other payables		32,548	(6,447)
Restricted cash		-	305
Cash generated from operations		**425,935**	**801,944**
Tax paid	10	(27,705)	(44,036)
Net cash generated from operating activities		**398,230**	**757,908**
Cash flows from investing activities			
Capital contribution to subsidiaries	8	(26,600)	-
Net cash used in investing activities		**(26,600)**	**-**
Cash flows from financing activities			
Repayment of loans received from related party	13	(78,350)	-
Loans received from related party	13	103,550	5,000
Dividends paid to the shareholders	9	(393,323)	(791,637)
Net cash used in financing activities		**(368,123)**	**(786,637)**
Net increase/(decrease) in cash and cash equivalents		**3,507**	**(28,729)**
Effect of exchange rate changes on cash and cash equivalents		**(1,554)**	**381**
Cash and cash equivalents at the beginning of the year		**182**	**28,530**
Cash and cash equivalents at the end of the year	6	**2,135**	**182**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2013		**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 the Company	9	-	-	(791,637)	8 (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**
Profit for the year and total comprehensive income for the year		**-**	**-**	459,579	459,579
Dividends declared to the shareholders of the Company	9	-	-	(393,323)	(393,323)
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**(393,323)**	**(393,323)**
Balance at 31 December 2014		**48,329**	**3,563,424**	**235,666**	**3,847,419**

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividend 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is payable 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 22 April 2015.

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

2 Operating Environment of the Company

The Company's subsidiaries mainly operate in the Russian Federation.

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

2 Operating Environment of the Company (continued)

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

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (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 2014 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 2014 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 2014 and 2013, the principal rates of exchange used for translating foreign currency balances were:

	2014	2013
1 USD = RR	56.2584	32.7292
1 EUR = RR	68.3427	44.9699

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 entities controlled by the Company. Control exists where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

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.

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

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

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

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

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

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

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

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 on initial recognition and was recognised as cost of investment of the Company in that subsidiary, there were no additional guarantees issued during 2014 (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 2014 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 2014:

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

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

These standards did not have any impact on the Company's financial position or operations.

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 Company concluded that these amendments do not have any effect on its financial statements.

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 concluded that these amendments do not have any effect on its financial statements.

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 concluded that these amendments do not have any effect on its financial statements.

5 New Standards, Amendments and Interpretations (continued)

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 concluded that these amendments do not have any 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 interpretation did not have an impact on the Company's 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 concluded that these amendments do not have any effect on its financial statements.

Certain new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 and which the 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 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 Company does not intend to adopt the existing version of IFRS 9.

5 New Standards, Amendments and Interpretations (continued)

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations (continued)

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

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

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

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

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss in recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated. The Company does not expect that the adoption of these amendments will have any material impact 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 2014	**31 December 2013**
Cash at bank in RR	-	118
Cash at bank in USD	1,761	14
Cash at bank in EUR	374	50
Total cash and cash equivalents	**2,135**	**182**

(in thousands of Russian Roubles, unless otherwise stated)

7 Other Receivables and Other Financial Assets

	31 December 2014	31 December 2013
Other receivables	6,064	4,059
Less: provision for impairment of other receivables	(4,794)	(2,789)
Bank deposits	420	2,197
Financial assets within other receivables, net	**1,690**	**3,467**
Advances for acquisition of additional shares in subsidiary (Note 13)	30,000	30,000
Prepayments and advances to subcontractors	4,987	2,253
Prepayment of fees to directors (Note 13)	6,726	4,394
Non-financial assets within other receivables, net	**41,713**	**36,647**
Total other receivables and other financial assets	**43,403**	**40,114**

8 Investments in Subsidiaries

Movement in investments in subsidiaries was as follows:

	2014	2013
At 1 January	**4,115,140**	**3,808,262**
Capital contribution to share capital	26,600	-
Fair value of financial guarantees provided (Note 13)	-	309,128
Share-based compensation	-	(2,250)
At 31 December	**4,141,740**	**4,115,140**

Details of the investments in the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	%, interest held at 31 December 2014	%, interest held at 31 December 2013
HMS Group JSC	Russia	Holding company	100.00	99.99
HMS Livhydromash OJSC	Russia	Operating company	16.61	-
Livnynasos OJSC	Russia	Operating company	14.99	-
HMS Neftemash OJSC	Russia	Operating company	5.16	1.96
H.M.S. Capital Limited	Cyprus	Holding company	-	100.00
H.M.S. Finance Limited	Cyprus	Financing company	-	100.00
Hydromashservice CJSC	Russia	Operating company	-	96.67

In May 2014, the Company made a capital contribution to HMS Neftemash OJSC, a subsidiary of the Group, by acquiring 1,891,200 newly issued preference shares of HMS Neftemash OJSC, representing 5.16% of its increased share capital, for a cash consideration of RR 5,390.

In June 2014, the Company made a capital contribution to HMS Livhydromash OJSC, a subsidiary of the Group, by acquiring 28,000 newly issued preference shares of HMS Livhydromash OJSC, representing 16.61% of its increased share capital, for a cash consideration of RR 7,000.

In June 2014, the Company made a capital contribution to Livnynasos OJSC, a subsidiary of the Group, by acquiring 4,800 newly issued preference shares of Livnynasos OJSC, representing 14.99% of its increased share capital, for a cash consideration of RR 7,200.

In May 2014, the Company made a capital contribution to Hydromashservice CJSC, a subsidiary of the Group, by acquiring 70 newly issued preference shares of Hydromashservice CJSC, representing 2.28% of its increased share capital, for a cash consideration of RR 7,000.

On 5 August 2014, the Company established a Russian subsidiary in the form of limited liability company – HMS Active LLC, with a share capital of RR 10.

On 07 November 2014, the Company contributed its two wholly-owned subsidiaries, H.M.S. Finance Limited and H.M.S. Capital Limited, to HMS Active LLC as a contribution to its assets without increasing its share capital.

On 27 November 2014, the Company acquired 341,178,655 newly issued preference shares of JSC HMS Group, a subsidiary of the Group, representing 12.61% of its increased share capital. The Company paid for these shares by: (1) 100% share in HMS Active LLC, and (2) all its ordinary and preference shares in Hydromashservice CJSC, which were acquired in 2011 (ordinary shares) and 2014 (preference shares).

(in thousands of Russian Roubles, unless otherwise stated)

8 Investments in Subsidiaries (continued)

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, the 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 due to cancellation of the plan.

At 31 December 2014 investments in subsidiaries includes guarantees given to Hydromashservice CJSC in the amount of RR 573,826 (2013: RR 573,826).

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 2013	**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**
During 2014	**-**	**-**	**-**	**-**
At 31 December 2014	**117,163,427**	**0.01**	**48,329**	**3,563,424**

At 31 December 2014 and 31 December 2013, 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 Group for a total consideration of RR 177,331. The voting and dividend rights of these GDRs are suspended. During 2014, there was no buy back of GDRs of the Company.

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

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

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

At the Annual General meeting which took place in June 2014, a final dividend in respect of the profit for the year ended 31 December 2013 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 393,323 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 2014. The dividends were not accrued in respect of the treasury shares.

At the Annual General Meeting, which took place in June 2013, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2012 of 6.82 Russian Roubles per ordinary share, amounting to a total dividend of RR 791,637. These dividends were paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2013.

(in thousands of Russian Roubles, unless otherwise stated)

10 Income Taxes

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

	2014	2013
Current tax		
Corporation tax	-	-
Withholding tax on dividends receivable	27,705	44,036
Total income tax expense	**27,705**	**44,036**

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

	2014	2013
Profit before tax	**487,284**	**1,004,009**
Estimated tax charge at statutory rate of 12.5% (2013: 12.5%)	60,911	125,501
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax effect of expenses not deductible for tax purposes	20,969	2,692
Tax effect of income not subject to tax	(84,147)	(130,054)
Foreign withholding tax	27,705	44,036
Deferred tax not recognised on tax loss carry forward	2,267	1,861
Income tax charge	**27,705**	**44,036**

The Company is subject to corporation tax on taxable profits at the rate of 12.5%.

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.

11 General and Administrative Expenses

	2014	2013
Legal, consulting and other professional services	132,638	15,776
Directors' remuneration	17,024	8,769
Insurance	3,118	2,939
Auditors' remuneration – statutory auditor	2,155	2,140
Entertaining costs and business trip expenses	1,111	2,869
Bank services	680	556
Telecommunication services	576	538
Stationary and office maintenance	6	-
Taxes and duties	1	1
Provision for impairment of accounts receivable	-	2,789
Total general and administrative expenses	**157,309**	**36,377**

Legal, consulting and other professional services stated above include fees of RR 220 (2013: RR 126) for tax consultancy services and RR 907 (2013: RR 1,077) for other assurance services charged by the Company's statutory auditor.

12 Other Operating Income, net

	2014	2013
Amortisation of financial guarantees (Note 13)	112,975	159,026
Foreign exchange (loss)/gain, net	(27,964)	647
Cancellation of financial guarantees (Note 13)	6,102	-
Other expenses, net	(300)	-
Total other operating income, net	**90,813**	**159,673**

(in thousands of Russian Roubles, unless otherwise stated)

13 Balances and Transactions with Related Parties

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

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

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

The table below contains the disclosure by group of related parties with which 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 2014**	**31 December 2013**
Accounts receivable		
Other receivables from H.M.S. Finance Limited	1,269	1,269
Prepayment of fees to directors	6,726	4,394
Advances for acquisition of additional shares in H.M.S. Capital Limited	30,000	30,000
Accounts payable		
Other short-term payables from H.M.S. Capital	(342)	(225)

Transactions with related parties	**2014**	**2013**
Short-term loans from subsidiary		
H.M.S. Finance Limited (unsecured RUB-denominated loan at 3.01% interest rate):		
At 1 January	**5,006**	**-**
Loans received	103,550	5,000
Repayment of loans	(78,350)	-
Interest charged	330	6
Interest repaid	(318)	-
At 31 December	**30,218**	**5,006**

Transactions with related parties	**2014**	**2013**
Dividends received from subsidiaries		
HMS Neftemash OJSC	246,090	27,430
Hydromashservice CJSC	206,740	451,242
Livnynasos OJSC	82,480	-
HMS Livhydromash OJSC	18,790	-
HMS Group JSC	-	402,043
Total	**554,100**	**880,715**

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 2014	**31 December 2013**
Hydromashservice CJSC	6,923,582	7,815,001

(in thousands of Russian Roubles, unless otherwise stated)

13 Balances and Transactions with Related Parties (continued)

During the year ended 31 December 2014 and 2013, 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 RR 309,128 on initial recognition and was included in the cost of investment in the subsidiary, during 2014 there were no additional guarantees issued (Note 8). During 2014 the fair value of the guarantees has deacreased through the statement of profit or loss and other comprehensive income in amount of RR 6,102 due to a partial repayment of the unsecured non-convertible bond. During the year ended 31 December 2014, the fair value of the guarantees is amortised through the statement of profit or loss and other comprehensive income in amount of RR 112,975 (2013: RR 159,026) (Note 12). At 31 December 2014, the unamortised balance of the guarantees is RR 244,435 (2013: RR 363,512). 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 2014 amounted to RR 17,024 (2013: RR 8,769). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 83,293 for the year ended 31 December 2014 (2013: RR 115,067).

14 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 2014 and 2013:

	31 December 2014			**31 December 2013**		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	2,181	(43,168)	(40,987)	2,211	(3,237)	(1,026)
EUR	374	(21,901)	(21,527)	50	(2,290)	(2,240)
Total	**2,555**	**(65,069)**	**(62,514)**	**2,261**	**(5,527)**	**(3,266)**

At 31 December 2014, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 8,189 (31 December 2013: profit in the amount of RR 205) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash balances and US dollar denominated other payables.

At 31 December 2014, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 4,305 (31 December 2013: RR 448) 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.

14 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 and receivables. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

At 31 December 2014, the Company had RR 2,176 (31 December 2013: RR 76) of cash placed in a bank with Moody's rating of "Caa3" and RR nil (31 December 2013: 106) 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 December 2014 and 2013, 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 13) 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 2014 and 2013, capital consists of equity as shown at the Company's balance sheet.

15 Fair Value of Financial Instruments

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 estimated fair values of financial instruments have been determined by the Company 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.

16 Subsequent Events

There were no events after the date of statement of financial position that would require special disclosure or adjustment to these financial statements.