HMS Hydraulic Machines & Systems Group plc

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

31 December 2018

Contents

Board of Directors

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

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

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

Mr. Vladimir V. Lukyanenko
Non-executive Director
Member of the Audit Committee
Member of the Remuneration Committee
Member of the Strategy and Investments Committee

Mr. Ezio Vergani
Non-executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee

Mr. Giorgio Veronesi
Non-executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Strategy and Investments Committee

Mr. Andreas S. Petrou
Non-executive Director

Board support

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

Company Secretary

Cyproservus Co Limited
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Registered office

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Nicosia 2404
Cyprus

The Board of Directors presents its consolidated management report together with the audited consolidated financial statements for the year ended 31 December 2018. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal business activities of the Company and its subsidiaries (the "Group") are the manufacture and repair of a wide range of pumps and pumping units, compressors, modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad.

Review of developments, position and performance of the Group's business

Backlog and order intake. Backlog grew to RR 42.6 billion (+12% yoy). Industrial pumps and compressors segments made contribution to this growth. Unlike 2017, the growth was based on the recurring business, as backlog of large integrated contract stayed unchanged.

Order intake was lower in all business segments except Compressors compared to 2017. The decline was attributable to less amount of large contracts signed in the reporting period.

Group performance. Revenue increased by 18% yoy and amounted to RR 52.6 billion based on the contribution from all segments, except Oil and gas equipment and projects segment.

Adjusted EBITDA was down by 3% yoy to RR 6.6 billion because of the decline in Industrial pumps segment.

Revenue from recurring business was down by 2% yoy. Large projects revenue advanced 74% yoy. Adjusted EBITDA from recurring business declined 45% yoy and large contracts jumped by 40% yoy. All that led to EBITDA margin decrease to 12.6% from 15.4% last year.

Operating profit was RR 4.2 billion, down 8% yoy, compared with RR 4.6 billion in 2017. Operating margin decreased to 8.0% from 10.3%. Profit for the period was RR 1.9 billion, down 6% yoy, compared with RR 2.1 billion last year.

Financial review. Working capital was up by 17% yoy to RR 9.1 billion from RR 7.8 billion in 2017. The increase of working capital was caused mainly by inventories. As a share of revenue, working capital declined to 17% from 18% in 2017.

Capital expenditures amounted to RR 2.3 billion, up 8% yoy, compared with RR 2.2 billion in 2017.

The Group generated positive operating cash flow of RR 2.0 billion. Decrease in free cash flow to RR (0.1) billion from RR 3.1 billion in 2017 was due mainly to negative change in working capital.

Total debt was RR 19.4 billion compared with RR 16.0 billion in 2017. Net debt also increased, to RR 13.1 billion vs. RR 11.4 billion at 2017-end. The Net debt-to-adjusted EBITDA LTM ratio increased to 2.0x compared to 1.7x in 2017.

Non-Financial Information

Environmental matters. The Group ensures that its activities fully comply with the local environmental regulations.

The Group has gained significant experience working together with leading companies in gaining better operational efficiency and reliability, save energy and lower the impact on environment in numerous projects in Russia, the CIS and internationally.

The Group conducts activities on a regular basis to offset its impact on the environment, including waste management, the analysis and control of water quality on industrial sites, compliance with environmental emissions, and the monitoring of the industrial environment.

Human resources. The Group considers employees being one of its core assets, and therefore, the Group can only be successful and sustainable through the attraction and retention of the best people, and by encouraging and developing them to achieve their full potential.

The Group's personnel policy focuses on creating a positive atmosphere at all locations and facilities to maximise productivity.

As part of this, it offers medical insurance, support for education, opportunities to obtain additional qualifications and training, and financial aid in particularly difficult times.

Adequate remuneration packages are offered to key managers and employees and remuneration is linked to the Group's financial results.

Principal risks and uncertainties

The Group's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 36 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 33 to the consolidated financial statements.

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group in the foreseeable future. The Group's strategic objective is to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Group also intends to enhance its research and development capabilities leveraging the experience and knowledge base of its existing teams to develop upgrades and new solutions, as well as more energy efficient equipment.

Research and development activities

The Group is undertaking a number of research and development projects in all its main business segments.

In particular, the industrial pumps segment is engaged in the development and production of a new pump with horizontally-opposed arrangement of impellers designed for injection of aggressive (corrosive) oil-field water in oil-and-gas-bearing reservoirs to maintain the reservoir pressure.

The oil&gas equipment and projects segment continues realization of its R&D project "development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the 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". This project is being carried out in cooperation with Tyumen State University and the Institute of Biochemical Physics of the Russian Academy of Sciences.

Also, the Group started development of the oil & gas heater based on thermosiphon. In 2018, the following stages of the project were accomplished: a drawing of the thermosiphon's general view was developed; thermal design and simulation of the thermosiphon's running were performed; its applicability was analysed.

HMS Neftemash JSC, a subsidiary of the Group, continued commercialisation of the project "Development and production of plate heat exchangers for Russia's petrochemical facilities". Under this project, the company set up production of gasketed plate exchangers, block-type heat exchangers, and flue gas heat recovery system (HRS) units. Also, HMS Neftemash JSC began the realisation of the project "Rodless oil extraction mechanism with pilot testing". The company developed working construction documentation, and is purchasing assembly units and components and conducting preparations for the production.

HMS Neftemash JSC also continued the project on a rodless oil extraction mechanism.

In the compressors segment, under the import-substitution program, Kazancompressormash JSC, a subsidiary of the Group, developed a compressor unit which, being a part of a natural gas liquefaction unit, is designed for boil-off gas compression and its further supply into feed gas, which is to be liquefied. The unit made by the Group is the first and the only one made in Russia, which operates at up to -154C° inlet flow temperature.

Results

The Group's results for the year ended 31 December 2018 are set out on page 17 of the consolidated financial statements.

Dividends

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

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

At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2018 of 5.97 Russian Roubles per ordinary share, amounting to a total dividend of RR 700,000 thousand, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

In December 2018, an interim dividend in respect of the profit for the nine months ended 30 September 2018 of 3.84 Russian Roubles per ordinary share amounting to a total dividend of RR 427,962 thousand was approved by the Board of Directors of the Company. This dividend was paid in January 2019.

At the Annual General Meeting in June 2018, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share amounting to a total dividend of RR 763,451 thousand. This dividend was paid in July 2018.

In December 2017, an interim dividend in respect of the profit for the nine months ended 30 September 2017 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 573,409 thousand was approved by the Board of Directors of the Company. This dividend was paid in January 2018.

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 thousand. These dividends were accounted for in shareholders' equity as an appropriation of retained earnings for the year ended 31 December 2017 and paid in June 2017.

Share capital

At 31 December 2018, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 22 of the consolidated financial statements.

The Company does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital. The Company's Articles of Association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

The role of the Board of Directors

The Group is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Group. The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Group's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2018 and at the date of this report are shown on page 1.

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

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

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2018 and 31 December 2017 are shown below:

Director	31 December 2018	31 December 2017
Vladimir V. Lukyanenko	27.4%	27.4%
Artem V. Molchanov	6.6%	6.6%
Yury N. Skrynnik	3.5%	3.4%
Kirill V. Molchanov	2.4%	2.4%

The above stated interests do not include the effect of treasury shares held by the Group.

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 37 to the consolidated financial statements.

The Board Committees

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

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet three to four times per year. Currently the audit committee is chaired by Ezio Vergani and the other members are Giorgio Veronesi and Vladimir V. Lukyanenko. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Group's financial statements, including its annual and interim financial statements, and the effectiveness of the Group's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Group of financial information and a number of other audit-related issues and assesses the efficiency of the work of the Chair of the Board of Directors.

Remuneration Committee. The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Giorgio Veronesi, an independent director, and Nikolai N. Yamburenko, Vladimir V. Lukyanenko and Ezio Vergani are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Group's remuneration policies. The remuneration of independent directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Strategy and Investments Committee. In 2014, the Board of Directors established a Strategy and Investments Committee. The Committee is expected to meet at least once each year. Nikolai N. Yamburenko, Vladimir V. Lukyanenko, Giorgio Veronesi and Yury N. Skrynnik are members of the committee and Nikolai N. Yamburenko is the chairman. The strategy and investments committee is responsible for considering, among other matters: (i) strategic business combinations; (ii) acquisitions, mergers, dispositions, divestitures and similar strategic transactions involving the Group together with (iii) fundamental investments of the Group.

Corporate governance

The Group's corporate governance practices are designed to ensure that the interests of all its stakeholders are given due consideration. The corporate affairs are governed by the memorandum and articles of association of the Company and the provisions of applicable Cyprus law. Although the Company is not subject to any mandatory corporate governance code in its home jurisdiction of Cyprus, nor required to observe the UK Corporate Governance Code, it has implemented various corporate governance measures. These include the appointment of two independent non-executive Directors to its Board of Directors and the establishment of an Audit Committee and a Remuneration Committee. Each of these Committees of the Board of Directors is chaired by an independent, non-executive Director. Under the Cyprus Companies Law, the directors have to declare the nature of their interest (either direct or indirect) in transactions at a meeting of the directors of the company. Under the articles of association of the Company, directors have no right to vote on a matter in which they have an interest even if the director has disclosed any interests in the transaction. The Group continues to review its corporate governance policies in line with international best practice.

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2018 amounted to RR 39,846 thousand (2017: RR 39,566 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 164,993 thousand for the year ended 31 December 2018 (2017: RR 143,832 thousand). See also Note 32.

Branches

The Company did not operate through any branches during the year ended 31 December 2018.

Treasury shares

The Group has in place a buy-back program, approved by the shareholders of HMS Hydraulic Machines & Systems Group plc, aimed at the accumulation of the GDRs fund for the long-term incentive program, covering the Group's key executives (Note 23). Under this program, a wholly-owned subsidiary of the Group from time to time purchases GDRs of the Company from the market.

During 2018, 109,100 GDRs of the Company representing 0.47% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 56,636 thousand.

During 2017, 168,018 GDRs of the Company representing 0.72% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 81,438 thousand.

At 31 December 2018, the Company, via a wholly-owned subsidiary, is holding 1,142,987 (31 December 2017: 1,033,887) of its own GDRs with the total cost of RR 461,630 thousand (31 December 2017: RR 404,994 thousand). The voting and dividend rights of these GDRs are suspended.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2019, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
24 April 2019

Directors' responsibility statement

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, and for such internal control as the Board of Directors determines necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 16 to 65) give a true and fair view of the financial position of HMS Hydraulic Machines & Systems Group plc and its subsidiaries (together with the Company, the "Group") at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

- proper books of account have been kept by the Company;
- the Company's consolidated financial statements are in agreement with the books;
- the consolidated financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required; and
- the information given in the consolidated management report is consistent with the consolidated financial statements.

By order of the Board

Artem V. Molchanov	Kirill V. Molchanov
Director	Director
24 April 2019	24 April 2019

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Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (the "Group"), which are presented in pages 16 to 65 and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Consolidated Financial Statements section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue and profit recognition on construction contracts	
The Group enters into construction projects, design and engineering projects and certain other long-term contracts. The recognition of revenue and profit on those contracts in accordance with IFRS 15 "Revenue from contracts with customers" is based on the stage of completion of contract activity. The stage is assessed by reference to the proportion of contract costs incurred for the work performed at the reporting date relative to the estimated total costs of the contract at completion. Recognition of revenue and profit on construction contracts is considered a key audit matter because of the significance of judgments involved in assessing the costs to complete, stage of completion, variations to the contracts requested by customers and the factual or future possible claims against the Group for delays in deliveries. Refer to Note 3 "Summary of significant accounting policies" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.	Our audit procedures included: • obtaining an understanding of key controls around the process of accounting for construction contracts, as well as • assessment whether the amounts recognised in the consolidated financial statements were in line with the Group's accounting policies and IFRS 15. We performed detailed procedures in respect of individually significant contracts, including: • discussions with the individual project managers and directors; • inspection of selected signed contracts; and • tracing a sample of costs incurred to supporting documentation. We also performed the following: • challenged management's assumptions related to the stage of completion of a project and estimates of project costs to complete by discussing and reviewing the correspondence files related to construction contracts with customers; • considered the accuracy and consistency of relevant estimates made in previous years; • corroborated the assumptions with the latest contractual information; • assessed the adequacy of estimates in respect of factual or anticipated customer claims with reference to contractual delivery schedules; and tested the appropriateness of the related disclosures provided in the consolidated financial statements. The above procedures were completed in a satisfactory manner.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud (continued)

Impairment assessment of goodwill	
The Group has a material goodwill balance of RR 3,092,257 thousand at 31 December 2018. In prior periods, the Group had recognised goodwill impairment charges. Given continued challenging economic conditions in the Russian Federation, there is a risk of further impairment of goodwill. The recoverable amount of cash generating units ("CGUs") is defined as the higher of fair value less costs to sell and value-in-use. Determination of the recoverable amount of the CGUs with allocated goodwill requires management to make significant estimates concerning operating cash flow projections, discount and long-term growth rates and other assumptions applied to each CGU. Refer to the Note 9 "Goodwill" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.	In this area our audit procedures included the following: • obtaining an understanding of key controls around the impairment review processes; • analysing the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2018 and comparing the forecast performance to the Board approved long-term plans; • assessing forecasted revenues for the year ending 31 December 2019 against actual performance up to the date of this report, existing backlog (including revenues already contracted but not earned) and analysing respective variances; • with the assistance of our internal valuation specialists, assessing management's methodology used in calculating the discount rates applied, forecasted revenue growth rates and inflation rates embedded in cash flow forecasts and comparing the long-term growth rates for each cash generating unit to economic forecasts; • assessing the appropriateness of the sensitivities applied by management to the impairment testing model and whether the scenarios reflect reasonably possible changes in key assumptions. We performed further sensitivity analysis based on our understanding of the future prospects to identify whether these scenarios could give rise to further impairment; • checking the arithmetic accuracy of the impairment model; and • checking the adequacy of the disclosures in the consolidated financial statements with the requirements of accounting standards in respect of impairment testing and disclosure of the key judgements applied by management in the cash flow forecasts and impairment review. The above procedures were completed in a satisfactory manner.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud (continued)

Accounting for acquisition of a subsidiary	
In November 2018 the Group acquired a project engineering company that held significant backlog of orders for oil and gas equipment. We consider accounting for this transaction to be a key audit matter because significant judgment is required with regards to: • determination whether the acquisition represents a business combination in accordance with the requirements set out in IFRS 3 "Business combinations"; • identification and classification of the assets acquired and liabilities assumed at transaction date and allocation of purchase price to identified assets and liabilities. Refer to the Note 10 "Business combinations" of the accompanying consolidated financial statements for further details.	We analysed assumptions and management judgments applied in accounting for the acquisition. Our procedures included the following: • inquiries of the Group's management and analysis of the supporting documentation to obtain understanding of the key details of the transaction; • analysis of management's assessment of the transaction as business combination in accordance with IFRS 3 "Business combinations"; • with the assistance of our internal valuation specialists, challenging management's assumptions and judgments with regards to the fair values of the net identifiable assets acquired; • checking the arithmetic accuracy of the calculations and any underlying models; • assessing the adequacy of the Group's disclosures against requirements of relevant accounting standards. The above procedures were completed in a satisfactory manner.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report and Directors' responsibility statement, which are presented in pages 2 to 8, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view; and

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with the those charged with governance are regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 20 June 2014 by the General Meeting of shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 17 April 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Other Legal Requirements (continued)

- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Nicos Charalambous.

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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, 24 April 2019

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2018	31 December 2017 Restated*
ASSETS			
Non-current assets:			
Property, plant and equipment	7	15,492,896	14,563,544
Other intangible assets	8	1,898,781	663,616
Goodwill	9	3,092,257	2,937,695
Investments in associates	11	93,265	84,829
Deferred income tax assets	24	424,004	377,902
Other long-term assets		26,004	20,541
Investment property	15	196,480	222,929
Total non-current assets		**21,223,687**	**18,871,056**
Current assets:			
Inventories	13	9,088,680	7,776,096
Trade and other receivables and other financial assets	14	12,267,843	11,540,164
Contract assets		4,611,700	5,374,888
Current income tax receivable		257,409	178,566
Cash and cash equivalents	12	6,295,159	4,620,601
Total current assets		**32,520,791**	**29,490,315**
TOTAL ASSETS		**53,744,478**	**48,361,371**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	48,329	48,329
Share premium	22	3,523,535	3,523,535
Treasury shares	22	(461,630)	(404,994)
Other reserves		122,730	122,730
Currency translation reserve		123,918	(652,109)
Retained earnings		7,847,636	7,073,645
Equity attributable to the shareholders of the Company		**11,204,518**	**9,711,136**
Non-controlling interests		**3,386,155**	**3,145,950**
TOTAL EQUITY		**14,590,673**	**12,857,086**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	18,198,084	13,065,129
Deferred income tax liability	24	1,622,627	1,617,238
Retirement benefit obligations	17	468,324	525,436
Provisions for liabilities and charges	21	168,687	116,835
Other long-term payables	20	432,915	204,394
Total non-current liabilities		**20,890,637**	**15,529,032**
Current liabilities:			
Trade and other payables	18	13,224,940	11,642,805
Contract liabilities		1,843,380	3,438,395
Short-term borrowings	16	1,162,133	2,977,261
Provisions for liabilities and charges	21	709,252	771,877
Retirement benefit obligations	17	67,497	67,314
Current income tax payable		57,684	72,610
Other taxes payable	19	1,198,282	1,004,991
Total current liabilities		**18,263,168**	**19,975,253**
TOTAL LIABILITIES		**39,153,805**	**35,504,285**
TOTAL EQUITY AND LIABILITIES		**53,744,478**	**48,361,371**

*Previous year figures are restated due to the adoption of IFRS 15 (Note 3).

Approved for issue and signed on behalf of the Board of Directors on 24 April 2019.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2018	2017
Revenue	25	52,618,880	44,422,177
Cost of sales	26	(40,617,376)	(32,535,607)
Gross profit		**12,001,504**	**11,886,570**
Distribution and transportation expenses	27	(1,915,880)	(1,784,967)
General and administrative expenses	28	(5,635,585)	(4,999,086)
Other operating expenses, net	29	(250,135)	(547,307)
Operating profit		**4,199,904**	**4,555,210**
Finance income	30	182,188	168,660
Finance costs	31	(1,610,545)	(1,775,092)
Share of results of associates	11	(570)	(331)
Profit before income tax		**2,770,977**	**2,948,447**
Income tax expense	24	(825,028)	(878,349)
Profit for the year		**1,945,949**	**2,070,098**
Profit attributable to:			
Shareholders of the Company		1,688,473	1,834,264
Non-controlling interests		257,476	235,834
Profit for the year		**1,945,949**	**2,070,098**
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		101,017	(23,313)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		830,112	(69,526)
Currency translation differences of associates	11	9,006	(3,564)
Other comprehensive income/(loss) for the year		**940,135**	**(96,403)**
Total comprehensive income for the year		**2,886,084**	**1,973,695**
Total comprehensive income attributable to:			
Shareholders of the Company		2,537,407	1,768,256
Non-controlling interests		348,677	205,439
Total comprehensive income for the year		**2,886,084**	**1,973,695**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	22	**15.10**	**16.32**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2018	2017 Restated*
Cash flows from operating activities			
Profit before income tax		2,770,977	2,948,447
Adjustments for:			
Depreciation and amortisation	26-29	1,842,607	1,541,946
(Gain)/loss from disposal of property, plant and equipment and intangible assets	29	(20,457)	45,822
Finance income	30	(182,188)	(168,660)
Finance costs	31	1,610,545	1,775,092
Change in retirement benefits obligations	17	55,878	36,248
Change in warranty provision	26	102,966	(48,908)
Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets	28	59,546	3,815
Change in provision for obsolete inventories	26	98,617	163,520
Change in provision for legal claims	29	(19,398)	195,830
Share-based compensation	23	155,989	93,218
Foreign exchange (gain)/loss, net	29	(13,352)	72,300
Amortisation of government grants	26	(30,806)	(16,777)
Change in provision for tax risks, other than income tax	28	(12,366)	14,984
Impairment of taxes receivable	29	-	6,204
Share of results of associates	11	570	331
Operating cash flows before working capital changes		**6,419,128**	**6,663,412**
Increase in inventories		(1,067,279)	(782,888)
Decrease/(increase) in trade and other receivables		977,282	(949,658)
Decrease/(increase) in contract assets		763,188	(1,808,366)
(Decrease)/increase in contract liabilities		(1,595,015)	2,718,357
Increase in current income tax receivable		(78,843)	(8,916)
(Decrease)/increase in taxes payable		(136,304)	247,774
(Decrease)/increase in accounts payable and accrued liabilities		(722,970)	1,458,773
Cash from operations		**4,559,187**	**7,538,488**
Income tax paid		(1,162,267)	(739,534)
Interest paid		(1,618,021)	(1,687,545)
Interest received		177,390	121,142
Net cash from operating activities		**1,956,289**	**5,232,551**
Cash flows from investing activities			
Repayment of loans advanced		74,914	65,884
Loans advanced		(53,445)	(57,507)
Proceeds and expenses from sale of property, plant and equipment and intangible assets, net		51,266	12,215
Interest received		890	4,040
Purchase of property, plant and equipment, net of VAT		(1,956,140)	(1,921,001)
Acquisition of intangible assets, net of VAT		(378,521)	(238,225)
Inflow of cash and cash equivalents on acquisition of subsidiary	10	165,257	-
Net cash used in investing activities		**(2,095,779)**	**(2,134,594)**
Cash flows from financing activities			
Repayments of borrowings		(11,976,504)	(18,561,873)
Proceeds from borrowings		15,223,755	18,126,821
Proceeds from government grant		60,000	78,945
Payment for finance lease		(16,580)	(6,569)
Buy back of issued shares	22	(56,636)	(81,438)
Acquisition of non-controlling interest in subsidiaries	22	(53,736)	-
Dividends related to Long-term Incentive Program	23	(48,816)	(17,696)
Dividends paid to non-controlling shareholders of subsidiaries		(48,319)	(37,513)
Dividends paid to the shareholders of the Company	22	(1,336,860)	(961,510)
Net cash from/(used in) financing activities		**1,746,304**	**(1,460,833)**
Net increase in cash and cash equivalents		**1,606,814**	**1,637,124**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**67,744**	**(6,214)**
Cash and cash equivalents at the beginning of the year		**4,620,601**	**2,989,691**
Cash and cash equivalents at the end of the year		**6,295,159**	**4,620,601**

*Previous year figures are restated due to the adoption of IFRS 15 (Note 3).

(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 interests**	**Total equity**
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 year		-	-	-	-	-	1,834,264	1,834,264	235,834	**2,070,098**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(21,292)	(21,292)	(2,021)	**(23,313)**
Currency translation differences		-	-	-	-	(41,152)	-	(41,152)	(28,374)	**(69,526)**
Currency translation differences of associates	11	-	-	-	-	(3,564)	-	(3,564)	-	**(3,564)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**(44,716)**	**1,812,972**	**1,768,256**	**205,439**	**1,973,695**
Buy back of issued shares	22	-	-	(81,438)	-	-	-	(81,438)	-	**(81,438)**
Share-based compensation	23	-	-	-	-	-	62,549	62,549	-	**62,549**
Dividends declared by the Group's subsidiaries	36	-	-	-	-	-	-	-	(31,494)	**(31,494)**
Dividends declared to the shareholders of the Company	22,36	-	-	-	-	-	(1,150,155)	(1,150,155)	-	**(1,150,155)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(81,438)**	**-**	**-**	**(1,087,606)**	**(1,169,044)**	**(31,494)**	**(1,200,538)**
Balance at 31 December 2017		**48,329**	**3,523,535**	**(404,994)**	**122,730**	**(652,109)**	**7,073,645**	**9,711,136**	**3,145,950**	**12,857,086**
Profit for the year		-	-	-	-	-	1,688,473	1,688,473	257,476	**1,945,949**
Other comprehensive income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	72,907	72,907	28,110	**101,017**
Change in cumulative currency translation reserve		-	-	-	-	767,021	-	767,021	63,091	**830,112**
Share of comprehensive loss from associates	11	-	-	-	-	9,006	-	9,006	-	**9,006**
Total comprehensive income for the year		-	**-**	**-**	**-**	**776,027**	**1,761,380**	**2,537,407**	**348,677**	**2,886,084**
Buy back of issued shares	22	-	-	(56,636)	-	-	-	(56,636)	-	**(56,636)**
Share-based compensation	23	-	-	-	-	-	107,173	107,173	-	**107,173**
Dividends declared by the Group's subsidiaries	36	-	-	-	-	-	-	-	(52,861)	**(52,861)**
Dividends declared to the shareholders of the Company	22,36	-	-	-	-	-	(1,191,413)	(1,191,413)	-	**(1,191,413)**
Business combination	10	-	-	-	-	-	-	-	94,976	**94,976**
Acquisition of non-controlling interest	22	-	-	-	-	-	96,851	96,851	(150,587)	**(53,736)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(56,636)**	**-**	**-**	**(987,389)**	**(1,044,025)**	**(108,472)**	**(1,152,497)**
Balance at 31 December 2018		**48,329**	**3,523,535**	**(461,630)**	**122,730**	**123,918**	**7,847,636**	**11,204,518**	**3,386,155**	**14,590,673**

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 5 Alkaiou, 2404, Nicosia, Cyprus (before 22 March 2018, the Company's address of the registered office was 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.

For the year ended 31 December 2018, the average number of employees of the Group was 14,527 (2017: 14,595).

At 31 December 2018 and 2017, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares, including shares in the form of GDRs. Since 6 March 2019, HMS Holding JSC, a newly incorporated Russian entity, 100% subsidiary of H.M.S. Technologies Ltd., became the immediate parent of the Company, holding 71.51% of the Company's shares, as a result of ownership structure change (Note 37). The Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Group

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

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Following the significant decrease of oil price occurred in 2014-2015, the Russian Ruble exchange rate substantially decreased.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the EU on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets.

Though the Russian economy was growing in 2017-2018 after overcoming the economic recession of previous years, it is still negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Ukraine's operating environment. In the recent years, Ukraine has been in a political and economic turmoil. This resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity and volatility of financial markets.

During 2018, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% to USD and 8.2% to EUR comparing to previous year averages.

In terms of currency regulations, the new currency law was adopted in 2018 and came into force on 7 February 2019. It purports to enable the National Bank of Ukraine to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, cooperation with the International Monetary Fund, yet further economic and political developments, are currently difficult to predict.

2 Operating Environment of the Group (continued)

One of the Group's subsidiaries, NASOSENERGOMASH Sumy JSC (before 26 December 2018 - Nasosenergomash PJSC), is located in Sumy, Ukraine, and specializes in pumps manufacturing for oil and gas, thermal and nuclear power, water supply and utilities. Pumps produced by NASOSENERGOMASH Sumy JSC are sold in Russia and other countries. For the year ended 31 December 2018, the revenue of NASOSENERGOMASH Sumy JSC approximated 7% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers (for the year ended 31 December 2017: 6% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers). As of the date these consolidated financial statements were authorised for issuance, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of NASOSENERGOMASH Sumy JSC, however, the Group's management believes that certain customers of the Group may take conservative and cautious position when considering the purchase of products from EU and Ukraine. Due to these risks as well as due to high-level capacity utilisation of NASOSENERGOMASH Sumy JSC, the Group has realised the project aimed at building up the respective competencies within Russian subsidiaries of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3 Summary of Significant Accounting Policies (continued)

Non-controlling interests. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

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

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

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

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

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

3 Summary of Significant Accounting Policies (continued)

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

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

An idemnification asset, equivalent to the fair value of the indemnified liabilities, is included in net assets acquired in the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have impact on future earnings, unless the indemnification asset becomes impaired.

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

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

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

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

Associates. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

Functional and presentation currency. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's subsidiaries and associates are Russian Roubles ("RR"), Ukrainian Hryvnas ("UAH"), Belorussian Roubles ("BYN") and Euro ("EUR"); and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities, denominated in foreign currencies, are translated into the subsidiary's functional currency at the official exchange rate of the country in which the subsidiary operates at the respective transaction or statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each subsidiary's functional currency at year-end official exchange rates are recognised in profit or loss.

Monetary assets and liabilities of each subsidiary are translated into the Group's presentation currency at the official exchange rate of the Central Bank of the Russian Federation at the respective statement of financial position date.

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

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

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

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

At 31 December 2018 and 2017, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2018	**31 December 2017**	**2018**	**2017**
1 USD = RR	69.4706	57.6002	62.9264	58.2982
1 EUR = RR	79.4605	68.8668	74.1330	66.0305
1 UAH = RR	2.5071	2.0496	2.3140	2.1933
1 BYN = RR	32.0732	29.1013	30.8216	30.1790

Current and non-current assets and liabilities. The classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months from the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months of the reporting date. In the case of construction contracts, an asset or liability is classified as non-current when the item is realised or settled respectively beyond the Group's normal operating cycle; and as a current asset or liability when the item is realised or settled in the Group's normal operating cycle. Accordingly, there are amounts due to/due from customers under construction contracts, inventories, advances to suppliers and subcontractors, which may not be realised within twelve months after the reporting date, that have been classified as current.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

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

Land and construction in progress are not depreciated.

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

Investment property. Investment property is held to earn future rentals or for capital appreciation. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at historical cost less accumulated depreciation. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised.

Other intangible assets. The Group's intangible assets other than goodwill primarily include computer software, customer relationships and order backlog, trademarks, project documentation, development costs and patents. Intangible assets have definite useful lives and are measured at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets are amortised using the straight-line method over their useful lives, with the exception of customer relationships and order backlog, which are amortised as the economic benefits from these assets are consumed by the Group. Estimated useful lives of the Group's intangible assets are as follows:

	Years
Project documentation, development costs and patents	5-10
Licenses and certificates	2-10
Software licenses and websites	1-10
Customer relationships and order backlog	5-10
Trademarks	6-19

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

IFRS 9 "Financial Instruments". IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The Group does not apply hedge accounting, therefore, the main changes applicable to the Group impacted its accounting policies for classification and impairment of financial instruments.

3 Summary of Significant Accounting Policies (continued)

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively at the date of initial application, which is 1 January 2018. The Group used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognise any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not restated.

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are 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 three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets. According to IFRS 9, the financial assets are classified in the following measurement categories:

- those to be measured subsequently at amortised cost,
- those to be measured at fair value through profit or loss (FVTPL),
- those to be measured at fair value through other comprehensive income.

3 Summary of Significant Accounting Policies (continued)

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract. Financial assets are classified as at amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group's loans, trade and other financial receivables, and cash and cash equivalents, are classified as at amortised cost. The Group does not have financial assets classified as at FVTOCI.

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39 "Financial instruments: Recognition and Measurement", with a new "expected credit loss" model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost.

Contract assets, trade and other receivables. Trade and other receivables and contract assets are recognised initially at fair value, these assets do not contain a significant financing element, and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

The Group always recognises lifetime expected credit losses (ECL) for trade and other receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and assessment of both the current as well as the forecast direction on conditions at the reporting date. The carrying amount of the asset is reduced through the use of an ECL allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'. When a contract asset or trade receivable is uncollectible, it is written off against the ECL allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

The Group has assessed credit risk in relation to contracts with government customers or sub-contractors to governments and believes it be extremely low, therefore no ECL allowance is required for these trade and other receivables, or contract assets. The Group considered ECL for non-government commercial customers, however this risk is not material to the financial statements.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less or deposits with original maturity of more than three months which could be withdrawn on demand. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are included in other non-current assets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. On derecognition of financial assets measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities. Financial liabilities of the Group consist of trade and other payables, borrowings and finance lease liabilities.

There are no changes in the classification rather than the accounting policy itself as a result of implementation of IFRS 9 in respect of borrowings and trade and other payables, which continue to be measured at amortised cost.

Financial liabilities that are not (a) contingent consideration of an acquirer in a business combination, (b) held-for-trading, or (c) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method. At the reporting date, the Group had only financial liabilities classified as those to be measured at amortised cost, with the exception of contingent consideration liability, assumed as a result of the business combination (Note 10), which was classified as at FVTPL.

Trade and other payables. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

3 Summary of Significant Accounting Policies (continued)

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Advances issued. Advances issued are carried at cost less ECL allowance for impairment. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance leases. Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income, primarily the Russian Federation. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Summary of Significant Accounting Policies (continued)

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount receivable, including VAT.

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss for the year over the period necessary to match them with the costs that they are intended to compensate.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

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

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

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

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

Past service costs are recognised immediately in profit and loss.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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

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

Share-based payments. Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date, excluding the impact of any non-market vesting conditions. The attainment of any service and non-market performance vesting conditions are included in assumptions about the number of shares that the employee will ultimately receive.

When dividends are paid to the employees in respect of the share awards not yet vested, such awards are valued as if no dividends will be paid on the underlying shares during the vesting period. As a result, the grant date valuation is not reduced by the present value of the dividends expected to be paid during the vesting period. Dividends payable or paid to the holders of not yet vested share awards are recognised in equity for those awards which are expected to vest and are expensed for those awards which are not expected to vest.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 replaced the previous revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations. In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15. The adoption of IFRS 15 since 1 January 2018 did not have a significant impact on the Group's financial position or the financial performance, other than reclassification of contract assets and contract liabilities from Trade and other receivables and other financial assets and Trade and other payables, respectively.

The following table summarizes restatements made to the comparative information, resulting from the adoption of IFRS 15:

Items of the consolidated statement of financial position at 31 December 2017	**As previously reported**	**IFRS 15**	**As restated**
Trade and other receivables and other financial assets, including	**16,915,052**	**(5,374,888)**	**11,540,164**
Receivables due from customers for construction work	5,374,888	(5,374,888)	-
Contract assets	**-**	**5,374,888**	**5,374,888**
Trade and other payables, including	**15,081,200**	**(3,438,395)**	**11,642,805**
Advances from customers	3,027,123	(287,790)	2,739,333
Payables due to customers for construction work	3,150,605	(3,150,605)	-
Contract liabilities	**-**	**3,438,395**	**3,438,395**

Contract asset and liabilitiy. Contract asset is the amount for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin. Revenue from construction contracts only lead to recognition of contract assets.

Contract liability represents the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

For any individual contract, either a contract asset or a contract liability is presented on a net basis.

Following the adoption of IFRS 15, the Group's accounting policy in respect of revenue is as follows:

Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

3 Summary of Significant Accounting Policies (continued)

Performance obligations. Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price. At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices.

Revenue and profit recognition. Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. The accounting treatment differs depending on whether control passes at a specific point in time or over time.

The Group recognises over time revenue from construction projects, as the Group's performance creates or enhances an asset that the customer controls as the asset is constructed, and revenue from design and engineering services and certain long-term construction-type production contracts, as the Group generally creates an asset that has no alternative use and is legally entitled to payment for performance completed to date. These contracts with customers are typically accounted for as one performance obligation. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's total costs forecast (the input method).

Revenue from sale of goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped and the risks, rewards and legal title are passed.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting year.

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

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

The Group recognises revenue from construction projects, design and engineering projects and certain other long-term contracts over time, using the input method. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the year ended 31 December 2018, the Group recognised revenue from such contracts in amount of RR 21,290,257 (2017: RR 13,441,751) (Note 25).

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

In addition, receivables related to construction contracts and certain other contracts, under which the revenue is recognised over time, 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.

(b) Provisions for claims received and legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, resolution of current legal proceedings or other claims outstanding would not have a material adverse effect on the result of operations or financial position of the Group. There are no probable or possible legal risks which have not been recorded or disclosed in these consolidated financial statements. Refer to Note 33.

(c) Review of amortisation periods of intangible assets with finite useful lives

At each financial year-end, the Group reviews amortisation periods for its identified intangible assets with finite lives. The remaining useful lives of these intangible assets have been assessed based on the prior experiences and expected changes in the future economic benefits attributable to the intangible assets. In assessing the useful lives of the Group's long-term customer relationships and order backlog, the Group considers factual changes in the relationships such as status of existing contracts, availability of new contracts, changes in the market share and strengthening and increase in activities of competitors.

If the management's estimates on amortisation periods of intangible assets with finite useful lives differ by 10%, the impact on amortisation for the year ended 31 December 2018 would be either increase or decrease by RR 36,412 (2017: RR 29,601).

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

At 31 December 2018, the Group performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as well as performed mandatory annual impairment testing for the CGUs containing goodwill.

The recoverable amount of each CGU containing goodwill was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the period of 5 to 10 years. In preparing budgets, management considers past performance as well as its projections on the respective CGU's future development and performance, including synergy effects. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs.

The Group performed an impairment test of the assets of remaining CGUs demonstrating indicators of impairment, determining the fair value less cost to sell, calculated by reference to the market of relevant assets, as the recoverable amount of these CGUs.

As a result of this analysis and testing, the Group concluded that no impairment charge was required at 31 December 2018 and for the year then ended.

(f) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 33.

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations

The following standards and amendments to the standards were adopted by the Group from 1 January 2018:

- *IFRS 15, Revenue from Contracts with Customers;*
- *IFRS 9, Financial Instruments;*
- *IFRIC 22, Foreign Currency Transactions and Advance Consideration;*
- *Annual Improvements to IFRS Standards 2014–2016 Cycle.* The improvements consist of changes to the following standards: IFRS 1, IAS 28;
- *Amendments to IFRS 15, Clarifications to IFRS 15 Revenue from Contracts with Customers;*
- *Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;*
- *Amendments to IAS 40, Transfers of Investment Property;*
- *Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions.*

The adoption of such standards and amendments did not have a material impact on the Group's consolidated financial statements, other than disclosed in Note 3.

New standards, amendments and interpretations. The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 and which the Group has not early adopted (items marked with * have not been endorsed by the EU; the Group will only be able to apply new standards and interpretations when they are endorsed by the EU):

Standards, amendments and interpretations	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2015–2017 Cycle. The improvements consist of changes to the following standards: IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures. Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement. Clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	1 January 2019*
Amendments to IFRS 3, Definition of a Business. Changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only.	1 January 2020*
Amendments to IAS 1 and IAS 8, Definition of material. Clarifies the definition of "material" and align the definition used in the Conceptual Framework and the standards.	1 January 2020*
IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.	1 January 2019
IFRS 16, Leases	1 January 2019
IFRS 17, Insurance contracts	1 January 2021*

The impact of adoption of the pronouncements listed above on the consolidated financial statements of future periods is currently being assessed by management of the Group, except for those discussed below.

IFRS 16, Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessor and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective. The standard is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information.

The impact on the consolidated financial statements upon adoption of IFRS 16 is currently assessed by management of the Group.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

At 31 December 2018 and 2017, HMS Hydraulic Machines & Systems Group plc, parent company of the Group, held directly a 100% share in HMS Group JSC, a company registered in Russia and controlling directly or indirectly all other subsidiaries of the Group.

Details of the Group's material subsidiaries at 31 December 2018 and 31 December 2017 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of effective ownership interest held by the Group at 31 December, %	
			2018	**2017**
Segment "Industrial pumps"				
HMS Livhydromash JSC	Manufacture of pumps	Russia	100.00	100.00
Livnynasos JSC	Manufacture of pumps	Russia	100.00	100.00
NASOSENERGOMASH Sumy JSC*	Manufacture of pumps	Ukraine	90.61	83.33
HYDROMASHSERVICE JSC	Trading company	Russia	100.00	100.00
Plant Promburvod OJSC	Manufacture of pumps	Belorussia	51.38	51.38
Bobruisk Machine Building Plant OJSC	Manufacture of pumps	Belorussia	56.95	56.95
Dimitrovgradkhimmash JSC	Manufacture of pumps and oil & gas equipment	Russia	51.00	51.00
Apollo Goessnitz GmbH	Manufacture of pumps	Germany	100.00	100.00
Nizhnevartovskremservis CJSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Segment "Oil and gas equipment and projects"				
HMS Neftemash JSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash JSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
Giprotyumenneftegaz PJSC	Engineering services	Russia	45.34	45.34
Institute Rostovskiy Vodokanalproekt JSC	Engineering services	Russia	85.70	85.70
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompessormash OJSC	Manufacture of compressors	Russia	89.86	89.86
CIPS LLC**	Project engineering	Russia	89.86	-
NIITurbokompressor named after V.B.Shnepp JSC	Development of project documentation	Russia	98.39	98.39
Segment "Construction"				
Tomskgazstroy PJSC	Construction services	Russia	93.49	93.49

*During 2018, the Group acquired an additional 7.28% interest in Nasosenergomash JSC, as a result of this transaction, the Group increased its ownership interest in Nasosenergomash JSC from 83.33% to 90.61% (Note 22).
**In November 2018, Kazankompessormash OJSC, the Group's subsidiary, acquired 93.94 % control share in CIPS LLC (Note 10).

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2018						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	Ukraine	9.39	9.39	1,321	216,823	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	5,206	142,789	747
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(30,825)	(215,466)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	142,941	1,364,847	43,325
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	57,345	1,262,990	4,247
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	37,399	444,696	-
CIPS LLC	Russia	10.14	-	60,372	155,347	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	(16,283)	14,129	-

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2017						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	Ukraine	16.67	16.67	46,272	284,859	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	14,392	125,040	1,204
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(29,023)	(166,417)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	186,412	1,260,443	28,579
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(10,610)	1,204,575	7,147
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	46,751	406,968	583
Other subsidiaries with insignificant non-controlling interests	-	-	-	(18,360)	30,482	-

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

At 31 December 2018 and 2017, the summarised financial information about financial position of these subsidiaries, represented before inter-company eliminations and consolidation adjustments, including goodwill on acquisitions, was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Balance at 31 December 2018				
Segment "Industrial pumps"				
NASOSENERGOMASH Sumy JSC	2,596,895	1,532,641	(1,310,683)	(510,621)
Plant Promburvod OJSC	215,309	159,104	(69,753)	(10,955)
Bobruisk Machine Building Plant OJSC	312,720	388,681	(286,708)	(915,213)
Dimitrovgradkhimmash JSC	2,137,936	1,201,864	(404,606)	(149,791)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	2,053,288	1,046,865	(571,467)	(218,096)
Segment "Compressors"				
Kazankompessormash OJSC	6,265,081	5,687,562	(5,129,395)	(2,436,629)
CIPS LLC	2,789,091	1,233,282	(2,120,371)	(369,613)
Balance at 31 December 2017				
Segment "Industrial pumps"				
NASOSENERGOMASH Sumy JSC	1,699,312	1,140,984	(660,315)	(470,876)
Plant Promburvod OJSC	168,964	140,123	(39,696)	(12,194)
Bobruisk Machine Building Plant OJSC	264,588	357,919	(203,884)	(805,205)
Dimitrovgradkhimmash JSC	1,906,806	1,226,146	(369,981)	(190,637)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	1,815,634	830,665	(236,104)	(206,616)
Segment "Compressors"				
Kazankompessormash OJSC	6,808,979	4,523,857	(5,877,028)	(1,441,851)

The summarised financial information about transactions and cash flows for the years ended 31 December 2018 and 2017 of these subsidiaries before inter-company eliminations was as follows:

	Revenue	Profit/ (loss)	Total compre-hensive income/ (loss)*	Net cash inflow/ (outflow) from operating activities	Net cash inflow/ (outflow) from investing activities	Net cash inflow/ (outflow) from financing activities
Year ended 31 December 2018						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	3,430,355	46,761	599,127	440,195	(293,015)	3,901
Plant Promburvod OJSC	394,682	10,708	37,977	23,702	(12,914)	(1,726)
Bobruisk Machine Building Plant OJSC	680,749	(71,606)	(113,938)	109,941	(11,127)	(104,793)
Dimitrovgradkhimmash JSC	2,682,344	291,719	314,692	841,003	(71,531)	(99,540)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	1,674,753	107,168	113,429	(225,887)	9,413	(7,708)
Segment "Compressors"						
Kazankompessormash OJSC	10,016,328	369,411	372,662	1,194,138	(1,393,439)	1,099,172
CIPS LLC	4,503,174	595,521	595,521	(351,927)	(96,974)	-
Year ended 31 December 2017						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	2,481,071	277,621	77,688	179,810	(256,912)	8,091
Plant Promburvod OJSC	376,453	29,606	13,809	24,475	(17,051)	(2,807)
Bobruisk Machine Building Plant OJSC	841,541	(67,420)	(49,905)	(19,133)	(14,335)	24,988
Dimitrovgradkhimmash JSC	2,598,453	380,432	387,621	154,051	(100,171)	(51,128)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	1,150,348	(17,082)	(18,135)	75,694	135,718	(7,891)
Segment "Compressors"						
Kazankompessormash OJSC	9,012,202	464,411	461,500	422,900	(272,597)	(169,508)

* Total comprehensive income/(loss) includes profit/(loss) for the year and amounts of change in cumulative currency translation reserve and remeasurements of post-employment benefit obligations.

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2017	**1,462,633**	**9,259,269**	**7,439,828**	**285,577**	**939,486**	**1,056,761**	**20,443,554**
Additions	2,679	345,261	947,964	64,375	156,516	497,411	2,014,206
Transfers	-	338,882	185,297	-	4,270	(528,449)	-
Disposals	-	(25,914)	(97,565)	(26,905)	(44,006)	(3,799)	(198,189)
Translation to presentation currency	818	(34,045)	(79,876)	(1,957)	(6,891)	(2,498)	(124,449)
Balance at 31 December 2017	**1,466,130**	**9,883,453**	**8,395,648**	**321,090**	**1,049,375**	**1,019,426**	**22,135,122**
Additions	886	263,559	640,429	43,518	263,641	932,461	2,144,494
Transfers	-	51,303	616,179	1,610	7,601	(676,693)	-
Acquisitions through business combinations (Note 10)	-	-	-	-	5	-	5
Disposals	-	(19,789)	(110,192)	(35,204)	(53,484)	(1,327)	(219,996)
Translation to presentation currency	8,187	144,505	273,942	5,333	73,914	7,142	513,023
Balance at 31 December 2018	**1,475,203**	**10,323,031**	**9,816,006**	**336,347**	**1,341,052**	**1,281,009**	**24,572,648**
Accumulated depreciation and impairment							
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	-	9,345	74,144	22,915	38,004	-	144,408
Depreciation expense	-	(343,333)	(726,409)	(29,982)	(135,148)	-	(1,234,872)
Impairment reversal	-	256	3,356	-	-	-	3,612
Translation to presentation currency	-	8,022	36,766	1,409	4,340	-	50,537
Balance at 31 December 2017	**(7,993)**	**(2,486,529)**	**(4,110,521)**	**(216,752)**	**(740,032)**	**(9,751)**	**(7,571,578)**
Eliminated on disposals	-	18,740	96,364	33,383	46,295	-	194,782
Depreciation expense	-	(371,873)	(911,630)	(33,583)	(151,220)	-	(1,468,306)
Translation to presentation currency	-	(45,594)	(140,331)	(3,472)	(45,253)	-	(234,650)
Balance at 31 December 2018	**(7,993)**	**(2,885,256)**	**(5,066,118)**	**(220,424)**	**(890,210)**	**(9,751)**	**(9,079,752)**
Carrying amount							
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 31 December 2017	**1,458,137**	**7,396,924**	**4,285,127**	**104,338**	**309,343**	**1,009,675**	**14,563,544**
Carrying amount at 31 December 2018	**1,467,210**	**7,437,775**	**4,749,888**	**115,923**	**450,842**	**1,271,258**	**15,492,896**

At 31 December 2018, RR 237,952 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2017: RR 233,062), including RR 141,568 related to undrawn credit facilities (31 December 2017: RR 183,215) (Note 16).

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the year ended 31 December 2018 was RR 15,572 (2017: RR 55,716). The capitalisation rate calculated using Group weighted average interest rate was 9.7%, except for borrowing costs related to the specific loan at interest rate of 5% (2017: the capitalisation rate using Group weighted average interest rate was 11.4%%, except for borrowing costs related to the unsecured non-bank loan).

Construction-in-progress includes advances for capital expenditures for a total of RR 562,623 at 31 December 2018 (31 December 2017: RR 243,471).

At 31 December 2018, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 467,347 (31 December 2017: RR 285,655).

At 31 December 2018 and for the year then ended, the Group concluded that no impairment charge was required (Note 4).

(in thousands of Russian Roubles, unless otherwise stated)

8 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 2017	**733,119**	**566,897**	**203,888**	**150,186**	**25,367**	**1,679,457**
Additions	117,090	-	116,803	-	4,345	238,238
Disposals	(4,759)	-	(85,463)	-	(5,742)	(95,964)
Translation to presentation currency	5,615	24,087	(3,148)	-	(4)	26,550
Balance at 31 December 2017	**851,065**	**590,984**	**232,080**	**150,186**	**23,966**	**1,848,281**
Additions	139,413	-	268,733	-	8,818	416,964
Acquisitions through business combinations (Note 10)	8,401	1,150,037	-	-	-	1,158,438
Disposals	(637,533)	-	(67,907)	(106,780)	(4,637)	(816,857)
Translation to presentation currency	48,806	50,507	17,008	-	7	116,328
Balance at 31 December 2018	**410,152**	**1,791,528**	**449,914**	**43,406**	**28,154**	**2,723,154**
Accumulated amortisation and impairment						
Balance at 1 January 2017	**(453,074)**	**(303,618)**	**(105,258)**	**(93,625)**	**(11,355)**	**(966,930)**
Amortisation on disposals	4,392	-	85,463	-	5,718	95,573
Amortisation expense	(131,340)	(56,315)	(82,223)	(20,167)	(5,964)	(296,009)
Translation to presentation currency	(7,385)	(11,990)	2,075	-	1	(17,299)
Balance at 31 December 2017	**(587,407)**	**(371,923)**	**(99,943)**	**(113,792)**	**(11,600)**	**(1,184,665)**
Amortisation on disposals	619,972	-	67,903	106,780	4,637	799,292
Amortisation expense	(93,021)	(87,967)	(165,090)	(11,269)	(6,777)	(364,124)
Translation to presentation currency	(34,730)	(29,716)	(10,423)	-	(7)	(74,876)
Balance at 31 December 2018	**(95,186)**	**(489,606)**	**(207,553)**	**(18,281)**	**(13,747)**	**(824,373)**
Carrying amount						
Carrying amount at 1 January 2017	**280,045**	**263,279**	**98,630**	**56,561**	**14,012**	**712,527**
Carrying amount at 31 December 2017	**263,658**	**219,061**	**132,137**	**36,394**	**12,366**	**663,616**
Carrying amount at 31 December 2018	**314,966**	**1,301,922**	**242,361**	**25,125**	**14,407**	**1,898,781**

9 Goodwill

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

	2018	2017
Carrying amount at 1 January	**2,937,695**	**2,863,925**
Effect of translation to presentation currency	154,562	73,770
Carrying amount at 31 December	**3,092,257**	**2,937,695**

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

	31 December 2018	31 December 2017
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,159,329	1,004,767
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	**3,092,257**	**2,937,695**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill (continued)

For the purpose of impairment testing, the recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period from five to ten years. A period of more than five years is used if it is considered that the fifth year of a forecast is not indicative of expected long-term future performance of a CGU as operations may not have reached maturity, which may be the case in developing markets such as the Russian Federation or/and when the Group's formal long-term strategy for the CGU covers longer period. Cash flows beyond this period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. Management determined budgeted revenue increase rates, operating margin rates and working capital turnover period based on past performance as well as on its projections on the respective CGU's future development and performance, including synergy effects. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Assumptions used for value-in-use calculations are summarised in the table below:

	31 December 2018	31 December 2017
For Apollo Goessnitz GmbH CGU:		
Forecast period	8 years	8 years
Growth rate beyond forecast period	2.5%	2.5%
Pre-tax discount rate	12.3%	13.4%
For other CGUs:		
Forecast period	5-10 years	5-10 years
Growth rate beyond forecast period	4.0%	4.0%
Pre-tax discount rate	16.8%	16.2%

Based on the results of impairment tests, the Group did not recognise any impairment of goodwill at 31 December 2017 and 2018 and for the years then ended. Management believes that any reasonably possible change in key assumptions would not lead to a material impairment charge.

10 Business Combinations

At 15 November 2018, Kazankompressormash OJSC, the Group's subsidiary, acquired a project engineering company, located in Moscow, in line with its strategy for a total consideration of RR 841,890, including cash payment of RR 750,000 and contingent consideration of RR 91,890. At the date of acquisition, the acquired company held a significant backlog of orders for oil&gas equipment.

The contingent consideration arrangement, related to this acquisition, requires the acquired business to perform above a predefined performance level. The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is RR 91,890, which is equal to the amount recognised as the fair value of contingent consideration.

Conditions of the transaction included the purchase of 95% share and a call option for the purchase of the remaining 5% share of the acquiree for the notional amount, paid in advance at the date of the transaction. Since the execution of the option is considered probable by the management of the Group and the option is deep in the money at the reporting date, it is assumed that Kazankompressormash OJSC controls 100% share in the acquired company.

The acquired company contributed revenue of RR 4,503,174 and profit after income tax of RR 595,521 to the Group for the period from the date of acquisition to 31 December 2018. Had the acquisition occurred on 1 January 2018, the transactions of acquired company from 1 January 2018 to the date of acquisition would have been not material for the Group's revenue and profit after income tax.

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

(in thousands of Russian Roubles, unless otherwise stated)

10 Business Combinations (continued)

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Such assessments may change when the Group completes the valuation of tangible and intangible assets of the acquired company. The provisional purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition
Property, plant and equipment	5
Other intangible assets	1,158,438
Inventories	3
Prepayments and advances to suppliers	1,064,466
Trade and other receivables and other financial assets	50,163
Current income tax receivable	6
Indemnification asset*	188,052
Cash and cash equivalents	915,257
Deferred income tax liability	(220,898)
Contract liabilities	(1,844,423)
Trade and other payables	(46,229)
VAT payable	(139,922)
Withholding tax provision*	(188,052)
Fair value of net assets	**936,866**
Less: Non-controlling interest	(94,976)
Fair value of acquired interest in net assets	**841,890**
Purchase consideration paid in cash	750,000
Less: cash and cash equivalents acquired in a business combination	(915,257)
Inflow of cash and cash equivalents on acquisition	**(165,257)**

*Indemnification asset represents the guarantee of the seller to fully cover all expenses that the acquired entity might incur in future in respect of the withholding tax ("WHT") payable to the Russian tax authorities upon distribution of dividends by the acquiree to its immediate parent up to the date of the business combination. At the date of the acquisition and at 31 December 2018, the amount of WHT liability and respective indemnification asset were estimated as RR 188,052.

11 Investments in Associates

The Group's investments in associates are as follows:

	2018	**2017**
Carrying amount at 1 January	**84,829**	**88,724**
Share of after tax results of associates	(570)	(331)
Effect of translation to presentation currency	9,006	(3,564)
Carrying amount at 31 December	**93,265**	**84,829**

At 31 December 2018 and 2017, the Group owned a 47.69% interest in its associate VNIIAEN OJSC, located in Ukraine. VNIIAEN OJSC is a research and development centre, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

The table below summarises financial information of VNIIAEN OJSC:

	At 31 December 2018 and for the year then ended	**At 31 December 2017 and for the year then ended**
Total non-current assets	109,983	93,185
Total current assets	7,933	5,776
Total non-current liabilities	(6,029)	(5,520)
Total current liabilities	(6,692)	(5,935)
Revenue	72,416	63,665
Loss after tax	(1,195)	(695)
Other comprehensive gain/(loss)	17,689	(8,168)

(in thousands of Russian Roubles, unless otherwise stated)

12 Cash and Cash Equivalents

	31 December 2018	31 December 2017
Cash on hand	2,633	2,587
RR denominated balances with banks	1,463,088	776,206
Foreign currency denominated balances with banks	245,341	354,822
RR denominated bank deposits	4,462,921	3,424,493
Foreign currency denominated bank deposits	115,473	54,179
Other cash equivalents	5,703	8,314
Total cash and cash equivalents	**6,295,159**	**4,620,601**

At 31 December 2018, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 115,473. At 31 December 2017, the closing balance of short-term deposits denominated in foreign currencies comprised USD-denominated deposit of RR 37,973 and UAH-denominated deposits of RR 16,206.

13 Inventories

	31 December 2018	31 December 2017
Raw materials and supplies	4,372,438	3,567,204
Work in progress	2,925,187	3,077,326
Finished goods and goods for resale	1,791,055	1,131,566
Total inventories	**9,088,680**	**7,776,096**

Inventories are presented net of provision for obsolescence in amount of RR 655,091 at 31 December 2018 (31 December 2017: RR 532,530).

At 31 December 2018, inventories of RR 54,778 were pledged as collateral for certain borrowings (31 December 2017: RR 51,400) (Note 16). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 26.

14 Trade and Other Receivables and Other Financial Assets

	31 December 2018	31 December 2017 Restated*
Trade receivables	9,815,554	9,793,083
Less: ECL allowance for trade receivables	(276,504)	(346,628)
Short-term loans issued	30,983	88,991
Bank deposits	31,308	30,187
Other receivables	333,567	202,999
Less: ECL allowance for impairment of other receivables	(53,380)	(66,857)
Financial assets, net	**9,881,528**	**9,701,775**
Prepayments and advances to suppliers and subcontractors	2,037,773	1,482,642
Less: Provision for impairment of advances to suppliers and subcontractors	(30,417)	(21,753)
VAT receivable	361,251	339,445
Other taxes receivable	17,708	38,055
Non-financial assets, net	**2,386,315**	**1,838,389**
Total trade and other receivables and other financial assets	**12,267,843**	**11,540,164**

*Previous year figures are restated due to the adoption of IFRS 15 (Note 3).

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

At 31 December 2018, the closing balance of bank deposits comprised USD-denominated deposit of RR 25,646 (31 December 2017: RR 24,416), EUR-denominated deposit of RR 5,562 (31 December 2017: RR 4,821), RUB-denominated deposits of RR 100 (31 December 2017: RR 950).

At 31 December 2018, trade receivables arising from certain sales contracts in the amount of RR 857,856 (31 December 2017: RR 354,182) were pledged as collateral for certain borrowings (Note 16).

(in thousands of Russian Roubles, unless otherwise stated)

14 Trade and Other Receivables and Other Financial Assets (continued)

Movements in the ECL allowance for financial assets within trade and other receivables and non-financial assets within other receivables are presented below:

	ECL allowance for trade receivables	ECL allowance for other financial receivables	Provision for impairment of non-financial assets
At 1 January 2017	**350,854**	**65,426**	**22,696**
ECL allowance and provision for impairment of receivables	84,577	6,856	1,433
Unused amounts reversed	(85,884)	(1,807)	(1,360)
Receivables written off during the year as uncollectible	(2,866)	(3,752)	(213)
Effect of translation to presentation currency	(53)	(185)	(803)
Foreign currency translation differences	-	319	-
At 31 December 2017	**346,628**	**66,857**	**21,753**
ECL allowance and provision for impairment of receivables	35,773	11,183	29,496
Unused amounts reversed	(11,377)	(1,163)	(4,366)
Receivables written off during the year as uncollectible	(94,649)	(24,958)	(17,695)
Effect of translation to presentation currency	-	449	1,229
Foreign currency translation differences	129	1,012	-
At 31 December 2018	**276,504**	**53,380**	**30,417**

The creation and release of ECL allowance and provision for impairment of receivables have been included in the Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets (Note 28). Amounts charged to the ECL allowance and provision for impairment account are generally written off when there is no expectation of recovering additional cash.

Information related to aging of receivables with the corresponding ECL allowance is disclosed in Note 35.

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

	31 December 2018	31 December 2017
RR	8,482,291	8,604,422
EUR	609,404	426,321
USD	382,382	532,487
UAH	357,309	66,844
BYN	37,726	19,198
KZT	12,416	52,503
Financial assets, net	**9,881,528**	**9,701,775**

15 Investment Property

In February 2014, the Group received certain buildings and land plots with an estimated fair value of RR 286,370 as repayment for certain loans from Trest Sibkomplektmontazhnaladka OJSC, a former subsidiary of the Group, sold in December 2013. As the Group plans to hold these assets to earn rentals or for capital appreciation, these assets are accounted for as investment property. At 31 December 2018 and 2017, the Group did not identify any impairment of investment property.

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings

	Interest rate	Denominated in	31 December 2018	31 December 2017
Long-term unsecured loans and bonds:				
Unsecured bank loans	8.30% - 9.75%	RR	15,042,968	11,902,264
Bonds	10.75%	RR	2,996,195	2,992,865
Unsecured non-bank loans	5.00%	RR	444,444	500,000
Unsecured bank loans	EURIBOR+3.00%	EUR	158,921	-
			18,642,528	**15,395,129**
Less: current portion of long-term borrowings			(444,444)	(2,330,000)
Total long-term borrowings			**18,198,084**	**13,065,129**
Short-term unsecured loans:				
Unsecured bank loans	8.10%	RR	10,000	186,000
Unsecured bank loans	3.75%	EUR	-	21,693
			10,000	**207,693**
Short-term secured bank loans:				
Secured loans	2.60% - 3.73%	EUR	507,117	261,143
Secured loans	13.50%	RR	48,930	-
Secured loans	11.50% - 11.75%	BYN	22,868	2,911
Secured loans	9.10%	USD	-	48,803
			578,915	**312,857**
Current portion of long-term borrowings			444,444	2,330,000
Interest payable			128,774	126,711
Total short-term borrowings			**1,162,133**	**2,977,261**

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

	31 December 2018	31 December 2017
RR	18,671,079	15,707,345
EUR	666,077	282,836
BYN	23,061	3,028
USD	-	49,181
Total borrowings	**19,360,217**	**16,042,390**

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 31 December 2018, the Group pledged property, plant and equipment and inventories in total amount of RR 96,384 and RR 54,778 (31 December 2017: RR 49,847 and RR 51,400), respectively.

At 31 December 2018 and 2017, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2018, the Group recognised trade receivables under these sales contracts in amount of RR 857,856 (31 December 2017: RR 354,182).

Breach of loan covenants. At 31 December 2018, the long-term part of the unsecured non-bank loan in amount of RR 222,222 (31 December 2017: RR 444,444) was presented within the 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 (Notes 33, 35). The creditor had not requested early repayment of the loan as of the date when these consolidated financial statements were authorised for issuance.

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations

Entities within the Group provide post-employment and other long-term payments of a defined benefit nature to their employees. These defined benefit plans maintained by each entity separately include lump sum upon retirement, in case of disability, death or attaining jubilee age as well as financial support after retirement. All plans are completely unfunded, i.e. provided on pay-as-you-go basis.

The liability arising from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using the Projected Unit Credit Method. Assumptions were determined based on market conditions as at the statement of financial position dates.

The following assumptions were used for the actuarial assessment at 31 December 2018 and 2017:

	Russia and Belorussia		**Ukraine**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Discount rate	8.8%	7.6%	11.8%	10.0%
Inflation	4.2%	4.4%	6.5%	8.6%
Expected annual increase in salaries	5.2%	5.5%	8.5%	10.6%
Mortality tables	Russian Federation, 2010	Russian Federation, 2010	Russian Federation, 2010	Russian Federation, 2010

The following amounts were recognised in profit or loss:

	2018	**2017**
Service cost	9,287	(15,585)
Current service cost	*34,738*	*29,062*
*Past service cost**	*(25,451)*	*(44,647)*
Interest expense	49,536	51,734
Net actuarial (gain)/ loss on other long-term employment benefit obligations	(2,945)	99
Net periodic benefit expense	**55,878**	**36,248**

Changes in the present value of the Group's pension benefit obligation are as follows:

	Post-employment payments	**Other long-term payments**	**Total**
Present value of defined benefit obligations at 1 January 2017	**551,257**	**40,761**	**592,018**
Current service cost	26,394	2,668	29,062
Interest expense	49,467	2,267	51,734
Past service cost*	(44,647)	-	(44,647)
Benefits paid	(31,845)	(4,299)	(36,144)
Effect of translation to presentation currency	(22,685)	-	(22,685)
Remeasurements, including:	23,313	99	23,412
actuarial loss from changes in financial assumptions	*39,690*	*1,743*	*41,433*
experience gain	*(16,377)*	*(1,644)*	*(18,021)*
Present value of defined benefit obligations at 31 December 2017	**551,254**	**41,496**	**592,750**
Current service cost	31,862	2,876	34,738
Interest expense	47,453	2,083	49,536
Past service cost	(24,046)	(1,405)	(25,451)
Benefits paid	(41,702)	(3,774)	(45,476)
Effect of translation to presentation currency	33,686	-	33,686
Remeasurements, including:	(101,017)	(2,945)	(103,962)
*actuarial gain from changes in assumptions***	*(129,572)*	-	*(129,572)*
experience loss/(gain)	*28,555*	*(2,945)*	*25,610*
Present value of defined benefit obligations at 31 December 2018	**497,490**	**38,331**	**535,821**

*In October 2017, amendments to the Ukrainian national legislation related to professional pensions were issued. The Group has assessed the effect of these changes on the retirement benefit obligation of the Ukrainian subsidiary of the Group and this effect has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.
In 2018, the Group has assessed the effect of of the retirement age increase in Russian Federation on the retirement benefit obligation and this effect has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.
**The amount of actuarial gain from changes in assumptions recognised during the year ended 31 December 2018 is mainly attributable to the Ukrainian subsidiary of the Group and relates to changes in discount rate and inflation rate used as principal assumptions for actuarial valuation.

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

Short-term and long-term classification was determined based on discounted value of future obligation which is payable within 12 months from the statement of financial position date:

	31 December 2018	31 December 2017
Short-term	67,497	67,314
Long-term	468,324	525,436
Present value of defined benefit obligations at the end of the year	**535,821**	**592,750**

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

		31 December 2018	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.0%	(46,959)	46,959
Inflation	1.0%	33,117	(29,805)
Expected annual increase in salaries	1.0%	17,637	(17,637)
		31 December 2017	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.0%	(55,553)	55,553
Inflation	1.0%	37,219	(33,497)
Expected annual increase in salaries	1.0%	19,161	(19,161)

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

The weighted average duration of the defined benefit obligations was 8 years at 31 December 2018 and 2017.

The contributions under voluntary defined benefit pension programs in 2019 are expected to be approximately RR 73,655.

18 Trade and Other Payables

	31 December 2018	31 December 2017 Restated*
Trade payables	7,855,334	6,992,938
Other payables	615,286	739,890
Financial trade and other payables	**8,470,620**	**7,732,828**
Advances from customers	3,545,062	2,739,333
Wages and salaries payable	1,209,258	1,170,644
Other non-financial payables	**4,754,320**	**3,909,977**
Total trade and other payables	**13,224,940**	**11,642,805**

*Previous year figures are restated due to the adoption of IFRS 15 (Note 3).

(in thousands of Russian Roubles, unless otherwise stated)

19 Other Taxes Payable

	31 December 2018	31 December 2017
VAT	598,780	665,844
Social funds contribution	259,978	213,393
Withholding tax provision, related to acquisition of subsidiary (Note 10)	188,052	-
Personal income tax	107,650	90,262
Property tax	26,810	20,550
Land tax	11,394	10,800
Transport tax	3,699	2,909
Other taxes	1,919	1,233
Total other taxes payable	**1,198,282**	**1,004,991**

20 Other Long-term Payables

	31 December 2018	31 December 2017
Deferred income related to Government grant 1	93,387	106,776
Deferred income related to Government grant 2	140,390	93,000
Other deferred income	3,058	3,885
Long-term deferred income	**236,835**	**203,661**
Contingent consideration liability (Note 10)	91,890	-
Finance lease liability	82,853	733
Other liabilities	21,337	-
Total other long-term payables	**432,915**	**204,394**

Government grant 1. 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 equipment for metering of extracted oil and gas at the oilfields. The project is being implemented together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash JSC received funds in amount of RR 150,000 from the Federal budget for realisation of this project; additionally, own funds were invested by the Group in amount of RR 150,000. At 31 December 2018, under this project, the long-term liability in amount of RR 93,387 (31 December 2017: RR 106,776) and other short-term payables in amount of RR 10,367 (31 December 2017: RR 11,864) were recognised as deferred income. The grant is subject to certain conditions set for the period till 2020 inclusive, including amounts of own investments, volume of production produced by the results of development, number of jobs created and safeguarded, and the number of students involved in the execution of the project. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with the required conditions. At 31 December 2018, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

Government grant 2. 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. Such subsidies are provided for the development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the 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. Under the grant, during 2016-2018, Sibneftemash JSC is entitled to receive funds in amount of RR 170,000 from the Federal budget for realisation of this project; additionally, not less than RR 170,000 should be invested by the Group. During 2018, the Group obtained grants in amount of RR 60,000 (2017: RR 60,000) and also invested its own funds in amount of RR 60,000 (2017: RR 60,000) to the project. At 31 December 2018, under this project, the long-term liability in amount of RR 140,390 was recognised as deferred income (31 December 2017: RR 93,000) and other short-term payables in amount of RR 12,610 (31 December 2017: RR nil) were recognised as deferred income. At 31 December 2018, the requirement of own investments to the project was fully complied with 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)

21 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2017	**380,534**	**288,804**	**13,096**
Additional provisions	350,258	316,369	96,329
Unused amounts reversed	(120,312)	(120,539)	(18,528)
Provision used during the period	(278,854)	(8,279)	(9,464)
Effect of translation to presentation currency	(183)	(519)	-
At 31 December 2017	**331,443**	**475,836**	**81,433**
Additional provisions	468,485	165,828	-
Unused amounts reversed	(124,594)	(185,226)	(72,840)
Provision used during the period	(240,925)	(17,348)	(8,593)
Effect of translation to presentation currency	1,657	2,783	-
At 31 December 2018	**436,066**	**441,873**	**-**

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 31 December 2018, the closing balance of the warranty provision comprised a short-term portion of RR 267,379 and a long-term portion of RR 168,687 (31 December 2017: RR 214,608 and RR 116,835, respectively).

Provision for legal claims. Provision for legal claims was accrued in accordance with the management position related to claims received from the counterparties of the Group's subsidiaries. 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. During 2017, Russian tax authorities conducted tax audits of some subsidiaries of the Group for prior years, which led to the recognition of current tax of prior years in amount of RR 80,736. Out of this total, the amount of RR 61,752 relates to certain tax decisions, which the management challenged in the Court of Arbitration of the Russian Federation. During 2018, the management successfully challenged decisions and the Group received previously paid current tax of prior years in amount of RR 60,474 (Note 24) and penalties in amount of RR 12,366 from the Russian tax authorities.

22 Share Capital, Other Equity Items and Earnings per Share

Share capital and share premium. Below are the details of share issues of the Company:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand	Treasury shares, RR thousand
At 1 January 2017	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(323,556)**
Movements during 2017	-	-	-	-	(81,438)
At 31 December 2017	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(404,994)**
Movements during 2018	-	-	-	-	(56,636)
At 31 December 2018	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(461,630)**

At 31 December 2018 and 2017, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

Acquisition of an additional interest in the Group subsidiary. During 2018, the Group acquired an additional 7.28% interest in NASOSENERGOMASH Sumy JSC for RR 53,736, paid in cash. As a result of this transaction, the Group increased its ownership interest in NASOSENERGOMASH Sumy JSC from 83.33% to 90.61% and the Group's non-controlling interest decreased by RR 150,587.

Treasury shares. During 2018, 109,100 GDRs of the Company representing 0.47% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 56,636.

During 2017, 168,018 GDRs of the Company representing 0.72% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 81,438.

At 31 December 2018, the Company, via a wholly-owned subsidiary, is holding 1,142,987 (31 December 2017: 1,033,887) of its own GDRs with the total cost of RR 461,630 (31 December 2017: RR 404,994). The voting and dividend rights of these GDRs are suspended.

(in thousands of Russian Roubles, unless otherwise stated)

22 Share Capital, Other Equity Items and Earnings per Share (continued)

Dividends. At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2018 of 5.97 Russian Roubles per ordinary share, amounting to a total dividend of RR 700,000, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

In December 2018, an interim dividend in respect of the profit for the nine months ended 30 September 2018 of 3.84 Russian Roubles per ordinary share amounting to a total dividend of RR 427,962 was approved by the Board of Directors of the Company. This dividend was paid in January 2019.

At the Annual General Meeting in June 2018, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share amounting to a total dividend of RR 763,451. This dividend was paid in July 2018.

In December 2017, an interim dividend in respect of the profit for the nine months ended 30 September 2017 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 573,409 was approved by the Board of Directors of the Company. This dividend was paid in January 2018.

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. This dividend was paid in June 2017.

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.

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

For the years ended 31 December 2018 and 2017, earnings per share are calculated as follows:

	2018	**2017**
Profit for the year attributable to ordinary shareholders	1,688,473	1,834,264
Weighted average number of ordinary shares outstanding (thousands)	111,786	112,413
Basic and diluted earnings per ordinary share (expressed in RR per share)	**15.10**	**16.32**

23 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.

(in thousands of Russian Roubles, unless otherwise stated)

23 Share-based Payments (continued)

The grant date of the second award is 8 December 2016, and the service period of the second award started on 1 January 2017. The grant date of the third award is 12 December 2017, and the service period of the third award started on 1 January 2018.

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.

The detailed information on awards outstanding at 31 December 2018 and 2017 is as follows:

Award year	Vesting date	Expected number of Program participants at the vesting date	Number of shares granted	Exercise price, RR	Fair value at grant date
Award 2017	31 December 2019	17	1,907,980	-	178,035
Award 2018	31 December 2020	17	1,657,810	-	176,760

Award 2016 was fully vested in 2018.

For the year ended 31 December 2018, the Group recognised share-based compensation expense of RR 179,298 (2017: RR 107,147) in general and administrative expenses in the consolidated 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 155,989 (2017: RR 93,218) and the respective personal income tax effect of RR 23,309 (2017: RR 13,929). The Group also recognised related social security contributions expense of RR 27,433 (2017: RR 16,393).

For the year ended 31 December 2018, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 48,816 (2017: RR 30,669) and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings for the year amounted to RR 107,173 (2017: RR 62,549).

24 Income Taxes

Income tax expense for the year ended 31 December 2018 and 2017 included:

	2018	2017
Current tax	1,071,914	875,030
In respect of the current period	*1,132,388*	*794,294*
*In respect of prior years**	*(60,474)*	*80,736*
Deferred tax	(246,886)	3,319
Total income tax expense	**825,028**	**878,349**

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

	2018	2017
Profit before income tax	**2,770,977**	**2,948,447**
Income tax expense calculated at 20% (2017: 20%)	(554,195)	(589,689)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Current tax in respect of prior years*	60,474	(80,736)
Tax losses for which no deferred income tax asset was recognised	(85,281)	(61,969)
Effect of tax on intragroup dividends received	(69,023)	(73,649)
Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes	(28,297)	(12,038)
Share-based compensation (expense)/income	(11,795)	6,134
Effect of the difference in tax rates in countries other than the Russian Federation	(8,437)	27,164
Dividend withholding tax provision	(6,381)	1,381
Impairment of taxes receivable	-	(1,241)
Other non-deductible expenses not subject to tax	(122,093)	(93,706)
Total income tax expense	**(825,028)**	**(878,349)**

*During 2017, Russian tax authorities conducted tax audits of some subsidiaries of the Group for prior years, which led to the recognition of current tax of prior years in amount of RR 80,736. Out of this total, the amount of RR 61,752 relates to certain tax decisions, which the management challenged in the Court of Arbitration of the Russian Federation. During 2018, the Group won the respective legal proceedings, and, in December 2018 - January 2019, the Group received from Russian tax authorities previously paid amount of tax of RR 60,474 (Note 21).

(in thousands of Russian Roubles, unless otherwise stated)

24 Income Taxes (continued)

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 18% (Ukrainian tax legislation), 18% (Belorussian tax legislation), 29.2% (German tax legislation) and 12.5% (Cypriot tax legislation), accordingly.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

	1 January 2018	Credited/(charged) to profit or loss	Translation to presentation currency	Business combination	31 December 2018
Deferred tax liabilities					
Property, plant and equipment	(1,244,276)	35,747	1,415	-	(1,207,114)
Intangible assets	(119,287)	12,675	(7,525)	(230,007)	(344,144)
Trade and other receivables, other financial assets and contract assets	(1,091,326)	1,037,337	2,500	-	(51,489)
Trade and other payables	-	(581,003)	841	34	(580,128)
Other long-term payables	-	(14,430)	-	-	(14,430)
Long-term borrowings	(1,427)	666	-	-	(761)
Withholding tax provision	(28,619)	(6,381)	-	-	(35,000)
	(2,484,935)	**484,611**	**(2,769)**	**(229,973)**	**(2,233,066)**
Deferred tax assets					
Inventories	321,050	250,386	6,667	-	578,103
Cash and cash equivalents	11	2	-	-	13
Other long-term assets	12,936	14,654	113	-	27,703
Share of results of associates	14,095	(1,685)	-	-	12,410
Other long-term payables	69,975	(69,975)	-	-	-
Trade and other payables and contract liabilities	523,470	(523,470)	-	-	-
Long-term provisions for liabilities and charges	52,952	(5,143)	7,166	-	54,975
Loss carried forward	62,322	62,496	1,689	9,075	135,582
Other taxes payable	859	21,378	-	-	22,237
Finance lease liability	456	4,189	318	-	4,963
Short-term provisions for liabilities and charges	187,473	9,443	1,541	-	198,457
	1,245,599	**(237,725)**	**17,494**	**9,075**	**1,034,443**
Total net deferred tax liability	**(1,239,336)**	**246,886**	**14,725**	**(220,898)**	**(1,198,623)**

	1 January 2017	Credited/(charged) to profit or loss	Translation to presentation currency	31 December 2017
Deferred tax liabilities				
Property, plant and equipment	(1,331,138)	96,699	(9,837)	(1,244,276)
Intangible assets	(136,189)	20,895	(3,993)	(119,287)
Trade and other receivables, other financial assets and contract assets	(479,268)	(608,707)	(3,351)	(1,091,326)
Long-term borrowings	(4,164)	2,737	-	(1,427)
Withholding tax provision	(30,000)	1,381	-	(28,619)
	(1,980,759)	**(486,995)**	**(17,181)**	**(2,484,935)**
Deferred tax assets				
Inventories	401,211	(78,490)	(1,671)	321,050
Cash and cash equivalents	12	(1)	-	11
Other long-term assets	11,054	1,895	(13)	12,936
Share of results of associates	13,316	779	-	14,095
Other long-term payables	51,754	18,221	-	69,975
Trade and other payables and contract liabilities	29,329	494,199	(58)	523,470
Long-term provisions for liabilities and charges	58,402	(2,217)	(3,233)	52,952
Loss carried forward	57,587	4,735	-	62,322
Other taxes payable	10,903	(10,044)	-	859
Finance lease liability	908	(452)	-	456
Short-term provisions for liabilities and charges	133,188	55,051	(766)	187,473
	767,664	**483,676**	**(5,741)**	**1,245,599**
Total net deferred tax liability	**(1,213,095)**	**(3,319)**	**(22,922)**	**(1,239,336)**

At 31 December 2018, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 14,103,078 (31 December 2017: RR 12,460,294) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

During the reporting period, the Group utilised its deferred tax asset in relation to loss carried forward from the previous years in amount of RR 17,955 (2017: RR 8,926) and recognized deferred tax asset in the amount of RR 82,140 on the loss incurred by its certain subsidiaries in 2018 (2017: RR 13,661).

(in thousands of Russian Roubles, unless otherwise stated)

24 Income Taxes (continued)

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

25 Revenue

Disaggregation of the Group's revenue for the years ended 31 December 2018 and 2017, which is consistent with the revenue by segment disclosure, is disclosed in Note 34.

During 2018, the Group recognised revenue over time in amount of RR 21,290,257 (2017: RR 13,441,751), the remaining revenue was recognised at a point of time (Note 4, 34).

Both contract assets and liabilities decreased in 2018, primarily as a result of completion of the large projects and repayment of due amounts by customers, and the excess of contract expenditure over customer advance payments.

The Group had not recognised revenue from contracts with customers for the year ended 31 December 2018, which is related to performance obligations that were satisfied in the prior periods.

The Group's revenue recognised for the year ended 31 December 2018 includes RR 2,510,968 that was included in the opening contract liabilities.

26 Cost of Sales

	2018	**2017**
Materials and components	27,627,867	22,036,096
Labour costs	5,707,244	5,116,171
Construction, design and engineering and other services of subcontractors	2,102,210	1,365,142
Social taxes	1,568,974	1,411,853
Depreciation and amortisation	1,566,534	1,307,360
Utilities	521,454	483,795
Change in warranty provision	102,966	(48,908)
Change in provision for obsolete inventories	98,617	163,520
Change in retirement benefits obligations	43,304	27,103
Change in work in progress and finished goods	(69,803)	(522,937)
Amortisation of government grants	(30,806)	(16,777)
Other expenses	1,378,815	1,213,189
Total cost of sales	**40,617,376**	**32,535,607**

27 Distribution and Transportation Expenses

	2018	**2017**
Labour costs	604,064	528,207
Transportation expenses	516,691	616,415
Insurance	192,871	160,254
Social taxes	134,008	120,161
Advertising	114,383	46,910
Lease expense	61,366	56,688
Material expenses	46,856	41,412
Entertaining costs and business trip expenses	38,312	40,006
Products certification	35,549	15,855
Agency services	34,793	17,017
Depreciation and amortisation	23,705	17,186
Telecommunication services	16,277	16,547
Customs duties	5,322	25,189
Change in retirement benefits obligations	1,021	644
Other expenses	90,662	82,476
Total distribution and transportation expenses	**1,915,880**	**1,784,967**

(in thousands of Russian Roubles, unless otherwise stated)

28 General and Administrative Expenses

	2018	2017
Labour costs	3,068,980	2,765,751
Social taxes	627,810	578,127
Bank services	272,297	202,009
Depreciation and amortisation	243,885	206,955
Taxes and duties	241,701	227,606
Consulting and other professional fees	147,751	117,591
Insurance	138,923	110,912
Entertaining costs and business trip expenses	109,456	103,919
Property, plant and equipment repair and maintenance	106,272	83,630
Stationary and office maintenance	77,140	75,852
Security	72,592	69,254
Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets	59,546	3,815
Lease expense	49,406	45,570
Auditors' remuneration	40,866	36,034
Telecommunications services	31,545	30,204
Training and recruitment	23,664	19,532
Change in retirement benefits obligations	11,553	8,501
Change in provision for tax risks, other than income tax	(12,366)	14,984
Other expenses	324,564	298,840
Total general and administrative expenses	**5,635,585**	**4,999,086**

The auditors' remuneration stated above includes fees for the audit of the Group's consolidated financial statements in amount of RR 22,817 (2017: RR 18,546), fees for statutory audit services of the Group parent and subsidiaries in amount of RR 9,124 (2017: RR 7,954) and fees for other assurance services in amount of RR 8,925 (2017: RR 9,534) charged by the Group's audit firm and by the auditors of the subsidiaries of the Group.

Consulting and other professional fees include tax services charged by the Group's audit firm in amount of RR 244 (2017: RR 180) and other consultancy services charged by the Group's audit firm and by the auditors of the subsidiaries of the Group in amount of RR 2,564 for the year ended 31 December 2018 (2017: RR 2,745).

29 Other Operating Expenses, net

	2018	2017
Charity, social expenditures	141,869	126,132
Fines and late payment interest under contracts	50,510	42,340
Loss on purchase/sale of foreign currency, net	29,844	17,857
Depreciation of social assets	8,483	10,445
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(20,457)	45,822
Change in provision for legal claims	(19,398)	195,830
Foreign exchange (gain)/loss, net	(13,352)	72,300
Impairment of taxes receivable	-	6,204
Other expenses, net	72,636	30,377
Total other operating expenses, net	**250,135**	**547,307**

30 Finance Income

	2018	2017
Interest income	180,425	167,296
Foreign exchange gain from deposits, net	1,763	1,364
Total finance income	**182,188**	**168,660**

(in thousands of Russian Roubles, unless otherwise stated)

31 Finance Costs

	2018	2017
Interest expense	1,598,420	1,724,554
Fees for early repayment of loans	5,416	48,000
Foreign exchange loss from borrowings, net	3,831	509
Finance lease expenses	2,878	2,029
Total finance costs	**1,610,545**	**1,775,092**

32 Balances and Transactions with Related Parties

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

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

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

Balances with related parties	**31 December 2018**		**31 December 2017**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	2,343	-	2,429	-
Accounts payable	2,320	162,184	2,485	173,501

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

Transactions with related parties	**2018**		**2017**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	10,257	-	4,636	-
Other income	905	310	2,424	-
Purchase of intangible assets	(33,936)	-	(29,114)	-
Purchase of services	(29,412)	-	(9,064)	-
Development costs expensed	(4,754)	-	(9,233)	-
Rent expense	(1,092)	-	(12,571)	-
Purchase of property, plant and equipment	(179)	-	-	-
Purchase of raw materials	(3)	-	(10,539)	-

Key management compensation

Key management compensation amounted to RR 662,145 for the year ended 31 December 2018 (2017: RR 544,224) 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 482,847 (2017: RR 437,092) as well as share-based compensation of RR 179,298 (2017: RR 107,132). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 39,846 (2017: RR 39,566) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 164,993 for the year ended 31 December 2018 (2017: RR 143,832), including share-based compensation of RR 32,596 (2017: RR 19,477).

For the year ended 31 December 2018, dividends of RR 48,106 were accrued and paid by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (2017: RR 27,847).

33 Contingencies and Commitments

(i) Legal proceeding

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. At 31 December 2018, management concluded that possible risk related with various claims and legal proceedings amounted to RR 222,528 (31 December 2017: RR 213,627). All probable legal risks are provided for (Note 21).

33 Contingencies and Commitments (continued)

(ii) Tax legislation

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

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

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

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 Russian Federation (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 financial statements. At 31 December 2018, the Group did not recognise any provision for tax risks (31 December 2017: RR 81,433).

(iii) Environmental matters

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

(iv) Insurance policies

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

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 31 December 2018, commitments for purchase of the services amounted to RR 30,649 (31 December 2017: RR 42,879).

At 31 December 2018, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 467,347 (31 December 2017: RR 285,655).

(in thousands of Russian Roubles, unless otherwise stated)

33 Contingencies and Commitments (continued)

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 31 December 2018, 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. Also refer to Note 20.

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 31 December 2018, 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. Also refer to Note 20.

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

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including Net debt/EBITDA ratio and certain other requirements. At 31 December 2018 and 2017, the Group was in compliance with all its loan covenants, except for the breach of certain financial covenants on a non-bank loan of RR 444,444 (31 December 2017: RR 500,000) (Notes 16, 35).

34 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 following significant subsidiaries:

	31 December 2018	31 December 2017
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	NASOSENERGOMASH Sumy JSC	NASOSENERGOMASH Sumy JSC
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

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 (subsidiary was disposed of in 2018)	Trade House Sibneftemash LLC
5	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC
6	Institute Rostovskiy Vodokanalproekt JSC	Institute Rostovskiy Vodokanalproekt JSC

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

The **third** operating segment **"Compressors"** includes:

1	Kazankompessormash OJSC	Kazankompessormash OJSC
2	NIITurbokompressor named after V.B.Shnepp JSC	NIITurbokompressor named after V.B.Shnepp JSC
3	CIPS LLC	-

The **fourth** operating segment **"Construction"** includes Tomskgazstroy PJSC.

The table below contains **other** companies that did not fall under the above listed operating segments and do not meet the quantitative thresholds for separate disclosure.

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	HMS New Urengoy-Property LLC
9	HMS Tyumen-Property LLC	HMS Tyumen-Property 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 the other products and services.

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

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, amortisation of government grants, 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, ECL allowance and provision for impairment of trade and other receivables and other financial assets, 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 financial statements prepared in accordance with IFRS.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2018 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	17,531,597	20,755,828	12,530,651	1,795,354	5,450	-	**52,618,880**
Intersegment revenue	279,673	102,788	2,146,976	-	1,679,073	-	**4,208,510**
Adjusted EBITDA	2,389,516	2,882,805	1,757,791	(137,536)	(243,789)	(28,090)	**6,620,697**

The segment information provided to the CODM for the reportable segments for the year ended 31 December 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	16,634,919	21,196,981	5,542,990	1,044,614	2,673	-	**44,422,177**
Intersegment revenue	852,631	339,428	3,587,292	180	1,691,992	-	**6,471,523**
Adjusted EBITDA	3,147,701	2,592,432	1,142,823	(75,057)	(65,976)	96,790	**6,838,713**

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

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

	2018						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**2,389,516**	**2,882,805**	**1,757,791**	**(137,536)**	**(243,789)**	**(28,090)**	**6,620,697**
Depreciation and amortisation	(984,727)	(342,390)	(430,878)	(41,067)	(43,545)	-	**(1,842,607)**
Non-monetary items[(1)]	(139,271)	(118,541)	(46,267)	(32,477)	(10,137)	-	**(346,693)**
Amortisation of government grants (Note 26)	-	30,806	-	-	-	-	**30,806**
Other operating (expenses)/ income, net[(2)]	(153,670)	(40,150)	(52,519)	(27,678)	22,039	(10,321)	**(262,299)**
Operating profit/(loss), IFRS	**1,111,848**	**2,412,530**	**1,228,127**	**(238,758)**	**(275,432)**	**(38,411)**	**4,199,904**
Finance income							182,188
Finance costs							(1,610,545)
Share of results of associate							(570)
							2,770,977

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, ECL allowance and provision for impairment of trade and other receivables and other financial assets, 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 29, excluding depreciation of social assets and provision for legal claims.

	2017						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**3,147,701**	**2,592,432**	**1,142,823**	**(75,057)**	**(65,976)**	**96,790**	**6,838,713**
Depreciation and amortisation	(756,129)	(298,799)	(406,787)	(48,680)	(31,551)	-	**(1,541,946)**
Non-monetary items[(1)]	(170,426)	(187,612)	(40,460)	(17,368)	62	-	**(415,804)**
Amortisation of government grants (Note 26)	-	16,777	-	-	-	-	**16,777**
Other operating (expenses)/ income, net[(2)]	(219,588)	(14,471)	(108,590)	55,004	(52,939)	(1,946)	**(342,530)**
Operating profit/(loss), IFRS	**2,001,558**	**2,108,327**	**586,986**	**(86,101)**	**(150,404)**	**94,844**	**4,555,210**
Finance income							168,660
Finance costs							(1,775,092)
Share of results of associate							(331)
							2,948,447

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, ECL allowance and provision for impairment of trade and other receivables and other financial assets, 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 29, excluding depreciation of social assets and provision for legal claims.

	2018					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**EPC**	**All other segments**	**Total**
Total revenue,	17,531,597	20,755,828	12,530,651	1,795,354	5,450	52,618,880
Including						
Turbospetzsnab LLC	-	4,975,018	-	-	-	4,975,018
Gazprom komplektatsiya LLC	2,204	112,456	4,503,174	-	-	4,617,834
Others (each<10% of total revenue)	17,529,393	15,668,354	8,027,477	1,795,354	5,450	43,026,028

	2017					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**EPC**	**All other segments**	**Total**
Total revenue,	16,634,919	21,196,981	5,542,990	1,044,614	2,673	44,422,177
Including						
Turbospetzsnab LLC	-	6,929,791	-	-	-	6,929,791
Others (each<10% of total revenue)	16,634,919	14,267,190	5,542,990	1,044,614	2,673	37,492,386

(in thousands of Russian Roubles, unless otherwise stated)

34 Segment Information (continued)

The Group subsidiaries carry out trade and commercial activities in the CIS countries, European and Asian countries, which management assesses by location (the country) of the external customers of products and services based on accounting records used to prepare IFRS financial statements:

	Consolidated revenue for 2018	Consolidated revenue for 2017	Non-current assets at 31 December 2018[1]	Non-current assets at 31 December 2017[1]
Total revenue/ non-current assets	52,618,880	44,422,177	20,680,414	18,387,784
Including				
Russia	48,095,538	41,167,219	16,864,541	15,369,468
Ukraine	784,564	282,724	1,466,513	1,059,123
India	595,476	-		
Germany	585,087	281,568	1,933,060	1,579,624
Kazakhstan	486,186	661,171	-	-
Iraq	482,007	676,832	-	-
Belorussia	347,988	287,372	416,300	379,569
Italy	-	268,700	-	-
Iran	151,676	34,956	-	-
Latvia	102,878	3,708	-	-
Others	987,480	757,927	-	-

[1] Non-current assets include goodwill, other intangible assets, property, plant and equipment and investment property.

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

35 Financial Risk Management

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. In this table, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them:

	31 December 2018			31 December 2017		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	1,481,834	(1,317,402)	164,432	1,153,324	(560,462)	592,862
EUR	370,678	(773,852)	(403,174)	196,109	(828,120)	(632,011)
RR	413,697	(840,069)	(426,372)	400,636	(708,699)	(308,063)

At 31 December 2018, if RR had strengthened/weakened by 10% against the US dollar with all other variables held constant, profit for the year would have been RR 13,155 lower/higher (31 December 2017: profit for the year would have been RR 47,429 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables.

At 31 December 2018, if RR had strengthened/weakened by 10% against the Euro with all other variables held constant, profit for the year would have been RR 32,254 higher/lower (31 December 2017: profit for the year would have been RR 50,561 higher/lower), mainly as a result of foreign exchange gains/losses on translation of Euro denominated trade payables.

Certain Group subsidiaries with functional currencies other than Russian rouble hold RR-denominated financial assets and liabilities. At 31 December 2018, if respective functional currencies of such subsidiaries had strengthened/weakened by 10% against the RR with all other variables held constant, profit for the year would have been RR 34,110 higher/lower (31 December 2017: profit for the year would have been RR 24,645 higher/lower), mainly as a result of foreign exchange gains/losses on translation of RR denominated trade receivables and borrowings.

The Group does not have formal arrangements, including any hedging contracts, to mitigate foreign exchange risks of the Group's operations. However, management monitors net monetary position of the Group's financial assets and liabilities denominated in foreign currency on a regular basis.

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the Group's finance department as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on bank loans (Note 16). The Group does not have significant interest-bearing assets.

At 31 December 2018, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been RR 139,803 lower/higher (31 December 2017: RR 106,123 lower/higher), as a result of higher/lower interest expense on variable interest liabilities.

(b) Credit risk

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

	31 December 2018	31 December 2017
Trade and other receivables		
- Trade receivables	9,539,050	9,446,455
- Other financial receivables	365,654	274,700
Contract assets	4,611,700	5,374,888
Cash and cash equivalents (Note 12)		
- Bank balances	6,292,526	4,618,014
- Cash on hand	2,633	2,587
Total on-balance sheet exposure	**20,811,563**	**19,716,644**
Total maximum exposure to credit risk	**20,811,563**	**19,716,644**

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. The Group assessed credit risk for bank balances and concluded that effect was not material to the financial statement. No ECL was recognised.

The Group assesses credit quality of banks based on the credit ratings of the banks' long term deposits.

Agency	Rating	31 December 2018	31 December 2017
S&P's[(2)]	AA- – A	83,936	137,446
Expert RA[(4)]	A+ – AA	475,857	391
Expert RA[(4)]	B – BBB+	79,346	3,272
National Rating Agency[(7)]	A+	-	218,712
Fitch[(3)]	BBB- – B-	776,805	53,071
Fitch[(3)]	AA- - A	9,314	39,348
Moody's[(1)]	Ba1 – B2	4,596,763	4,039,289
S&P's[(2)]	BBB+ – B-	60,567	80,296
Moody's[(1)]	less than B3	57,668	880
Expert-rating[(5)]	uaAAA	-	2,150
IBI-Rating[(6)]	uaBBB+	-	40,782
Other[(8)]	-	152,270	2,377
Total		**6,292,526**	**4,618,014**

(1) International rating agency Moody’s Investor Service.
(2) International rating agency Standard & Poor’s.
(3) International rating agency Fitch.
(4) National Russian rating agency Expert RA.
(5) National Ukrainian rating agency Expert-rating.
(6) National Ukrainian rating agency IBI-Rating.
(7) National Russian rating agency National Rating Agency.
(8) At 31 December 2018, other item includes cash which was placed in Russian Treasury departments in amount of RR 145,330.

Trade and other financial receivables, contract assets. The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with the terms of goods supply and payments. The credit quality of the Group’s significant customers is monitored on an ongoing basis. The majority of the Group’s customers are large buyers of industrial equipment and oil and gas companies, which have similar credit risk profile to the Group. The Group does not analyse its customers by classes for credit risk management purposes.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and assessment of both the current as well as the forecast direction on conditions at the reporting date.

An a analysis of credit quality of trade and other accounts receivable is as follows:

	31 December 2018		31 December 2017	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Gross carrying amount:	**9,815,554**	**419,034**	**9,793,083**	**341,557**
- not overdue	7,909,434	322,486	8,075,291	245,317
- past due less than 60 days overdue	746,673	15,455	898,513	5,433
- past due 61 to 180 days overdue	307,972	13,612	237,257	8,215
- past due 181 to 365 days overdue	360,815	4,178	109,727	3,480
- past sue over 365 days overdue	490,660	63,303	472,295	79,112
ECL allowance:	**(276,504)**	**(53,380)**	**(346,628)**	**(66,857)**
- not overdue	(8,216)	(200)	(13,624)	(2,012)
- past due less than 60 days overdue	(755)	(2,446)	-	-
- past due 61 to 180 days overdue	(5,244)	-	(9,484)	-
- past due 181 to 365 days overdue	(846)	(1,198)	(4,292)	-
- past due over 365 days overdue	(261,443)	(49,536)	(319,228)	(64,845)
Total	**9,539,050**	**365,654**	**9,446,455**	**274,700**

At 31 December 2018, the contract assets in amount of RR 4,611,700 (31 December 2017: RR 5,374,888) were not overdue and ECL allowance was not accrued in relation to these balances.

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less ECL allowance) at 31 December 2018 is RR 9,904,704 (31 December 2017: RR 9,721,155).

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

Credit risk concentration

Date	Number of counterparties with aggregated receivables balances above RR 50,000	Aggregate amount of receivables balances	% of the gross amount of trade and other receivables
At 31 December 2018	48	7,632,326	77%
At 31 December 2017	41	7,464,819	77%

Cash from these counterparties is collected according to the contractual terms during the reporting and subsequent periods, and management does not expect any losses from non-performance of their liabilities by these counterparties.

At 31 December 2018 and 2017, there are two groups of customers (each forming a single group) with a receivables' balance, each of which exceeds 10% of the Group's gross monetary assets as of that date.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for the management of liquidity risk, including funding, settlements, related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The tables below give information on the contractual repayment dates of the Group's financial liabilities with regard to expected cash flows at 31 December 2018 and 2017:

		Cash flows under the contract			
Statement of financial position item	Carrying amount at 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bonds(1)	3,112,819	322,357	3,204,454	-	-
Bank loans(1)	15,802,954	2,046,664	1,818,396	15,381,113	-
Non-bank loan(2)	444,444	444,444	-	-	-
Trade accounts payable	7,855,334	7,855,334	-	-	-
Other financial payables	615,286	615,286	-	-	-

		Cash flows under the contract			
Statement of financial position item	Carrying amount at 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bonds(1)	3,108,606	322,357	322,357	3,204,454	-
Bank loans(1)	12,433,784	3,618,717	2,819,678	8,943,310	-
Non-bank loan(2)	500,000	500,000	-	-	-
Trade accounts payable	6,992,938	6,992,938	-	-	-
Other financial payables	739,890	739,890	-	-	-

(1) As the amounts included in the table are the contractual undiscounted cash flows, including future interest, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings, finance lease liabilities and other financial payables.

(2) Expected cash flows of the loan are presented net of interest payments as it is payable on demand due to the breach of certain covenants, stipulated by this loan, at 31 December 2018 and 2017 (Notes 16, 33).

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the consolidated statement of financial position date.

In the recent years, the Group has been extensively expanding its business by raising external finance. The Group uses credit facilities in major multinational and Russian banks. Availability of open credit lines together with long-term borrowings gives the Group the possibility to balance credit portfolio and decrease risk of adverse fluctuations of financial markets. At 31 December 2018 and 2017, the Group had the following unutilised credit lines:

	31 December 2018	31 December 2017
Committed	-	385,172
Uncommitted	13,449,069	10,822,268
Total unutilised credit lines	**13,449,069**	**11,207,440**

The Group did not exceed the credit limits of any of the banks during the reporting period. The management of the Group does not see any credit risks that could arise as a result of financial transactions (as well as any threat of discontinued operation) of these banks.

(in thousands of Russian Roubles, unless otherwise stated)

35 Financial Risk Management (continued)

Liquidity ratio. The Group's approach to managing liquidity is to ensure, to the extent possible, that the Group maintains, at all times, sufficient liquidity for settling its liabilities in due time avoiding unacceptable losses or risks of damaging Group reputation. The Group's strategy is to maintain the liquidity ratio at or above 1.50.

	31 December 2018	31 December 2017
Liquidity ratio	1.78	1.48
Current assets	32,520,791	29,490,315
Current liabilities	18,263,168	19,975,253

To manage the targeted liquidity ratio the Group where possible transfers its short-term loans and borrowings to long-term ones.

Management of capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group pursues a policy of ensuring a sustainable level of capital that allows the Group to maintain the trust of the investors, creditors and the market, and secure future business development. The Group strives to maintain a balance between the potential increase of revenues, which could be achieved with higher level of borrowings, and the advantages and safety, which the sustainable equity position gives.

The Group controls capital by calculating a gearing ratio. This ratio is calculated as the net debt divided by total capital. The net debt includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity attributable to the shareholders of the Company and non-controlling shareholders in the consolidated statement of financial position. In 2018 and 2017, the Group's strategy has been to maintain the gearing ratio at a level not exceeding 200%.

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

	31 December 2018	31 December 2017
Long-term borrowings	18,198,084	13,065,129
Short-term borrowings	1,162,133	2,977,261
Total debt	**19,360,217**	**16,042,390**
Cash and cash equivalents	(6,295,159)	(4,620,601)
Net debt	**13,065,058**	**11,421,789**
Equity attributable to the shareholders of the Company	11,204,518	9,711,136
Non-controlling interests	3,386,155	3,145,950
Total capital	**14,590,673**	**12,857,086**
Gearing ratio	**90%**	**89%**

36 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 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.

(in thousands of Russian Roubles, unless otherwise stated)

36 Fair Value of Financial Instruments (continued)

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 loans issued 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 31 December 2018, the fair value of bonds was RR 60,805 higher than their carrying amounts (31 December 2017: the fair value of bonds was RR 153,535 higher than their carrying amounts). The fair value of borrowings was based on Level 2 inputs. At 31 December 2018, the fair value of borrowings was RR 15,810 higher than their carrying amounts (31 December 2017: the fair value of borrowings was RR 155,293 higher than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

Liabilities carried at fair value. Contingent consideration liability assumed in a business combination (Notes 10, 20) and included in Other long-term payables line of the consolidated statement of financial position at 31 December 2018 is carried at fair value, which is determined based on unobservable inputs (Level 3 of the fair value hierarchy). At 31 December 2018 and at the date of recognition of this contingent consideration liability (i.e. date of the business combination), its fair value was RR 91,890.

Reconciliation of liabilities arising from financing activities. The movements in the Group's liabilities arising from financing activities for the year ended 31 December 2018 and 2017 are as follows:

	Borrowings	**Dividends declared to the shareholders of the Company**	**Dividends declared by the Group's subsidiaries**	**Finance lease liabilities**	**Total liabilities from financing activities**
Opening amount as at 1 January 2018	**16,042,390**	**573,409**	**6,169**	**6,948**	**16,628,916**
Cash flows:					
Proceeds from/(repayments of) borrowings, net	3,247,251	-	-	-	**3,247,251**
Repayment of interest and fees for early repayment of loans	(1,618,021)	-	-	-	**(1,618,021)**
Dividends paid to the shareholders of the Company	-	(1,336,860)	-	-	**(1,336,860)**
Dividends paid to non-controlling shareholders of subsidiaries	-	-	(48,319)	-	**(48,319)**
Payment for finance lease	-	-	-	(16,580)	**(16,580)**
Non-cash changes:					
Interest expense (Note 31)	1,598,420	-	-	-	**1,598,420**
Borrowing costs capitalised (Note 7)	15,572	-	-	-	**15,572**
Fees for early repayment of loans (Note 31)	5,416	-	-	-	**5,416**
Currency translation differences	62,688	-	127	3,580	**66,395**
Foreign exchange loss from borrowings, net (Note 31)	3,831	-	-	-	**3,831**
Dividends declared to the shareholders of the Company	-	1,191,413	-	-	**1,191,413**
Dividends declared to non-controlling shareholders of subsidiaries	-	-	52,861	-	**52,861**
Non-cash additions	-	-	-	101,134	**101,134**
Finance lease expenses	-	-	-	2,878	**2,878**
Other	2,670	-	(1,097)	-	**1,573**
Closing amount as at 31 December 2018	**19,360,217**	**427,962**	**9,741**	**97,960**	**19,895,880**

(in thousands of Russian Roubles, unless otherwise stated)

36 Fair Value of Financial Instruments (continued)

	Borrowings	Dividends declared to the shareholders of the Company	Dividends declared by the Group's subsidiaries	Finance lease liabilities	Total liabilities from financing activities
Opening amount as at 1 January 2017	**16,336,361**	**384,764**	**10,575**	**9,563**	**16,741,263**
Cash flows:					
(Repayments of)/proceeds from borrowings, net	(435,052)	-	-	-	**(435,052)**
Repayment of interest and fees for early repayment of loans	(1,687,545)	-	-	-	**(1,687,545)**
Dividends paid to the shareholders of the Company	-	(961,510)	-	-	**(961,510)**
Dividends paid to non-controlling shareholders of subsidiaries	-	-	(37,513)	-	**(37,513)**
Payment for finance lease	-	-	-	(6,569)	**(6,569)**
Non-cash changes:					
Interest expense (Note 31)	1,724,554	-	-	-	**1,724,554**
Borrowing costs capitalised (Note 7)	55,716	-	-	-	**55,716**
Fees for early repayment of loans (Note 31)	48,000	-	-	-	**48,000**
Currency translation differences	19,546	-	106	(3,846)	**15,806**
Foreign exchange loss from borrowings, net (Note 31)	509	-	-	-	**509**
Dividends declared to the shareholders of the Company	-	1,150,155	-	-	**1,150,155**
Dividends declared to non-controlling shareholders of subsidiaries	-	-	31,494	-	**31,494**
Non-cash additions	-	-	-	5,771	**5,771**
Finance lease expenses	-	-	-	2,029	**2,029**
Other	(19,699)	-	1,507	-	**(18,192)**
Closing amount as at 31 December 2017	**16,042,390**	**573,409**	**6,169**	**6,948**	**16,628,916**

37 Subsequent Events

Acquisition of group of companies. In February 2019, HMS Neftemash JSC, the Group's subsidiary, acquired a group of companies engaged in manufacturing of oil and gas equipment, located in Tumen, for a total consideration of RR 700,000, paid by cash.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired group of companies at the date of acquisition on a provisional basis. Such assessments may change when the Group completes the valuation of tangible and intangible assets of the acquired group of companies. The provisional purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition
Property, plant and equipment	735,000
Other long-term receivables	700
Inventories	148,879
Trade and other receivables and other financial assets	367,180
Cash and cash equivalents	30,819
Deferred income tax liability	(50,809)
Trade and other payables	(618,595)
Short-term provisions for liabilities and charges	(130,000)
Fair value of net assets	**483,174**
Goodwill	216,826
Total purchase consideration	**700,000**
Less: cash and cash equivalents acquired in a business combination	(30,819)
Outflow of cash and cash equivalents on acquisition	**669,181**

37 Subsequent Events (continued)

Completion of the restructuring of the core shareholders' shareholding in the Company. At 6 March 2019, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, transferred its entire shareholding in the Company to HMS Holding JSC, its wholly-owned subsidiary, registered in the Russian Federation.

As a result of this restructuring, HMS Holding JSC became the immediate parent of the Company, and became a direct holder of 71.51% of the Company's issued share capital. This restructuring does not lead to any change in corporate governance or corporate control of the Company.

Treasury shares. During 2019, 61,295 GDRs of the Company representing 0.26% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 25,649.