



HMS Hydraulic Machines & Systems Group plc

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

31 December 2013

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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 disappplied 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.

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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.

A handwritten signature in blue ink, appearing to read 'Tasos Nolas', with a long horizontal stroke extending to the right.

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

	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

HMS Hydraulic Machines & Systems Group plc
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013
(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

	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

	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 of 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.

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 incorporated 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.

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.

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.

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

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
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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

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 December 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 December 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.