HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Financial Information (unaudited)

30 June 2017

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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 24 which comprises the consolidated condensed interim statement of financial position as at 30 June 2017, 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.

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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 2017 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, 28 September 2017

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 June 2017	31 December 2016
ASSETS			
Non-current assets:			
Property, plant and equipment	4	13,991,734	13,908,291
Other intangible assets	5	682,285	712,527
Goodwill	6	2,917,743	2,863,925
Investments in associates		89,919	88,724
Deferred income tax assets		329,371	366,057
Other long-term assets		21,708	29,040
Investment property		228,141	233,994
Total non-current assets		**18,260,901**	**18,202,558**
Current assets:			
Inventories	8	7,933,887	7,228,293
Trade and other receivables and other financial assets	9	13,019,668	14,021,896
Current income tax receivable		176,948	169,650
Cash and cash equivalents	7	2,433,963	2,989,691
Total current assets		**23,564,466**	**24,409,530**
TOTAL ASSETS		**41,825,367**	**42,612,088**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		48,329	48,329
Share premium		3,523,535	3,523,535
Treasury shares	15	(388,919)	(323,556)
Other reserves		122,730	122,730
Currency translation reserve		(486,236)	(607,393)
Retained earnings		6,578,793	6,348,279
Equity attributable to the shareholders of the Company		**9,398,232**	**9,111,924**
Non-controlling interests		**3,028,466**	**2,972,005**
TOTAL EQUITY		**12,426,698**	**12,083,929**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	10	14,904,930	12,770,486
Deferred income tax liability		1,521,932	1,579,152
Pension liability		515,272	519,397
Provisions for liabilities and charges	14	141,622	151,359
Other long-term payables		154,150	162,984
Total non-current liabilities		**17,237,906**	**15,183,378**
Current liabilities:			
Trade and other payables	12	9,529,917	10,417,155
Short-term borrowings	10	1,113,309	3,565,875
Provisions for liabilities and charges	14	509,705	531,075
Pension liability		71,599	72,621
Current income tax payable		81,890	53,278
Other taxes payable	13	854,343	704,777
Total current liabilities		**12,160,763**	**15,344,781**
TOTAL LIABILITIES		**29,398,669**	**30,528,159**
TOTAL EQUITY AND LIABILITIES		**41,825,367**	**42,612,088**

Approved for issue and signed on behalf of the Board of Directors on 28 September 2017.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

The accompanying notes on pages 7 to 24 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 2017	Six months ended 30 June 2016
Revenue	18	21,348,675	20,363,333
Cost of sales	19	(15,961,156)	(15,386,761)
Gross profit		**5,387,519**	**4,976,572**
Distribution and transportation expenses	20	(899,044)	(883,068)
General and administrative expenses	21	(2,359,107)	(2,098,479)
Other operating expenses, net	22	(152,335)	(224,281)
Operating profit		**1,977,033**	**1,770,744**
Finance income	23	97,828	84,484
Finance costs	24	(930,353)	(887,409)
Share of results of associates		908	222
Profit before income tax		**1,145,416**	**968,041**
Income tax expense	17	(317,762)	(272,252)
Profit for the period		**827,654**	**695,789**
Profit/(loss) attributable to:			
Shareholders of the Company		752,792	725,195
Non-controlling interests		74,862	(29,406)
Profit for the period		**827,654**	**695,789**
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		32,527	33,917
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		125,220	(686,814)
Currency translation differences of associates		516	(9,888)
Other comprehensive income/(loss) for the period		**158,263**	**(662,785)**
Total comprehensive income for the period		**985,917**	**33,004**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		895,251	106,471
Non-controlling interests		90,666	(73,467)
Total comprehensive income for the period		**985,917**	**33,004**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	15	**6.75**	**6.34**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flows from operating activities			
Profit before income tax		1,145,416	968,041
Adjustments for:			
Depreciation and amortisation	19-22	754,569	764,424
(Gain)/loss from disposal of property, plant and equipment and intangible assets	22	(1,452)	10,948
Finance income	23	(97,828)	(84,484)
Finance costs	24	930,353	887,409
Share-based compensation		33,166	-
Change in retirement benefits obligations	19-21	40,616	48,171
Change in warranty provision	19	(18,471)	49,916
Loss on revaluation of redemption liability	22	-	17,961
Change in provision for impairment of trade and other receivables and other financial assets	21	67,981	766
Change in provision for obsolete inventories	19	40,878	9,454
Foreign exchange loss, net	22	39,269	71,041
Impairment reversal of property, plant and equipment		(1,782)	(1,274)
Change in provision for legal claims	22	(6,217)	(2,540)
Change in provision for tax risks, other than income tax	14	11,264	-
Share of results of associates		(908)	(222)
Operating cash flows before working capital changes		**2,936,854**	**2,739,611**
Increase in inventories		(704,629)	(680,242)
Decrease/(increase) in trade and other receivables		1,009,730	(1,082,650)
Increase in current income tax receivable		(7,298)	-
Increase/(decrease) in other taxes payable		168,498	(161,623)
(Decrease)/increase in accounts payable and accrued liabilities		(662,214)	1,887,733
Cash from operations		**2,740,941**	**2,702,829**
Income tax paid		(334,887)	(389,040)
Interest paid		(821,032)	(989,650)
Interest received from deposits		83,149	80,600
Decrease in restricted cash		-	25,792
Net cash from operating activities		**1,668,171**	**1,430,531**
Cash flows from investing activities			
Repayment of loans advanced		11,112	6,165
Loans advanced		(19,268)	(139,406)
Interest received on loans		22,149	9,219
Proceeds from sale of property, plant and equipment and intangible assets, net of VAT		11,440	6,297
Purchase of property, plant and equipment, net of VAT		(661,395)	(699,882)
Acquisition of intangible assets, net of VAT		(102,692)	(65,885)
Net cash used in investing activities		**(738,654)**	**(883,492)**
Cash flows from financing activities			
Repayments of borrowings		(9,748,398)	(4,772,906)
Proceeds from borrowings		9,295,330	5,153,191
Acquisition of non-controlling interest in subsidiary	15	-	(346,900)
Buy back of issued shares	15	(65,363)	(84,189)
Payment for finance lease		(2,985)	(330)
Proceeds from government grant		-	17,000
Dividends paid to non-controlling shareholders of subsidiaries		(16,370)	(8,144)
Dividends paid to the shareholders of the Company	15	(961,510)	(579,863)
Net cash used in financing activities		**(1,499,296)**	**(622,141)**
Net decrease in cash and cash equivalents		**(569,779)**	**(75,102)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**14,051**	**(60,279)**
Cash and cash equivalents at the beginning of the period		**2,989,691**	**3,496,420**
Cash and cash equivalents at the end of the period		**2,433,963**	**3,361,039**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2015		**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**
Balance at 31 December 2016		**48,329**	**3,523,535**	**(323,556)**	**122,730**	**(607,393)**	**6,348,279**	**9,111,924**	**2,972,005**	**12,083,929**
Profit for the period		-	-	-	-	-	752,792	752,792	74,862	**827,654**
Other comprehensive income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	21,302	21,302	11,225	**32,527**
Currency translation differences		-	-	-	-	120,641	-	120,641	4,579	**125,220**
Currency translation differences of associates		-	-	-	-	516	-	516	-	**516**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**121,157**	**774,094**	**895,251**	**90,666**	**985,917**
Buy back of issued shares	15	-	-	(65,363)	-	-	-	(65,363)	-	**(65,363)**
Share-based compensation	16	-	-	-	-	-	33,166	33,166	-	**33,166**
Dividends declared to the shareholders of the Company	15	-	-	-	-	-	(576,746)	(576,746)	-	**(576,746)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(34,205)	**(34,205)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(65,363)**	**-**	**-**	**(543,580)**	**(608,943)**	**(34,205)**	**(643,148)**
Balance at 30 June 2017		**48,329**	**3,523,535**	**(388,919)**	**122,730**	**(486,236)**	**6,578,793**	**9,398,232**	**3,028,466**	**12,426,698**

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 2017, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2016: 71.51%), including shares in form of GDRs. At 30 June 2017 and 31 December 2016, 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 2017 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 2016 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 consolidated condensed interim financial information reflects 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 2016, 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 2016, became effective for the Group from 1 January 2017. 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 2017, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 6,165,325 (for the six months ended 30 June 2016: RR 6,238,514) (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 gas field. 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 fulfilled in 2018. Total amount of payments received in relation to this project at 30 June 2017 amounted to RR 4,359,896, net of VAT (31 December 2016: RR 4,040,956). For the six months ended 30 June 2017, the Group recognised revenue of RR 93,490 in relation to this project (for the six months ended 30 June 2016: RR 393,335), and the excess of accumulated revenue recognised over progress billings of RR 557,293 was included in receivables due from customers for construction work (31 December 2016: RR 809,882). The excess of progress billings over payments received from customer of RR 339,774 was included in trade receivables (31 December 2016: RR 312,634).

(ii) 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 2018. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 3.7 billion. At 30 June 2017, the total amount of payments received in relation to this project equaled to RR 3,095,420, net of VAT (31 December 2016: RR 3,095,420). For the six months ended 30 June 2017, the Group recognised revenue of RR 74,989 in relation to this project (for the six months ended 30 June 2016: RR 2,533,068). The excess of progress billings over accumulated revenue recognised of RR 54,750 was included in payables due to customers for construction work (31 December 2016: RR 129,739). At 30 June 2017 and 31 December 2016 the excess of progress billings over payments received of RR 382,580 was included in trade receivables.

(iii) 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 2018. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 2.8 billion. At 30 June 2017, the total amount of payments received in relation to this project equaled to RR 2,411,266, net of VAT (31 December 2016: RR 792,258). For the six months ended 30 June 2017, the Group recognised revenue of RR 896,429 in relation to this project (for the six months ended 30 June 2016: RR 559,261). The excess of progress billings over accumulated revenue recognised of RR 94,097 was included in payables due to customers for construction work (31 December 2016: the excess of accumulated revenue recognised over payments received of RR 834,807 was included in receivables due from customers for construction work). The excess of progress billings over payments received of RR 206,274 was included in trade receivables (31 December 2016: nil).

(iv) 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 2017. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 3.5 billion. Total amount of payments received in relation to this project at 30 June 2017 amounted to RR 2,954,114, net of VAT (31 December 2016: RR 2,859,906). For the six months ended 30 June 2017, the Group recognized revenue of RR 280,941 in relation to this project (for the six months ended 30 June 2016: RR 975,960), and the excess of accumulated revenue recognised over progress billings of RR 35,137 was included in receivables due from customers for construction work (31 December 2016: the excess of progress billings over accumulated revenue recognized of RR 243,689 was included in payables due to customers for construction work). The excess of progress billings over payments received of RR 1,275 was included in trade receivables (31 December 2016: RR 93,314).

(v) 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 2017 amounted to RR 2.1 billion. Total amount of payments received in relation to this project at 30 June 2017 amounted to RR 899,530, net of VAT (total amount of advances received in relation to this project as 31 December 2016 amounted to RR 625,906, net of VAT). For the six months ended 30 June 2017, the Group recognised revenue of RR 511,472 in relation to this project (for the six months ended 30 June 2016: RR 241,922). The excess of accumulated revenue recognized over progress billings of RR 338,848 was included in receivables due from customers for construction work and the excess of progress billings over payments received from customer of RR 810,873 was included in trade receivables (31 December 2016: the excess of accumulated revenue recognised over advances received from customer of RR 911,873 was included in receivables due from customers for construction work).

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

(vi) In November 2016, the Group signed a contract for delivery and installation of oil and gas equipment for one of the largest gas fields in Russia. In accordance with the contract, the Group will manufacture and deliver a range of technologically integrated solutions, including helium concentrate membrane recovery unit, interstage compressor stations based on turbo-compressor units and gas booster stations. The contract is expected to be completed in 2018. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 10.9 billion. Total amount of advances received in relation to this project at 30 June 2017 amounted to RR 2,509,970, net of VAT (31 December 2016: nil). For the six months ended 30 June 2017, the Group recognised revenue of RR 2,637,069 in relation to this project, and the excess of accumulated revenue recognised over advances received from customer of RR 704,568 was included in receivables due from customers for construction work (31 December 2016: RR 577,470).

(vii) Since 2017, the Group started implementation of a contract for delivery and installation of major and accessory processing equipment for reconstruction of gas booster stations at oil & gas condensate field. The contract is expected to be completed in 2018. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 4.6 billion. Total amount of advances received in relation to this project at 30 June 2017 amounted to RR 1,931,248, net of VAT. For the six months ended 30 June 2017, the Group recognised revenue of RR 690,380 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 1,240,868 was included in payables due to customers for construction work.

(viii) In January 2017, the Group signed a contract for production and delivery of compressor equipment, including a gas compression system, to an oil & gas condensate field, situated in the Yamal region. The contract is expected to be completed in 2018. Total budgeted revenue for this contract at 30 June 2017 amounted to RR 0.9 billion. Total amount of advances received in relation to this project at 30 June 2017 amounted to RR 261,600, net of VAT. For the six months ended 30 June 2017, the Group recognised revenue of RR 240,308 in relation to this project, and the excess of advances received over accumulated revenue recognised of RR 21,292 was included in payables due to customers for construction work.

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

At 30 June 2017, 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.

(in thousands of Russian Roubles, unless otherwise stated)

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 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**
Balance at 1 January 2017	**1,462,633**	**9,259,269**	**7,439,828**	**285,577**	**939,486**	**1,056,761**	**20,443,554**
Additions	436	11,012	131,131	26,987	73,022	442,229	684,817
Transfers	-	14,172	57,224	-	4,590	(75,986)	-
Disposals	-	(4,466)	(40,082)	(11,753)	(24,202)	(2,420)	(82,923)
Translation to presentation currency	1,842	13,416	16,849	88	8,725	303	41,223
Balance at 30 June 2017	**1,464,911**	**9,293,403**	**7,604,950**	**300,899**	**1,001,621**	**1,420,887**	**21,086,671**
Accumulated depreciation and impairment							
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)**
Balance at 1 January 2017	**(7,993)**	**(2,160,819)**	**(3,498,378)**	**(211,094)**	**(647,228)**	**(9,751)**	**(6,535,263)**
Eliminated on disposals	-	2,250	33,508	9,714	22,068	-	67,540
Depreciation expense	-	(165,978)	(358,873)	(14,858)	(65,445)	-	(605,154)
Impairment reversal	-	91	1,691	-	-	-	1,782
Translation to presentation currency	-	(4,786)	(13,037)	(63)	(5,956)	-	(23,842)
Balance at 30 June 2017	**(7,993)**	**(2,329,242)**	**(3,835,089)**	**(216,301)**	**(696,561)**	**(9,751)**	**(7,094,937)**
Carrying amount							
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**
Carrying amount at 1 January 2017	**1,454,640**	**7,098,450**	**3,941,450**	**74,483**	**292,258**	**1,047,010**	**13,908,291**
Carrying amount at 30 June 2017	**1,456,918**	**6,964,161**	**3,769,861**	**84,598**	**305,060**	**1,411,136**	**13,991,734**

At 30 June 2017, RR 233,891 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2016: RR 244,281), including RR 181,561 related to undrawn credit facilities (31 December 2016: RR 191,157) (Note 10).

At 30 June 2017 and 31 December 2016, 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 2017 was RR 25,373 (for the six months ended 30 June 2016: 15,386). The capitalisation rate calculated using Group weighted average interest rate was 11.7%, except for borrowing costs related to the unsecured non-bank loan at an interest rate of 5%.

Construction-in-progress includes advances for capital expenditures for a total of RR 584,476 at 30 June 2017 (31 December 2016: RR 464,544).

At 30 June 2017, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 285,437 (31 December 2016: RR 324,899).

(in thousands of Russian Roubles, unless otherwise stated)

5 Other Intangible Assets

	Project documen-tation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
Balance at 1 January 2016	**687,459**	**1,075,396**	**186,531**	**195,693**	**39,273**	**2,184,352**
Additions	42,667	-	49,497	-	14,877	107,041
Disposals	(40)	-	(29,042)	-	(2,122)	(31,204)
Translation to presentation currency	(31,134)	(40,461)	(7,872)	(1,064)	(49)	(80,580)
Balance at 30 June 2016	**698,952**	**1,034,935**	**199,114**	**194,629**	**51,979**	**2,179,609**
Balance at 1 January 2017	**733,119**	**566,897**	**203,888**	**150,186**	**25,367**	**1,679,457**
Additions	62,339	-	38,553	-	1,761	102,653
Disposals	-	-	(39,111)	-	(3,683)	(42,794)
Translation to presentation currency	9,751	17,549	1,191	-	-	28,491
Balance at 30 June 2017	**805,209**	**584,446**	**204,521**	**150,186**	**23,445**	**1,767,807**
Accumulated amortisation and impairment						
Balance at 1 January 2016	**(345,015)**	**(630,775)**	**(95,917)**	**(114,728)**	**(13,637)**	**(1,200,072)**
Amortisation on disposals	18	-	29,034	-	2,121	31,173
Amortisation expense	(66,924)	(69,142)	(29,210)	(10,541)	(3,941)	(179,758)
Translation to presentation currency	16,190	15,458	4,072	552	44	36,316
Balance at 30 June 2016	**(395,731)**	**(684,459)**	**(92,021)**	**(124,717)**	**(15,413)**	**(1,312,341)**
Balance at 1 January 2017	**(453,074)**	**(303,618)**	**(105,258)**	**(93,625)**	**(11,355)**	**(966,930)**
Amortisation on disposals	-	-	39,111	-	3,678	42,789
Amortisation expense	(65,614)	(27,360)	(37,312)	(10,084)	(3,180)	(143,550)
Translation to presentation currency	(8,155)	(8,898)	(778)	-	-	(17,831)
Balance at 30 June 2017	**(526,843)**	**(339,876)**	**(104,237)**	**(103,709)**	**(10,857)**	**(1,085,522)**
Carrying amount						
Carrying amount at 1 January 2016	**342,444**	**444,621**	**90,614**	**80,965**	**25,636**	**984,280**
Carrying amount at 30 June 2016	**303,221**	**350,476**	**107,093**	**69,912**	**36,566**	**867,268**
Carrying amount at 1 January 2017	**280,045**	**263,279**	**98,630**	**56,561**	**14,012**	**712,527**
Carrying amount at 30 June 2017	**278,366**	**244,570**	**100,284**	**46,477**	**12,588**	**682,285**

6 Goodwill

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Carrying amount at 1 January	**2,863,925**	**3,466,063**
Effect of translation to presentation currency related to Apollo Goessnitz GmbH	53,818	(123,832)
Carrying amount at 30 June	**2,917,743**	**3,342,231**

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 2017	31 December 2016
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	984,815	930,997
Sibneftemash JSC	511,784	511,784
EPF “SIBNA” Inc. JSC	117,308	117,308
Dimitrovgradkhimmash JSC	64,027	64,027
Total carrying amount of goodwill	**2,917,743**	**2,863,925**

(in thousands of Russian Roubles, unless otherwise stated)

7 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 June 2017	31 December 2016
Cash on hand	2,525	2,007
RR denominated balances with banks	1,281,698	788,943
Foreign currency denominated balances with banks	299,577	317,071
RR denominated bank deposits	655,294	1,716,379
Foreign currency denominated bank deposits	159,518	116,392
Other cash equivalents	35,351	48,899
Total cash and cash equivalents	**2,433,963**	**2,989,691**

At 30 June 2017, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 131,738 (31 December 2016: RR 116,392) and USD-denominated deposit of RR 27,780 (31 December 2016: nil).

8 Inventories

	30 June 2017	31 December 2016
Raw materials and supplies	3,233,070	3,321,090
Work in progress	2,944,773	2,676,819
Finished goods and goods for resale	1,756,044	1,230,384
Total inventories	**7,933,887**	**7,228,293**

Inventories are presented net of provision for obsolescence in amount of RR 420,929 at 30 June 2017 (31 December 2016: RR 375,201).

At 30 June 2017, inventories of RR 53,045 were pledged as collateral for certain borrowings (31 December 2016: RR 54,263) (Note 10). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 19.

9 Trade and Other Receivables and Other Financial Assets

	30 June 2017	31 December 2016
Trade receivables	8,817,892	8,168,609
Less: provision for impairment of trade receivables	(417,001)	(350,854)
Short-term loans issued	117,791	116,770
Bank deposits	28,747	28,175
Other receivables	257,562	240,958
Less: provision for impairment of other receivables	(65,739)	(65,426)
Receivables due from customers for construction work (Note 11)	2,084,583	3,566,522
Financial assets, net	**10,823,835**	**11,704,754**
Prepayments and advances to suppliers and subcontractors	1,893,202	2,062,835
Less: provision for impairment of advances to suppliers and subcontractors	(21,965)	(22,696)
VAT receivable	306,095	247,179
Other taxes receivable	18,501	29,824
Non-financial assets, net	**2,195,833**	**2,317,142**
Total trade and other receivables and other financial assets	**13,019,668**	**14,021,896**

The 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. The settlement of VAT receivables and payables is normally executed on net basis.

At 30 June 2017, the closing balance of bank deposits comprised USD-denominated deposit of RR 24,022 and EUR-denominated deposit of RR 4,725. At 31 December 2016, the closing balance of bank deposits comprised USD-denominated deposit of RR 18,414, RUB-denominated deposits of RR 5,294 and EUR-denominated deposit of RR 4,467.

At 30 June 2017, trade receivables arising from certain sales contracts in the amount of RR 299,494 (31 December 2016: RR 265,263) were pledged as collateral for certain borrowings (Note 10).

(in thousands of Russian Roubles, unless otherwise stated)

10 Borrowings

	Interest rate	Denominated in	30 June 2017	31 December 2016
Long-term unsecured loans and bonds:				
Unsecured bank loans	10.05% - 13.25%	RR	11,608,339	14,950,123
Bonds	10.75%	RR	2,991,186	-
Unsecured non-bank loan	5.00%	RR	500,000	500,000
Unsecured bank loans	EURIBOR+2.50%	EUR	13,500	13,362
			15,113,025	**15,463,485**
Less: current portion of long-term borrowings			(208,095)	(2,692,999)
Total long-term borrowings			**14,904,930**	**12,770,486**
Short-term unsecured loans:				
Unsecured bank loans	10.55% - 11.75%	RR	393,580	539,418
			393,580	**539,418**
Short-term secured bank loans:				
Secured loans	2.60% - 7.73%	EUR	336,416	262,433
Secured loans	10.00%	USD	50,244	50,225
Secured loans	15.00%	BYN	3,056	3,095
			389,716	**315,753**
Current portion of long-term borrowings			208,095	2,692,999
Interest payable			121,918	17,705
Total short-term borrowings			**1,113,309**	**3,565,875**

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

	30 June 2017	31 December 2016
RR	15,614,580	16,006,771
EUR	349,916	275,795
USD	50,663	50,669
BYN	3,080	3,126
Total borrowings	**16,018,239**	**16,336,361**

Bonds. In February 2017, HYDROMASHSERVICE JSC, the Group's subsidiary, issued RR 3.0 billion of bonds. The maturity of the bonds is 10 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 10.75% is set for the first six coupon periods. Subsequent coupon rates are to be determined in February 2020. HMS Group JSC, HMS Neftemash JSC, HMS Livhydromash JSC and Sibneftemash JSC issued guarantees in respect of these bonds. The raised funds have been utilised to refinance existing credit facilities.

Assets pledged. At 30 June 2017, the Group pledged property, plant and equipment and inventories in total amount of RR 52,330 and RR 53,045 (31 December 2016: RR 53,124, RR 54,263), respectively.

At 30 June 2017 and 31 December 2016, the Group also pledged its rights under certain sales contracts with customers as the security for certain borrowings. At 30 June 2017, the Group recognised trade receivables under these sales contracts in amount of RR 299,494 (31 December 2016: RR 265,263).

Breach of loan covenants. At 31 December 2016, the unsecured non-bank loan in amount of RR 500,000 with initial maturity in 2018-2020 was presented within current portion of long-term borrowings due to the breach of certain financial covenants related to operational performance of the large investment project, financed by this loan. The creditor had not requested early repayment of the loan following the above breach of loan covenants.

During the six months ended 30 June 2017, the management of the Group had renegotiated the terms of the loan agreement with the creditor, which fully remediated the breach. Consequently, the unsecured non-bank loan in amount of RR 500,000 was presented as the long-term unsecured non-bank loan at 30 June 2017.

11 Construction Contracts

During the six months ended 30 June 2017 and 2016, construction contracts revenue was recognised in relation to the stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

(in thousands of Russian Roubles, unless otherwise stated)

11 Construction Contracts (continued)

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Construction contracts revenue	6,165,325	6,238,514
Contract cost expensed	(4,902,701)	(5,213,875)
Gross margin	**1,262,624**	**1,024,639**

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 2017**	**31 December 2016**
Aggregate amount of contract cost incurred	13,987,217	12,325,211
Aggregate amount of recognised profits	4,141,605	2,468,735
Aggregate amount of recognised losses	(99,932)	(63,122)
Less: Progress billings	(15,944,307)	(11,164,302)
Gross amount due from customers for contract work	**2,084,583**	**3,566,522**

Contracts with net amount owed by the Group	**30 June 2017**	**31 December 2016**
Aggregate amount of contract cost incurred	7,325,094	5,637,024
Aggregate amount of recognised profits	1,782,554	2,280,296
Aggregate amount of recognised losses	(57,855)	(53,423)
Less: Progress billings	(10,524,085)	(8,296,145)
Gross amount due to customers for contract work	**(1,474,292)**	**(432,248)**

	30 June 2017	**31 December 2016**
Advances from customers, related to construction contracts	72,251	31,556
Retentions	111,317	105,358

12 Trade and Other Payables

	30 June 2017	**31 December 2016**
Trade payables	4,659,188	5,777,979
Other payables	160,670	508,735
Financial trade and other payables	**4,819,858**	**6,286,714**
Advances from customers	2,295,514	2,627,225
Payables due to customers for construction work (Note 11)	1,474,292	432,248
Wages and salaries payable	940,253	1,070,968
Other non-financial payables	**4,710,059**	**4,130,441**
Total trade and other payables	**9,529,917**	**10,417,155**

13 Other Taxes Payable

	30 June 2017	**31 December 2016**
VAT	559,462	391,808
Social funds contribution	176,030	206,163
Personal income tax	81,373	70,111
Property tax	24,728	22,420
Land tax	10,514	10,240
Transport tax	714	1,759
Other taxes	1,522	2,276
Total other taxes payable	**854,343**	**704,777**

(in thousands of Russian Roubles, unless otherwise stated)

14 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
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**	**-**
At 1 January 2017	**380,534**	**288,804**	**13,096**
Additional provisions	154,158	110,981	14,896
Unused amounts reversed	(66,861)	(117,198)	(3,632)
Provision used during the period	(105,768)	(8,279)	(9,464)
Effect of translation to presentation currency	(30)	90	-
At 30 June 2017	**362,033**	**274,398**	**14,896**

Warranty provision. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. At 30 June 2017, the closing balance of the warranty provision comprised a short-term portion of RR 220,411 and a long-term portion of RR 141,622 (31 December 2016: RR 229,175 and RR 151,359, respectively).

Provision for legal claims. The balance at 30 June 2017 is expected to be utilised by the end of 2017. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Provision for tax risks. Provision for tax risks was accrued in accordance with decisions of the tax authorities which were received by subsidiaries of the Group as a result of field tax inspections for prior periods.

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 28). The 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 additional ordinary shares. 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 2017, 136,992 GDRs of the Company representing 0.58% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 65,363.

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 2017, the Company, via a wholly-owned subsidiary, is holding 1,002,861 (31 December 2016: 865,869) of its own GDRs with the total cost of RR 388,919 (31 December 2016: RR 323,556). 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 2017 and 2016.

At the Annual General Meeting in June 2017, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2016 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 576,746. These dividends were accounted for in shareholders' equity as an appropriation of retained earnings in six months ended 30 June 2017. This dividend was paid in June 2017.

(in thousands of Russian Roubles, unless otherwise stated)

15 Equity and Earnings per Share (continued)

In December 2016, an interim dividend in respect of the profit for the nine months ended 30 September 2016 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 384,764 was approved by the Board of Directors of the Company. This dividend was paid in January 2017.

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 2017 and 2016, earnings per share are calculated as follows:

	Six months ended 30 June 2017	**Six months ended 30 June 2016**
Profit for the period attributable to ordinary shareholders	752,792	725,195
Weighted average number of ordinary shares in issue (thousands)	111,482	114,368
Basic and diluted earnings per ordinary share (expressed in RR per share)	**6.75**	**6.34**

16 Share-based Payments

In March 2016, the Board of Directors of the Company approved a Long-term Incentive Program (the "Program") for the Group's key executives.

The Program stipulates three awards based on results for 2016, 2017 and 2018. The awards will vest if:

- the Group meets EBITDA and profit for the year attributable to the shareholders of the Company targets established at the beginning of each year;

- the plan participants hold their employment within the group for 3 years starting from the beginning of the respective award year.

Each of the three awards will be transferred to the participants in the form of the Company's GDRs in the beginning of the year, following the respective 3-year service period of the award. GDRs for this Program will come from GDRs owned and bought by the Group.

The Participants of the Program are also entitled to dividends for not yet vested share awards.

The Group accounts for this Program as an equity-settled share-based payment transaction under IFRS 2, Share-based Payments, starting from 1 July 2016, being the grant date for the first award of the Program. The service period of the first award started on 1 January 2016.

The grant date of the second award is 8 December 2016, and the service period of the second award started at 1 January 2017.

The fair value of share awards is determined with a reference of the market price of the Company's GDRs at the respective grant date.

For the six months ended 30 June 2017, the Group recognised share-based compensation expense of RR 50,328 in general and administrative expenses in the consolidated condensed interim statement of profit or loss and other comprehensive income, including the allocation of fair value of GDRs calculated at grant date to the reporting period of RR 43,785 and the respective personal income tax effect of RR 6,543. The Group also recognised related social security contributions expense of RR 7,700.

For the six months ended 30 June 2017, dividends accrued and paid to the Participants of the Program for the share awards not yet vested amounted to RR 10,619 and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings amounted to RR 33,166.

(in thousands of Russian Roubles, unless otherwise stated)

17 Income Taxes

Income tax expense for the six months ended 30 June 2017 and 2016 included:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Current tax expense	343,267	356,010
Deferred tax benefit	(25,505)	(83,758)
Total income tax expense	**317,762**	**272,252**

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 2017 and 2016.

18 Revenue

	Six months ended 30 June 2017	Six months ended 30 June 2016
Sales of oil and gas equipment	10,916,717	7,731,741
Sales of pumps	5,823,583	6,137,302
Sales of compressor equipment	3,012,870	4,519,238
Revenue from construction and design and engineering services	742,245	1,212,192
Sales of other services and goods	853,260	762,860
Total revenue	**21,348,675**	**20,363,333**

19 Cost of Sales

	Six months ended 30 June 2017	Six months ended 30 June 2016
Materials and components	11,372,259	10,690,090
Labour costs	2,491,379	2,311,832
Social taxes	698,593	651,580
Depreciation and amortisation	641,140	658,213
Construction and design, engineering and other services of subcontractors	455,778	708,463
Utilities	250,233	227,929
Change in provision for obsolete inventories	40,878	9,454
Change in retirement benefits obligations	31,949	36,492
Change in work in progress and finished goods	(557,302)	(379,559)
Change in warranty provision	(18,471)	49,916
Other expenses	554,720	422,351
Total cost of sales	**15,961,156**	**15,386,761**

20 Distribution and Transportation Expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Transportation expenses	295,943	288,305
Labour costs	272,553	254,361
Insurance	105,498	5,650
Social taxes	65,939	62,120
Lease expense	28,964	33,308
Entertaining costs and business trip expenses	18,162	16,960
Advertising	17,478	13,076
Material expenses	14,356	17,167
Depreciation and amortisation	9,151	9,779
Agency services	8,206	122,642
Telecommunication services	7,985	7,644
Customs duties	6,945	3,954
Products certification	6,466	15,267
Change in retirement benefits obligations	715	974
Other expenses	40,683	31,861
Total distribution and transportation expenses	**899,044**	**883,068**

(in thousands of Russian Roubles, unless otherwise stated)

21 General and Administrative Expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Labour costs	1,221,972	1,121,289
Social taxes	278,225	320,542
Bank services	105,329	81,458
Depreciation and amortisation	99,579	90,952
Taxes and duties	97,833	91,806
Audit and consultancy services	69,328	25,945
Change in provision for impairment of trade and other receivables and other financial assets	67,981	766
Entertaining costs and business trip expenses	45,945	43,449
Insurance	45,764	24,686
Property, plant and equipment repair and maintenance	42,514	36,424
Security	35,704	31,796
Stationary and office maintenance	35,380	34,857
Lease expense	22,289	24,149
Telecommunications services	14,634	15,840
Change in provision for tax risks, other than income tax	11,264	-
Training and recruitment	8,226	5,730
Change in retirement benefits obligations	7,952	10,705
Other expenses	149,188	138,085
Total general and administrative expenses	**2,359,107**	**2,098,479**

22 Other Operating Expenses, Net

	Six months ended 30 June 2017	Six months ended 30 June 2016
Charity, social expenditures	62,121	94,771
Foreign exchange loss, net	39,269	71,041
Fines and late payment interest under contracts	17,647	23,322
Loss/(gain) on purchase/sale of foreign currency, net	11,235	(12,533)
Depreciation of social assets	4,699	5,480
Change in provision for legal claims	(6,217)	(2,540)
Impairment reversal of property, plant and equipment	(1,782)	(1,274)
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(1,452)	10,948
Loss on revaluation of redemption liability (Note 28)	-	17,961
Other expenses, net	26,815	17,105
Total other operating expenses, net	**152,335**	**224,281**

23 Finance Income

	Six months ended 30 June 2017	Six months ended 30 June 2016
Interest income	97,845	102,886
Foreign exchange loss from deposits, net	(17)	(18,402)
Total finance income	**97,828**	**84,484**

24 Finance Costs

	Six months ended 30 June 2017	Six months ended 30 June 2016
Interest expenses	929,755	988,789
Finance lease expenses	1,137	-
Foreign exchange gain from borrowings, net	(539)	(101,380)
Total finance costs	**930,353**	**887,409**

(in thousands of Russian Roubles, unless otherwise stated)

25 Balances and Transactions with Related Parties

At 30 June 2017, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2016: 71.51%), including shares in form of GDRs. At 30 June 2017 and 31 December 2016, 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 2017**		**31 December 2016**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	4,852	6,206	788	-
Accounts payable	6,612	22,851	6,160	164,222

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

Transactions with related parties	**Six months ended 30 June 2017**		**Six months ended 30 June 2016**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	1,921	-	4,793	9,894
Other income	848	-	387	684
Development costs expensed	(12,442)	-	(5,518)	-
Purchase of raw materials	(7,297)	-	(3,426)	-
Purchase of services	(5,773)	-	(22,836)	-
Rent expense	(5,531)	-	(6,186)	-
Purchase of intangible assets	(4,965)	-	-	-

Key management compensation

Key management compensation amounted to RR 142,807 for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RR 95,854) and included fees and other short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually of RR 109,259 (for the six months ended 30 June 2016: RR 95,854) as well as share-based compensation of RR 33,548 (for the six months ended 30 June 2016: nil). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 19,020 (for the six months ended 30 June 2016: RR 19,976) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 34,527 for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RR 19,698), including share-based compensation of RR 9,148 (for the six months ended 30 June 2016: nil).

For the six months ended 30 June 2017, dividends of RR 27,745 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 2016: RR 36,086).

26 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.

26 Contingencies and Commitments (continued)

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.

Since 1 January 2015, the Russian Tax Code has been supplemented with the framework of beneficial ownership to the income paid from the RF (beneficial ownership framework) for the purposes of applying tax benefits under the Double Tax Treaties (DTT). This legislation is not expected to have significant impact on the Group's income tax liabilities.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not at arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated condensed interim financial information. At 30 June 2017, the provision accrued amounted to RR 14,896 (31 December 2016: RR 13,096). With regard to matters where practice concerning payments of taxes is unclear, management estimated possible tax exposure to be approximately RR 112 million at 30 June 2017 before any fines and interest (31 December 2016: RR 27 million).

(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 2017, commitments for purchase of the services amounted to RR 63,350 (31 December 2016: RR 86,179).

At 30 June 2017, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 285,437 (31 December 2016: RR 324,899).

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 2017, 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 year ended 31 December 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 2017, 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.

(in thousands of Russian Roubles, unless otherwise stated)

26 Contingencies and Commitments (continued)

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

(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 2017, the Group was in compliance with all its loan covenants.

27 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 2017	30 June 2016
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 JSC	Dimitrovgradkhimmash JSC
8	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
10	-	HMS-Promburvod CJSC (liquidated in December 2016)

The **second** operating segment **“Oil and gas equipment and projects”** 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
5	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC
6	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

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

The **fourth** operating segment **“Construction”** includes Tomskgazstroy PJSC.

(in thousands of Russian Roubles, unless otherwise stated)

27 Segment Information (continued)

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

1	HMS Group Management LLC	HMS Group Management LLC
2	HMS Group JSC	HMS Group JSC
3	Hydromashkomplekt LLC	Hydromashkomplekt LLC
4	HMS Hydraulic Machines & Systems Group plc	HMS Hydraulic Machines & Systems Group plc
5	H.M.S. FINANCE LIMITED	H.M.S. FINANCE LIMITED
6	H.M.S. CAPITAL LIMITED	H.M.S. CAPITAL LIMITED
7	CMPC LLC	CMPC LLC
8	HMS New Urengoy-Property LLC	-
9	HMS Tyumen-Property LLC	-
10	-	HMS Active LLC (ceased to exist in September 2016)*
11	-	Hydromash K LLC (ceased to exist in September 2016)*
12	-	Business Centre Hydromash LLC (ceased to exist in September 2016)*

* In September 2016, these subsidiaries ceased to exist due to reorganization in the form of joining to HMS Group JSC, assets and liabilities of these subsidiaries were transferred to HMS Group JSC.

Due to the change in the internal management and reporting structure effective 1 January 2017, the results of the Group's subsidiaries Giprotyumenneftegaz PJSC and Institute Rostovskiy Vodokanalproekt OJSC since 1 January 2017 are presented within "Oil and gas equipment" segment, whereas previously these entities were included in "Engineering, procurement and construction" and "Industrial pumps" segments, respectively. Additionally, starting from 1 January 2017, "Engineering, procurement and construction" segment was renamed as "Construction" segment, and "Oil and gas equipment" segment was renamed as "Oil and gas equipment and projects" segment. Following this change in composition of its reportable segments, the Group has restated the corresponding items of segment information for the six months ended 30 June 2016.

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.

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 items of income and expense 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 2017 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	7,572,581	10,407,054	3,085,025	282,741	1,274	-	**21,348,675**
Intersegment revenue	355,751	15,887	2,103,440	180	1,006,142	-	**3,481,400**
Adjusted EBITDA	1,282,474	649,515	937,646	(90,416)	334,197	24,718	**3,138,134**

(in thousands of Russian Roubles, unless otherwise stated)

27 Segment Information (continued)

The restated 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 and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	7,427,805	7,790,415	4,614,575	525,974	4,564	-	**20,363,333**
Intersegment revenue	288,358	7,653	46,904	580	1,005,463	-	**1,348,958**
Adjusted EBITDA	930,549	1,091,908	440,671	47,431	438,557	6,755	**2,955,871**

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 2017						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**1,282,474**	**649,515**	**937,646**	**(90,416)**	**334,197**	**24,718**	**3,138,134**
Depreciation and amortisation	(362,212)	(144,494)	(206,844)	(25,805)	(15,214)	-	(754,569)
Non-monetary items[1]	(165,131)	(104,268)	44,341	(1,924)	(25,593)	-	(252,575)
Other operating (expenses)/income, net[2]	(119,731)	(6,652)	(30,214)	54,190	(59,802)	8,252	(153,957)
Operating profit/(loss), IFRS	**635,400**	**394,101**	**744,929**	**(63,955)**	**233,588**	**32,970**	**1,977,033**
Finance income							97,828
Finance costs							(930,353)
Share of results of associate							908
Profit before income tax, IFRS							**1,145,416**

[1] 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).
[2] Other operating (expenses)/income, net include other operating income and expenses as per Note 22, excluding depreciation of social assets and provision for legal claims.

	Six months ended 30 June 2016 (restated)						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**930,549**	**1,091,908**	**440,671**	**47,431**	**438,557**	**6,755**	**2,955,871**
Depreciation and amortisation	(342,667)	(176,643)	(201,366)	(29,577)	(14,171)	-	(764,424)
Non-monetary items[1]	(86,149)	(80,253)	4,525	(10,434)	(24,903)	-	(197,214)
Other operating (expenses)/income, net[2]	(210,747)	62,781	(52,498)	(18,660)	(462)	(3,903)	(223,489)
Operating profit/(loss), IFRS	**290,986**	**897,793**	**191,332**	**(11,240)**	**399,021**	**2,852**	**1,770,744**
Finance income							84,484
Finance costs							(887,409)
Share of results associates							222
Profit before income tax, IFRS							**968,041**

[1] 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).
[2] Other operating (expenses)/income, net include other operating income and expenses as per Note 22, excluding depreciation of social assets and provision for legal claims.

28 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). At 30 June 2017, the fair value of bonds was RR 101,514 higher than their carrying amounts . The fair value of borrowings, excluding bonds, was based on Level 2 inputs. At 30 June 2017, the fair value of borrowings was RR 200,225 higher than their carrying amounts (31 December 2016: RR 287,285). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

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

In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH at the price of EUR 4.1 million. The 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%.

29 Subsequent Events

There were no events after the date of statement of financial position that would require special disclosure or adjustment to this consolidated condensed interim financial information.