HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Financial Information (unaudited)

30 June 2016

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Notes to the Consolidated Condensed Interim Financial Information

Deloitte.

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Independent Auditor's report on Review of consolidated condensed interim financial information

To the Board of Directors of HMS Hydraulic Machines & Systems Group Plc

Introduction

We have reviewed the accompanying consolidated condensed interim financial information of HMS Hydraulic Machines & Systems Group Plc ('the Company') and its subsidiaries (together with the Company, the "Group") on pages 3 to 23 which comprises the consolidated condensed interim statement of financial position as at 30 June 2016, and the consolidated condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and other explanatory information.

Board of Directors' responsibilities

The Group's Board of Directors is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Auditor's responsibility

Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review. This report, including the conclusion, has been prepared for and only for the Company. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

.../2

Board Members: Christis M. Christoforou (Chief Executive Officer), Eleftherios N. Philippou, Nicos S. Kyriakides, Nicos D. Papakyriacou, Athos Chrysanthou, Costas Georghadjis, Antonis Taliotis, Panos Papadopoulos, Pieris M. Markou, Nicos Charalambous, Nicos Spanoudis, Maria Paschalis, Alexis Agathocleous, Alkis Christodoulides, Christakis Ioannou, Panicos Papamichael, Christos Papamarkides, George Martides, Kerry Whyte, Andreas Georgiou, Christos Neocleous, Demetris Papapericleous, Andreas Andreou, Alecos Papalexandrou, George Pantelides, Panayiota Vayianou, Agis Agathocleous, Michael Christoforou (Chairman Emeritus).

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Independent Auditor's report on Review of consolidated condensed interim financial information (continued)

To the Board of Directors of HMS Hydraulic Machines & Systems Group Plc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

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

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

Limassol, 23 September 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets:			
Property, plant and equipment	4	13,848,729	14,161,704
Other intangible assets	5	867,270	984,280
Goodwill	6	3,342,231	3,466,063
Investments in associates		96,374	106,040
Deferred income tax assets		351,293	380,351
Other long-term assets		42,174	43,444
Investment property		239,119	244,247
Restricted cash		-	23,219
Total non-current assets		**18,787,190**	**19,409,348**
Current assets:			
Inventories	8	7,273,069	6,860,390
Trade and other receivables and other financial assets	9	12,831,069	11,701,492
Current income tax receivable		166,161	152,680
Cash and cash equivalents	7	3,361,039	3,496,420
Restricted cash		-	2,573
Total current assets		**23,631,338**	**22,213,555**
TOTAL ASSETS		**42,418,528**	**41,622,903**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		48,329	48,329
Share premium		3,523,535	3,523,535
Treasury shares	15	(297,678)	(213,489)
Other reserves		122,730	(191,585)
Currency translation reserve		(162,113)	476,312
Retained earnings		6,258,835	6,180,042
Equity attributable to the shareholders of the Company		**9,493,638**	**9,823,144**
Non-controlling interests		**2,979,561**	**3,325,643**
TOTAL EQUITY		**12,473,199**	**13,148,787**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	10	12,698,912	11,217,538
Deferred income tax liability		1,433,356	1,534,031
Pension liability		518,391	566,475
Provisions for liabilities and charges	14	157,626	132,865
Other long-term payables		127,428	133,552
Total non-current liabilities		**14,935,713**	**13,584,461**
Current liabilities:			
Trade and other payables	12	10,380,239	8,455,740
Short-term borrowings	10	3,413,889	4,666,626
Provisions for liabilities and charges	14	432,500	451,410
Redemption liability	27	-	326,759
Pension liability		72,131	69,538
Current income tax payable		100,159	142,323
Other taxes payable	13	610,698	777,259
Total current liabilities		**15,009,616**	**14,889,655**
TOTAL LIABILITIES		**29,945,329**	**28,474,116**
TOTAL EQUITY AND LIABILITIES		**42,418,528**	**41,622,903**

Approved for issue and signed on behalf of the Board of Directors on 23 September 2016.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

The accompanying notes on pages 7 to 23 are an integral part of this consolidated condensed interim financial information.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2016	Six months ended 30 June 2015
Revenue	17	20,363,333	16,588,722
Cost of sales	18	(15,386,761)	(11,554,155)
Gross profit		**4,976,572**	**5,034,567**
Distribution and transportation expenses	19	(883,068)	(622,986)
General and administrative expenses	20	(2,098,479)	(1,990,279)
Other operating expenses, net	21	(224,281)	(304,681)
Operating profit		**1,770,744**	**2,116,621**
Finance income	22	84,484	104,892
Finance costs	23	(887,409)	(709,762)
Share of results of associates		222	(172)
Profit before income tax		**968,041**	**1,511,579**
Income tax expense	16	(272,252)	(410,334)
Profit for the period		**695,789**	**1,101,245**
Profit/(loss) attributable to:			
Shareholders of the Company		725,195	1,152,726
Non-controlling interests		(29,406)	(51,481)
Profit for the period		**695,789**	**1,101,245**
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		33,917	(39,644)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(686,814)	(875,072)
Currency translation differences of associates		(9,888)	(19,578)
Other comprehensive loss for the period		**(662,785)**	**(934,294)**
Total comprehensive income for the period		**33,004**	**166,951**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		106,471	353,694
Non-controlling interests		(73,467)	(186,743)
Total comprehensive income for the period		**33,004**	**166,951**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	15	**6.34**	**9.99**

The accompanying notes on pages 7 to 23 are an integral part of this consolidated condensed interim financial information.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flows from operating activities			
Profit before income tax		968,041	1,511,579
Adjustments for:			
Depreciation and amortisation	18-21	764,424	744,697
Loss from disposal of property, plant and equipment and intangible assets	21	10,948	2,951
Finance income	22	(84,484)	(104,892)
Finance costs	23	887,409	709,762
Change in retirement benefits obligations		48,171	47,596
Change in warranty provision	18	49,916	44,025
Loss/(gain) on revaluation of redemption liability	21	17,961	(10,553)
Change in provision for impairment of trade and other receivables and other financial assets	20	766	7,007
Change in provision for obsolete inventories	18	9,454	(4,687)
Foreign exchange loss, net	21	71,041	157,561
Change in provision for legal claims	21	(2,540)	17,192
Share of results of associates		(222)	172
Impairment of property, plant and equipment charge and reversal, net	21	(1,274)	31,534
Operating cash flows before working capital changes		**2,739,611**	**3,153,944**
Increase in inventories		(680,242)	(1,440,682)
Increase in trade and other receivables		(1,002,050)	(216,198)
Decrease in other taxes payable		(161,623)	(482,043)
Increase/(decrease) in accounts payable and accrued liabilities		1,887,733	(1,437,754)
Cash from/(used in) operations		**2,783,429**	**(422,733)**
Income tax paid		(389,040)	(500,824)
Interest paid		(989,650)	(949,254)
Decrease/(increase) in restricted cash		25,792	(35,695)
Net cash from/(used in) operating activities		**1,430,531**	**(1,908,506)**
Cash flows from investing activities			
Repayment of loans advanced		6,165	10,325
Loans advanced		(139,406)	(31,711)
Proceeds from sale of property, plant and equipment and intangible assets		6,297	14,242
Interest received		9,219	1,214
Purchase of property, plant and equipment, net of VAT		(699,882)	(522,323)
Acquisition of intangible assets, net of VAT		(65,885)	(35,545)
Net cash used in investing activities		**(883,492)**	**(563,798)**
Cash flows from financing activities			
Repayments of borrowings		(4,772,906)	(3,822,967)
Proceeds from borrowings		5,153,191	3,313,745
Proceeds from government grant	25	17,000	-
Acquisition of non-controlling interest in subsidiary	15	(346,900)	-
Buy back of issued shares	15	(84,189)	-
Payment for finance lease		(330)	(1,140)
Dividends paid to non-controlling shareholders of subsidiaries		(8,144)	(3,610)
Dividends paid to the shareholders of the Company	15	(579,863)	-
Net cash used in financing activities		**(622,141)**	**(513,972)**
Net decrease in cash and cash equivalents		**(75,102)**	**(2,986,276)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(60,279)**	**(108,230)**
Cash and cash equivalents at the beginning of the period		**3,496,420**	**4,534,953**
Cash and cash equivalents at the end of the period		**3,361,039**	**1,440,447**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**430,519**	**4,783,043**	**8,392,636**	**3,550,667**	**11,943,303**
Profit/(loss) for the period		-	-	-	-	-	1,152,726	1,152,726	(51,481)	**1,101,245**
Other comprehensive (loss)/income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(27,102)	(27,102)	(12,542)	**(39,644)**
Currency translation differences		-	-	-	-	(752,352)	-	(752,352)	(122,720)	**(875,072)**
Currency translation differences of associates		-	-	-	-	(19,578)	-	(19,578)	-	**(19,578)**
Total comprehensive (loss)/income for the period		**-**	**-**	**-**	**-**	**(771,930)**	**1,125,624**	**353,694**	**(186,743)**	**166,951**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(56,011)	**(56,011)**
Total transactions with owners, recognised directly in equity		**-**	**-**	-	**-**	**-**	**-**	**-**	**(56,011)**	**(56,011)**
Balance at 30 June 2015		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**(341,411)**	**5,908,667**	**8,746,330**	**3,307,913**	**12,054,243**
Balance at 1 January 2016		**48,329**	**3,523,535**	**(213,489)**	**(191,585)**	**476,312**	**6,180,042**	**9,823,144**	**3,325,643**	**13,148,787**
Profit/(loss) for the period		-	-	-	-	-	725,195	725,195	(29,406)	**695,789**
Other comprehensive (loss)/income										
Remeasurement of post-employment benefit obligations							19,701	19,701	14,216	**33,917**
Currency translation differences		-	-	-	-	(628,537)	-	(628,537)	(58,277)	**(686,814)**
Currency translation differences of associates		-	-	-	-	(9,888)	-	(9,888)	-	**(9,888)**
Total comprehensive (loss)/income for the period		-	-	-	-	**(638,425)**	**744,896**	**106,471**	**(73,467)**	**33,004**
Buy back of issued shares	15	-	-	(84,189)	-	-	-	(84,189)	-	**(84,189)**
Acquisition of non-controlling interest in subsidiary	15	-	-		314,315	-	(7,250)	307,065	(309,246)	**(2,181)**
Effect of the Group restructuring on non-controlling interest	15	-	-	-	-	-	(78,990)	(78,990)	78,990	**-**
Dividends declared to the shareholders of the Company	15					-	(579,863)	(579,863)	-	**(579,863)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(42,359)	**(42,359)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(84,189)**	**314,315**	**-**	**(666,103)**	**(435,977)**	**(272,615)**	**(708,592)**
Balance at 30 June 2016		**48,329**	**3,523,535**	**(297,678)**	**122,730**	**(162,113)**	**6,258,835**	**9,493,638**	**2,979,561**	**12,473,199**

1 General Information

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

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

At 30 June 2016, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company’s shares (31 December 2015: 71.51%), including shares in form of GDRs. At 30 June 2016 and 31 December 2015, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Basis of Preparation

This consolidated condensed interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), Interim financial reporting, as adopted by the European Union (“the EU”). The consolidated condensed interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the EU and the Cyprus Companies Law, Cap. 113.

The accompanying condensed interim consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group.

3 Accounting Policies and Critical Accounting Estimates and Judgments

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2015, as described in those annual consolidated financial statements, except as described in the paragraph *Adoption of new or revised standards, amendments and interpretations* below.

Adoption of new or revised standards, amendments and interpretations. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the Group’s consolidated financial statements for the year ended 31 December 2015, became effective for the Group from 1 January 2016. They have not significantly affected this consolidated condensed interim financial information of the Group.

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

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

The Group accounts for construction projects, design and engineering projects and certain other long-term contracts using the ‘percentage-of-completion’ method. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the six months ended 30 June 2016, the Group recognised revenue from the application of the ‘percentage-of-completion method’ of RR 6,238,514 (for the six months ended 30 June 2015: RR 6,408,640) (Note 11).

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

3 Accounting Policies and Critical Accounting Estimates and Judgments (continued)

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

(i) In December 2013, the Group signed a RR 5.7 billion contract to deliver technological integrated solution for a major Siberian gasfield. The scope of the contract includes development of design documentation, manufacturing, delivery, supervision and testing of complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components for providing complex integrated systems such as deethanising compressor station, methanol regenerating unit etc. The contract is expected to be completed in 2017. Total amount of payments received from customer in relation to this project at 30 June 2016 amounted to RR 4,181,420, net of VAT (31 December 2015: RR 3,455,899). For the six months ended 30 June 2016, the Group recognised revenue of RR 393,335 in relation to this project (for the six months ended 30 June 2015: RR 1,827,050), and the excess of accumulated revenue recognised over payments received from customer of RR 827,402 was included in receivables due from customers for construction work (31 December 2015: RR 1,159,588).

(ii) During the year ended 31 December 2014, the Group signed a contract to deliver complex equipment for processing of liquid hydrocarbons for large oil-gas-and-condensate fields in Siberia. The scope of contract includes manufacturing and delivery of a complex technological facility, including block-modular process pump stations, block-modular head pump stations, block-modular main pump stations, block-modular retaining pump stations, buildings of oil system and other components of the major process equipment. Total budgeted revenue for this contract at 30 June 2016 amounted to approximately RR 7.3 billion. At 30 June 2016, the total amount of payments received from customer in relation to this project equalled to RR 7,258,573, net of VAT (31 December 2015: RR 7,258,573). For the six months ended 30 June 2016, the Group recognized revenue of RR 42,337 in relation to this project (for the six months ended 30 June 2015: RR 2,608,341). At 30 June 2016, the contract has been completed and the related payments by the customer have been settled in full (31 December 2015: the excess of advances received over accumulated revenue recognized of RR 42,337 was included in payables due to customers for construction work).

(iii) During the year ended 31 December 2014, the Group signed a contract for the construction and delivery of highly customised pump stations for an oil-gas-and-condensate field in the northern part of Yamal peninsula. Total budgeted revenue for this contract at 30 June 2016 amounted to RR 1.9 billion. At 30 June 2016, the total amount of payments received from customer in relation to this project equalled to RR 1,944,400 (31 December 2015: RR 1,173,600), net of VAT. The Group recognised revenue of RR 249,802 in relation to this project for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RR 537,404). At 30 June 2016, the contract has been completed and the related payments by the customer have been settled in full (31 December 2015: the excess of accumulated revenue recognised over advances received of RR 520,998 was included in receivables due from customers for construction work).

(iv) In July 2015, the Group signed a contract to deliver 5 high-pressure compressor units, intended for compression of separated associated gas. This equipment will be manufactured by the Group and installed at an oil and gas condensate deposit, located in the Ural region of Russia. The contract is expected to be fulfilled in 2017. Total budgeted revenue for this contract at 30 June 2016 amounted to RR 3.7 billion. At 30 June 2016, the total amount of advances received in relation to this project equalled to RR 1,043,400 net of VAT (31 December 2015: RR 1,043,400). For the six months ended 30 June 2016, the Group recognised revenue of RR 2,533,068 in relation to this project, and the excess of accumulated revenue recognised over advances received of RR 1,749,056 was included in receivables due from customers for construction work (31 December 2015: payables due to customers amounted to RR 784,012).

(v) In February 2016, the Group signed a contract for delivery and installation of a boosting compressor station at an oil and gas condensate deposit, located in the West Siberia. The contract is expected to be completed in 2017. Total budgeted revenue for this contract at 30 June 2016 amounted to RR 2.8 billion. Total amount of advances received in relation to this project at 30 June 2016 amounted to RR 792,258, net of VAT. For the six months ended 30 June 2016, the Group recognised revenue of RR 559,261 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 232,996 was included in payables due to customers for construction work.

(vi) In March 2016, the Group signed a contract for delivery and installation of technological integrated solution for Siberian gas fields. The scope of the contract includes manufacturing and delivery of complex integrated solutions for pumping of natural gas liquids and pumping of oil, wash-down water and rust preventive chemical. The contract is expected to be completed in 2016. Total budgeted revenue for this contract at 30 June 2016 amounted to RR 3.1 billion. Total amount of advances received in relation to this project at 30 June 2016 amounted to RR 1,476,973, net of VAT. For the six months ended 30 June 2016, the Group recognised revenue of RR 975,960 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 501,013 was included in payables due to customers for construction work.

(in thousands of Russian Roubles, unless otherwise stated)

3 Accounting Policies and Critical Accounting Estimates and Judgments (continued)

(vii) In April 2016, the Group signed a contract for delivery and installation of a formation-fluid and low-temperature separation unit. The unit, made up of inlet formation-fluid separators, heavy condensate separators, heavy condensate degassers, low-temperature separators, heat exchangers and other components will be manufactured by the Group and installed at an oil and gas condensate deposit, located in West Siberia. The contract is expected to be completed in 2017. Total budgeted revenue for this contract at 30 June 2016 amounted to RR 2.1 billion. Total amount of advances received in relation to this project at 30 June 2016 amounted to RR 625,906, net of VAT. For the six months ended 30 June 2016, the Group recognised revenue of RR 241,922 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 383,984 was included in payables due to customers for construction work.

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

At 30 June 2016, the Group performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as of that date. As a result of this analysis, no indicators of impairment have been identified.

4 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2015	**1,452,586**	**8,869,493**	**6,542,384**	**289,765**	**808,413**	**831,104**	**18,793,745**
Additions	-	17,517	138,459	18,468	33,257	350,797	558,498
Transfers	-	5,937	119,223	-	2,682	(127,842)	-
Disposals	-	(25,058)	(30,933)	(7,783)	(25,270)	(5,361)	(94,405)
Translation to presentation currency	(9,958)	(172,144)	(368,739)	(5,997)	(47,834)	(29,442)	(634,114)
Balance at 30 June 2015	**1,442,628**	**8,695,745**	**6,400,394**	**294,453**	**771,248**	**1,019,256**	**18,623,724**
Balance at 1 January 2016	**1,475,789**	**9,115,128**	**7,074,981**	**306,765**	**901,960**	**1,044,942**	**19,919,565**
Additions	46	31,041	268,300	9,085	85,305	276,475	670,252
Transfers	-	244,241	298,880	-	8,719	(551,840)	-
Disposals	-	(6,144)	(37,149)	(13,871)	(14,967)	(46,954)	(119,085)
Translation to presentation currency	(7,276)	(151,435)	(309,104)	(6,156)	(54,186)	(15,196)	(543,353)
Balance at 30 June 2016	**1,468,559**	**9,232,831**	**7,295,908**	**295,823**	**926,831**	**707,427**	**19,927,379**
Accumulated depreciation and impairment							
Balance at 1 January 2015	**(7,993)**	**(1,318,721)**	**(2,431,692)**	**(187,140)**	**(477,025)**	**-**	**(4,422,571)**
Eliminated on disposals	-	20,916	20,872	4,937	21,561	-	68,286
Depreciation expense	-	(163,821)	(304,133)	(15,978)	(59,792)	-	(543,724)
Impairment charge	-	-	(30,209)	-	(2,705)	-	(32,914)
Impairment reversal	-	-	1,305	-	75	-	1,380
Translation to presentation currency	-	28,664	97,004	2,915	19,831	-	148,414
Balance at 30 June 2015	**(7,993)**	**(1,432,962)**	**(2,646,853)**	**(195,266)**	**(498,055)**	**-**	**(4,781,129)**
Balance at 1 January 2016	**(7,993)**	**(1,887,739)**	**(3,063,476)**	**(207,455)**	**(581,447)**	**(9,751)**	**(5,757,861)**
Eliminated on disposals	-	1,720	30,905	11,992	13,230	-	57,847
Depreciation expense	-	(165,867)	(332,003)	(16,178)	(65,493)	-	(579,541)
Impairment reversal	-	454	793	-	27	-	1,274
Translation to presentation currency	-	33,618	132,729	4,113	29,171	-	199,631
Balance at 30 June 2016	**(7,993)**	**(2,017,814)**	**(3,231,052)**	**(207,528)**	**(604,512)**	**(9,751)**	**(6,078,650)**
Carrying amount							
Carrying amount at 1 January 2015	**1,444,593**	**7,550,772**	**4,110,692**	**102,625**	**331,388**	**831,104**	**14,371,174**
Carrying amount at 30 June 2015	**1,434,635**	**7,262,783**	**3,753,541**	**99,187**	**273,193**	**1,019,256**	**13,842,595**
Carrying amount at 1 January 2016	**1,467,796**	**7,227,389**	**4,011,505**	**99,310**	**320,513**	**1,035,191**	**14,161,704**
Carrying amount at 30 June 2016	**1,460,566**	**7,215,017**	**4,064,856**	**88,295**	**322,319**	**697,676**	**13,848,729**

(in thousands of Russian Roubles, unless otherwise stated)

4 Property, Plant and Equipment (continued)

At 30 June 2016, the Group's property, plant and equipment for a total of RR 293,108 was pledged as security for certain borrowings (31 December 2015: RR 202,657), including RR 233,623 related to undrawn credit facilities (31 December 2015: nil) (Note 10).

At 30 June 2016 and 31 December 2015, construction in progress includes capitalised expenses, related to the implementation of large investment projects by the Group, including the construction of a new production and testing facility for high-productivity and high-capacity pumps for oil transportation, oil extraction and power industries.

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the six months ended 30 June 2016 was RR 15,386 (for the six months ended 30 June 2015: nil). The capitalisation rate, calculated using the weighted average interest rate of the Group, was 12.52%.

Construction-in-progress includes advances for capital expenditures for a total of RR 123,111 at 30 June 2016 (31 December 2015: RR 77,643).

At 30 June 2016, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 247,165 (31 December 2015: RR 172,792).

5 Other Intangible Assets

	Patents and project documen-tation	Licensed technology	Acquired software licenses	Customer relationships and order backlog	Trademarks	Websites	Total
Cost							
Balance at 1 January 2015	**607,120**	**77,371**	**152,312**	**1,352,199**	**196,878**	**1,299**	**2,387,179**
Additions	7,822	6,298	29,313	-	-	-	43,433
Disposals	(160)	(2,028)	(14,784)	-	-	-	(16,972)
Translation to presentation currency	(18,637)	(10,591)	(8,328)	(38,103)	(2,104)	(3)	(77,766)
Balance at 30 June 2015	**596,145**	**71,050**	**158,513**	**1,314,096**	**194,774**	**1,296**	**2,335,874**
Balance at 1 January 2016	**639,026**	**87,895**	**185,086**	**1,075,396**	**195,693**	**1,256**	**2,184,352**
Additions	14,134	43,410	49,426	-	71	-	107,041
Disposals	(40)	(2,122)	(29,002)	-	-	(40)	(31,204)
Translation to presentation currency	(23,783)	(7,398)	(7,865)	(40,461)	(1,064)	(9)	(80,580)
Balance at 30 June 2016	**629,337**	**121,785**	**197,645**	**1,034,935**	**194,700**	**1,207**	**2,179,609**
Accumulated amortisation and impairment							
Balance at 1 January 2015	**(201,885)**	**(22,701)**	**(70,930)**	**(767,901)**	**(94,050)**	**(703)**	**(1,158,170)**
Eliminated on disposals	160	1,962	14,784	-	-	-	16,906
Amortisation expense	(58,909)	(6,134)	(27,211)	(86,802)	(10,541)	(61)	(189,658)
Translation to presentation currency	7,550	2,910	4,071	14,057	854	3	29,445
Balance at 30 June 2015	**(253,084)**	**(23,963)**	**(79,286)**	**(840,646)**	**(103,737)**	**(761)**	**(1,301,477)**
Balance at 1 January 2016	**(330,481)**	**(28,286)**	**(95,020)**	**(630,775)**	**(114,728)**	**(782)**	**(1,200,072)**
Eliminated on disposals	18	2,120	28,995	-	-	40	31,173
Amortisation expense	(63,336)	(7,547)	(29,127)	(69,142)	(10,544)	(61)	(179,757)
Translation to presentation currency	13,754	2,479	4,064	15,458	553	9	36,317
Balance at 30 June 2016	**(380,045)**	**(31,234)**	**(91,088)**	**(684,459)**	**(124,719)**	**(794)**	**(1,312,339)**
Carrying amount							
Carrying amount at 1 January 2015	**405,235**	**54,670**	**81,382**	**584,298**	**102,828**	**596**	**1,229,009**
Carrying amount at 30 June 2015	**343,061**	**47,087**	**79,227**	**473,450**	**91,037**	**535**	**1,034,397**
Carrying amount at 1 January 2016	**308,545**	**59,609**	**90,066**	**444,621**	**80,965**	**474**	**984,280**
Carrying amount at 30 June 2016	**249,292**	**90,551**	**106,557**	**350,476**	**69,981**	**413**	**867,270**

(in thousands of Russian Roubles, unless otherwise stated)

6 Goodwill

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Carrying amount at 1 January	**3,466,063**	**3,300,399**
Effect of translation to presentation currency related to Apollo Goessnitz GmbH	(123,832)	(99,532)
Carrying amount at 30 June	**3,342,231**	**3,200,867**

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

	30 June 2016	31 December 2015
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,038,943	1,162,775
Sibneftemash JSC	511,784	511,784
HMS Neftemash JSC (goodwill, recognised on acquisition of Giprotyumenneftegaz PJSC)	370,360	370,360
EPF “SIBNA” Inc. JSC	117,308	117,308
Dimitrovgradkhimmash OJSC	64,027	64,027
Total carrying amount of goodwill	**3,342,231**	**3,466,063**

7 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 June 2016	31 December 2015
Cash on hand	2,122	1,786
RR denominated balances with banks	2,094,463	1,082,075
Foreign currency denominated balances with banks	578,203	943,004
RR denominated bank deposits	429,880	1,178,428
Foreign currency denominated bank deposits	225,557	278,319
Other cash equivalents	30,814	12,808
Total cash and cash equivalents	**3,361,039**	**3,496,420**

At 30 June 2016, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 182,264 (31 December 2015: RR 137,084) and EUR-denominated deposit of RR 43,293 (31 December 2015: RR 141,235).

8 Inventories

	30 June 2016	31 December 2015
Raw materials and supplies	3,307,535	3,164,485
Work in progress	2,631,496	2,353,042
Finished goods and goods for resale	1,334,038	1,342,863
Total inventories	**7,273,069**	**6,860,390**

Inventories are presented net of provision for obsolescence in amount of RR 361,245 at 30 June 2016 (31 December 2015: RR 377,410).

At 30 June 2016, inventories of RR 49,131 were pledged as collateral for certain borrowings (31 December 2015: RR 64,046), including RR 6,400 for undrawn credit facilities (31 December 2015: RR 9,737) (Note 10). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 18.

(in thousands of Russian Roubles, unless otherwise stated)

9 Trade and Other Receivables and Other Financial Assets

	30 June 2016	31 December 2015
Trade receivables	7,356,132	7,305,883
Less: provision for impairment of trade receivables	(363,351)	(349,428)
Short-term loans issued	137,651	12,340
Less: provision for impairment of short-term loans issued	(101)	-
Bank deposits	72,169	62,752
Other receivables	226,203	146,688
Less: provision for impairment of other receivables	(62,411)	(80,910)
Receivables due from customers for construction work (Note 11)	3,172,679	2,174,638
Financial assets, net	**10,538,971**	**9,271,963**
Prepayments and advances to suppliers and subcontractors	1,945,064	1,916,339
Less: provision for impairment of advances to suppliers	(32,592)	(36,133)
VAT receivable	366,339	526,057
Less: provision for VAT receivable	(5,434)	(6,403)
Other taxes receivable	18,721	29,669
Non-financial assets, net	**2,292,098**	**2,429,529**
Total trade and other receivables and other financial assets	**12,831,069**	**11,701,492**

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

At 30 June 2016, the closing balance of bank deposits comprised RUB-denominated deposits of RR 42,750 (31 December 2015: RR 3,200), USD-denominated deposit of RR 24,385 (31 December 2015: RR 21,696), EUR-denominated deposits of RR 4,984 (31 December 2015: RR 37,856) and BYR-denominated deposit of RR 50 (31 December 2015: nil).

At 30 June 2016, trade receivables arising from certain sales contracts in the amount of RR 382,160 (31 December 2015: RR 322,490) were pledged as collateral for certain borrowings, including RR 31,023 related to undrawn credit facilities (31 December 2015: nil) (Note 10).

10 Borrowings

	Interest rate	Denominated in	30 June 2016	31 December 2015
Long-term unsecured loans and bonds:				
Bonds 1	10.10%	RR	-	591,998
Unsecured bank loans	9.95% - 15.50%	RR	14,098,496	11,986,069
Unsecured bank loans	from EURIBOR+2.37% to 6.85%	EUR	702,855	2,093,316
Unsecured non-bank loans	5.00%	RR	500,000	500,000
			15,301,351	**15,171,383**
Less: current portion of long-term borrowings			(2,602,439)	(3,953,845)
Total long-term borrowings			**12,698,912**	**11,217,538**
Short-term unsecured bank loans:				
Unsecured loans	13.55% - 13.80%	RR	460,000	160,000
			460,000	**160,000**
Short-term secured bank loans:				
Secured loans	EURIBOR+2.60% - EURIBOR+2.66%	EUR	284,841	318,796
Secured loans	10.70% - 11.50%	USD	54,544	61,474
Secured loans	14.85%	RR	-	130,021
Secured loans	36.00%	BYR	-	3,895
			339,385	**514,186**
Current portion of long-term borrowings			2,602,439	3,953,845
Interest payable			12,065	38,595
Total short-term borrowings			**3,413,889**	**4,666,626**

(in thousands of Russian Roubles, unless otherwise stated)

10 Borrowings (continued)

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

	30 June 2016	31 December 2015
RR	15,069,524	13,405,777
EUR	988,733	2,412,964
USD	54,544	61,474
BYR	-	3,949
Total borrowings	**16,112,801**	**15,884,164**

Bonds 1. In February 2013, HYDROMASHSERVICE JSC issued RR 3,000,000 of bonds. The maturity of the bonds was 5 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 10.10% was set for the first six coupon periods. Subsequent coupon rates were to be determined in February 2016. HMS Hydraulic Machines & Systems Group plc and HMS Livhydromash JSC issued guarantees in respect of these bonds. During the year ended 31 December 2015, HMS Neftemash JSC, the subsidiary of the Group, repurchased part of Bonds 1 with total par value of RR 588,968 at a market value of RR 558,323. In July 2015, the Group redeemed before the maturity date 2,389,284 Bonds 1 at 97.75% par value of RR 2,335,525, including bonds which were repurchased by HMS Neftemash JSC in April-June 2015 with total par value of RR 574,083. The difference between par value and market value of purchased bonds in amount of RR 71,487 was recognised within finance costs as a gain from redemption of bonds in the consolidated financial statements for the year ended 31 December 2015. As a result of the above actions, Bonds 1 in amount of RR 610,716 were left to be redeemed on maturity date, including bonds which were repurchased by HMS Neftemash JSC with total par value of RR 14,885. At 31 December 2015, the outstanding amount of Bonds 1 was RR 591,998, net of unamortised transaction costs of RR 3,833.

In February 2016, Bonds 1 were fully redeemed by the Group. Accrued coupon interest was paid to holders of Bonds 1 in amount of RR 30,318 at the date of redemption.

Bonds 1 redemptions that were executed by the Group in July 2015 and in February 2016 were financed by credit lines.

Assets pledged. At 30 June 2016, the Group pledged property, plant and equipment and inventories in total amount of RR 59,485 and RR 42,731 (31 December 2015: RR 202,657 and RR 54,309), respectively.

At 30 June 2016 and 31 December 2015, the Group also pledged its rights under some sales contracts with customers as security for certain borrowings. At 30 June 2016, the Group recognised trade receivables under these sales contracts in amount of RR 351,137 (31 December 2015: RR 322,490).

11 Construction Contracts

During the six months ended 30 June 2016 and 2015, the construction contracts revenue was recognised in relation to stage of completion of each contract. The stage of completion of each contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Construction contracts revenue	6,238,514	6,408,640
Contract cost expensed	(5,213,875)	(4,389,153)
Gross margin	**1,024,639**	**2,019,487**

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

Contracts with net amount owing to the Group	30 June 2016	31 December 2015
Aggregate amount of contract cost incurred	10,553,347	7,262,995
Aggregate amount of recognised profits	2,030,186	2,192,571
Aggregate amount of recognised losses	(78,257)	(42,488)
Less: Progress billings	(9,332,597)	(7,238,440)
Gross amount due from customers for contract work	**3,172,679**	**2,174,638**

(in thousands of Russian Roubles, unless otherwise stated)

11 Construction Contracts (continued)

Contracts with net amount owed by the Group	30 June 2016	31 December 2015
Aggregate amount of contract cost incurred	3,098,030	7,619,601
Aggregate amount of recognised profits	972,047	4,139,611
Aggregate amount of recognised losses	(35,453)	(6,196)
Less: Progress billings	(5,196,346)	(12,790,200)
Gross amount due to customers for contract work	**(1,161,722)**	**(1,037,184)**

At 30 June 2016, the total amount of retentions related to implementation of construction contracts equalled to RR 112,670 (31 December 2015: RR 80,758).

12 Trade and Other Payables

	30 June 2016	31 December 2015
Trade payables	5,083,856	3,268,065
Other payables	171,043	193,346
Financial trade and other payables	**5,254,899**	**3,461,411**
Advances from customers	3,110,699	2,765,720
Payables due to customers for construction work (Note 11)	1,161,722	1,037,184
Wages and salaries payable	852,919	1,191,425
Other non-financial payables	**5,125,340**	**4,994,329**
Total trade and other payables	**10,380,239**	**8,455,740**

13 Other Taxes Payable

	30 June 2016	31 December 2015
VAT	312,132	468,723
Social funds contribution	205,864	212,785
Personal income tax	58,909	62,149
Property tax	21,299	17,527
Land tax	10,323	11,438
Transport tax	899	2,767
Other taxes	1,272	1,870
Total other taxes payable	**610,698**	**777,259**

14 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims
At 1 January 2015	**216,123**	**52,070**
Additional provisions	88,177	24,983
Unused amounts reversed	(44,152)	(7,791)
Provision used during the period	(36,747)	(22,680)
Effect of translation to presentation currency	(3,883)	-
At 30 June 2015	**219,518**	**46,582**
At 1 January 2016	**314,865**	**269,410**
Additional provisions	112,043	12,287
Unused amounts reversed	(16,275)	(14,827)
Provision used during the period	(45,852)	(37,484)
Effect of translation to presentation currency	(1,650)	(2,391)
At 30 June 2016	**363,131**	**226,995**

Warranty provision. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision has been recognised at the reporting date for expected warranty claims based on past experience of the level of repairs and returns. At 30 June 2016, the closing balance of the warranty provision comprised a short-term portion of RR 205,505 and a long-term portion of RR 157,626 (31 December 2015: RR 182,000 and RR 132,865, respectively).

(in thousands of Russian Roubles, unless otherwise stated)

15 Equity and Earnings per Share

Non-controlling interest. In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH at the price of EUR 4.1 million (Note 27). Share purchase transaction was legally completed in February 2016 in amount of RR 346,900, including transaction costs of RR 2,181. As a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100% and the Group's non-controlling interest decreased by RR 309,246.

Effect of the Group restructuring on non-controlling interest. During 2016, a Group subsidiary entered into the share purchase agreement with Tomskgazstroy PJSC to acquire an additional ordinary share issue. As a result, the Group's effective share in Tomskgazstroy PJSC increased from 80.78% to 93.49% and non-controlling interest increased by RR 78,990. The effect of this transaction was presented in the consolidated condensed interim statement of changes in equity as the effect of the Group restructuring on non-controlling interest.

Treasury shares. On 8 February 2016, the ratio of the Company's depositary receipt program was changed from the old ratio of one DR representing one ordinary share to a new ratio of one DR representing five ordinary shares. The issued number of ordinary shares of the Company and their nominal value remained unchanged.

During the six months ended 30 June 2016, 347,371 GDRs of the Company representing 1.48% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 84,189.

At 30 June 2016, the Company, via a wholly-owned subsidiary, is holding 781,785 (31 December 2015: 434,414 after applying the new ratio retrospectively) of its own GDRs with the total cost of RR 297,678 (31 December 2015: RR 213,489). The voting and dividend rights of these GDRs are suspended.

Dividends. No interim dividends were declared by the Board of Directors during the six months ended 30 June 2016 and 2015.

At the Annual General Meeting in June 2016, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2015 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 579,863. These dividends were accounted for in shareholders' equity as an appropriation of retained earnings in six months ended 30 June 2016. This dividend was paid in June 2016.

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

For the six months ended 30 June 2016 and 2015, earnings per share are calculated as follows:

	Six months ended 30 June 2016	**Six months ended 30 June 2015**
Profit for the period attributable to ordinary shareholders	725,195	1,152,726
Weighted average number of ordinary shares in issue (thousands)	114,368	115,344
Basic and diluted earnings per ordinary share (expressed in RR per share)	**6.34**	**9.99**

16 Income Taxes

Income tax expense for the six months ended 30 June 2016 and 2015 included:

	Six months ended 30 June 2016	**Six months ended 30 June 2015**
Current tax expense	356,010	298,026
Deferred tax (benefit)/expense	(83,758)	112,308
Total income tax expense	**272,252**	**410,334**

Most companies of the Group were subject to tax rate of 20% on taxable profits in the Russian Federation for the six months period ended 30 June 2016 and 2015.

(in thousands of Russian Roubles, unless otherwise stated)

17 Revenue

	Six months ended 30 June 2016	Six months ended 30 June 2015
Sales of oil and gas equipment	7,731,741	7,457,738
Sales of pumps	6,137,302	5,462,804
Sales of compressor equipment	4,519,238	1,244,007
Revenue from construction and design and engineering services	1,212,192	1,549,443
Sales of other services and goods	762,860	874,730
Total revenue	**20,363,333**	**16,588,722**

18 Cost of Sales

	Six months ended 30 June 2016	Six months ended 30 June 2015
Materials and components	10,690,090	7,846,775
Labour costs	2,963,412	2,913,969
Construction and design, engineering and other services of subcontractors	708,463	507,997
Depreciation and amortisation	658,213	642,436
Utilities	227,929	222,090
Change in warranty provision	49,916	44,025
Change in retirement benefits obligations	36,492	36,569
Change in provision for obsolete inventories	9,454	(4,687)
Change in work in progress and finished goods	(379,559)	(1,044,164)
Other expenses	422,351	389,145
Total cost of sales	**15,386,761**	**11,554,155**

19 Distribution and Transportation Expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
Labour costs	316,481	276,640
Transportation expenses	288,305	190,551
Agency services	122,642	3,656
Lease expense	33,308	35,734
Entertaining costs and business trip expenses	16,960	16,952
Advertising	13,076	13,134
Depreciation and amortisation	9,779	10,948
Insurance	5,650	15,721
Change in retirement benefits obligations	974	793
Other expenses	75,893	58,857
Total distribution and transportation expenses	**883,068**	**622,986**

20 General and Administrative Expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
Labour costs	1,441,831	1,292,026
Taxes and duties	91,806	113,394
Depreciation and amortisation	90,952	87,893
Bank services	81,458	81,918
Entertaining costs and business trip expenses	43,449	48,638
Property, plant and equipment repair and maintenance	36,424	35,310
Stationary and office maintenance	34,857	29,881
Security	31,796	28,885
Audit and consultancy services	25,945	80,935
Insurance	24,686	21,591
Lease expense	24,149	26,629
Telecommunication services	15,840	14,542
Change in retirement benefits obligations	10,705	10,234
Training and recruitment	5,730	7,700
Change in provision for impairment of trade and other receivables and other financial assets	766	7,007
Other expenses	138,085	103,696
Total general and administrative expenses	**2,098,479**	**1,990,279**

(in thousands of Russian Roubles, unless otherwise stated)

21 Other Operating Expenses, Net

	Six months ended 30 June 2016	Six months ended 30 June 2015
Charity, social expenditures	94,771	54,553
Foreign exchange loss, net	71,041	157,561
Fines and late payment interest under contracts	23,322	15
Loss/(gain) on revaluation of redemption liability (Note 27)	17,961	(10,553)
Loss from disposal of property, plant and equipment and intangible assets	10,948	2,951
Depreciation of social assets	5,480	3,420
Gain on purchase/sale of foreign currency, net	(12,533)	(4,568)
Change in provision for legal claims	(2,540)	17,192
Impairment of property, plant and equipment charge and reversal, net	(1,274)	31,534
Other expenses, net	17,105	52,576
Total other operating expenses, net	**224,281**	**304,681**

22 Finance Income

	Six months ended 30 June 2016	Six months ended 30 June 2015
Interest income	102,886	95,281
Foreign exchange (loss)/gain from deposits, net	(18,402)	9,611
Total finance income	**84,484**	**104,892**

23 Finance Costs

	Six months ended 30 June 2016	Six months ended 30 June 2015
Interest expenses	988,789	887,136
Foreign exchange gain from borrowings, net	(101,380)	(149,517)
Finance expenses related to redemption liability (Note 27)	-	2,444
Finance lease expenses	-	129
Gain from repurchase of bonds	-	(30,430)
Total finance costs	**887,409**	**709,762**

24 Balances and Transactions with Related Parties

At 30 June 2016, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2015: 71.51%), including shares in form of GDRs. At 30 June 2016 and 31 December 2015, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

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

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

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

Balances with related parties	**30 June 2016**		**31 December 2015**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	76	5,024	3,412	10,538
Accounts payable	4,104	31,304	3,959	252,170

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

(in thousands of Russian Roubles, unless otherwise stated)

24 Balances and Transactions with Related Parties (continued)

Transactions with related parties	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Associates	Other	Associates	Other
Sales of goods and finished products	4,793	9,894	9,048	11,738
Other income	387	684	502	409
Purchase of intangible assets	-	-	(5,566)	-
Purchase of services	(28,354)	-	(19,515)	-
Rent expense	(6,186)	-	(5,253)	-
Purchase of raw materials	(3,426)	-	(5,186)	-
Interest expense	-	-	-	(52)

Key management compensation

Key management compensation amounted to RR 95,854 for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RR 89,645) and included fees and other short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually. Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 19,976 (for the six months ended 30 June 2015: RR 15,353) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 19,698 for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RR 21,354).

For the six months ended 30 June 2016, dividends of RR 36,086 were accrued by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (for the six months ended 30 June 2015: RR 45,280).

25 Contingencies and Commitments

(i) Tax legislation

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

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

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognised as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated condensed interim financial information. At 30 June 2016 and 31 December 2015, the Group did not recognise any amount of provision for tax risks. With regard to matters where practice concerning payments of taxes is unclear, management estimated possible tax exposure to be approximately RR 44 million at 30 June 2016 and 31 December 2015, before any fines and interest.

25 Contingencies and Commitments (continued)

(ii) Environmental matters

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

(iii) Insurance policies

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

(iv) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 30 June 2016, commitments for purchase of the services amounted to RR 124,200 (31 December 2015: RR 177,157).

At 30 June 2016, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 247,165 (31 December 2015: RR 172,792).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. At 30 June 2016 and 31 December 2015, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

During the six months ended 30 June 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000 for development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with "proppant – gel agents". At 30 June 2016, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

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

(v) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including Net debt/EBITDA ratio and certain other requirements. At 30 June 2016, the Group was in compliance with all its loan covenants.

26 Segment Information

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

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

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

	30 June 2016	30 June 2015
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	Nasosenergomash PJSC	Nasosenergomash PJSC
4	HYDROMASHSERVICE JSC	HYDROMASHSERVICE JSC
5	Plant Promburvod OJSC	Plant Promburvod OJSC
6	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
7	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
8	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
10	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

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

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

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

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

1	Tomskgazstroy PJSC	Tomskgazstroy PJSC
2	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC
3	-	Noyabrskneftegazproekt LLC (liquidated in January 2016)

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

26 Segment Information (continued)

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

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

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

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2016 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	7,429,215	7,115,432	4,614,576	1,199,547	4,563	-	**20,363,333**
Intersegment revenue	288,358	3,961	46,904	-	1,005,463	-	**1,344,686**
EBITDA, management report(1)	909,307	1,108,488	440,671	52,093	438,557	6,755	**2,955,871**

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

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2015 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	6,904,380	7,271,542	1,050,424	1,355,836	6,540	-	**16,588,722**
Intersegment revenue	1,244,737	2,401	340,478	485	736,992	-	**2,325,093**
EBITDA, management report(1)	1,927,169	1,174,596	46,618	133,412	134,316	(51,993)	**3,364,118**

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

Reconciliation of financial information analysed by CODM to corresponding information presented in this consolidated condensed interim financial information is presented below:

	Six months ended 30 June 2016						
	Industrial pumps	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
EBITDA, management report(1)	**909,307**	**1,108,488**	**440,671**	**52,093**	**438,557**	**6,755**	**2,955,871**
Depreciation and amortisation	(344,886)	(87,746)	(201,366)	(116,255)	(14,171)	-	(764,424)
Non-monetary items(2)	(86,482)	(71,930)	4,525	(18,424)	(24,903)	-	(197,214)
Other operating (expenses)/income, net(3)	(211,260)	63,750	(52,498)	(19,116)	(462)	(3,903)	(223,489)
Operating profit/(loss)	**266,679**	**1,012,562**	**191,332**	**(101,702)**	**399,021**	**2,852**	**1,770,744**
Finance income							84,484
Finance costs							(887,409)
Share of results of associate							222
Profit before income tax							**968,041**

(1) EBITDA derived from management report is equal to adjusted EBITDA.
(2) Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
(3) Other operating (expenses)/income, net include other operating income and expenses as per Note 21, excluding depreciation of social assets and provision for legal claims.

(in thousands of Russian Roubles, unless otherwise stated)

26 Segment Information (continued)

	Six months ended 30 June 2015						
	Industrial pumps	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
EBITDA, management report[(1)]	**1,927,169**	**1,174,596**	**46,618**	**133,412**	**134,316**	**(51,993)**	**3,364,118**
Depreciation and amortisation	(309,282)	(78,126)	(208,447)	(127,941)	(20,901)	-	(744,697)
Non-monetary items[(2)]	(114,150)	(70,684)	19,008	(20,667)	(31,348)	-	(217,841)
Other operating (expenses)/income, net[(3)]	(343,442)	(13,603)	(16,157)	(4,306)	86,021	6,528	(284,959)
Operating profit/(loss)	**1,160,295**	**1,012,183**	**(158,978)**	**(19,502)**	**168,088**	**(45,465)**	**2,116,621**
Finance income							104,892
Finance costs							(709,762)
Share of results associates							(172)
Loss before income tax							**1,511,579**

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

(2) Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).

(3) Other operating (expenses)/income, net include other operating income and expenses as per Note 21, excluding depreciation of social assets and provision for legal claims.

27 Fair Value of Financial Instruments

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

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

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

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). The fair value of borrowings was based on Level 2. At 30 June 2016 and 31 December 2015, the fair value of bonds and borrowings approximates their carryng amount. Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

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

27 Fair Value of Financial Instruments (continued)

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

At 31 December 2015, the present value of the redemption liability under the option agreement amounted to RR 326,759, being the RUB equivalent of the option exercise price of EUR 4.1 million. For the six months ended 30 June 2016, the increase in redemption liability in relation to changes in underlying assumptions of RR 17,961 was recognised in other operating expenses, net as a loss (Note 21) (for the six months ended 30 June 2015: the increase in redemption liability in relation to the discounting effect of RR 2,444 was recognised in finance expenses (Note 23) and the decrease in redemption liability in relation to changes in underlying assumptions of RR 10,553 was recognised in other operating expenses, net as a gain (Note 21)).

28 Subsequent Events

Borrowings. In July 2016, the Group fully paid off the EUR-denominated loan in amount of EUR 9,670 thousand (RR 687,082). The existing credit facility was refinanced by the Group using own funds as well as credit lines denominated in ruble. At 30 June 2016, the loan was included in long-term borrowings in amount of RR 688,613 (Note 10).

In August 2016, on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the interest rate for one of the Group's long-term loans was decreased from 14.35% per annum to 12.5% per annum. At 30 June 2016, the loan was included in long-term borrowings in amount of RR 489,219 (Note 10).

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

The first grant date for the Program is 1 July 2016, and accordingly the Program has not been accounted for and no compensation expense has been recognized in the six months ended 30 June 2016. The Group will account for this Program as an equity-settled share based payment transaction under IFRS 2, Share-based Payments, starting from July 2016.

Treasury shares. In July-August 2016, 65,594 GDRs of the Company representing 0.28% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 19,410.