



control the flows

////////// annual report 2019



about HMS

1 producer of pumps and oil gas equipment as well one of the leading compressor producers in Russia and the CIS

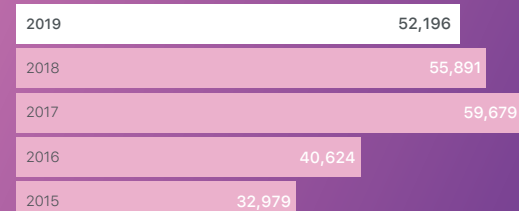
Business platform and core expertise are established and provide a strong base for future growth

Key industries: oil & gas, nuclear and thermal power generation, petrochemistry and wastewater industry

52,196

↓ 7% yoy

Order intake → Rub mn



44,693

↑ 5% yoy

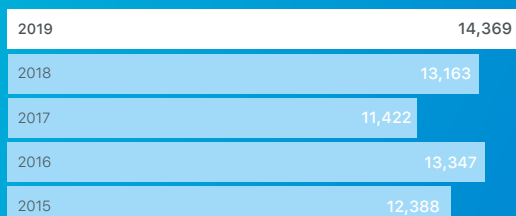
Backlog → Rub mn



14,369

↑ 9% yoy

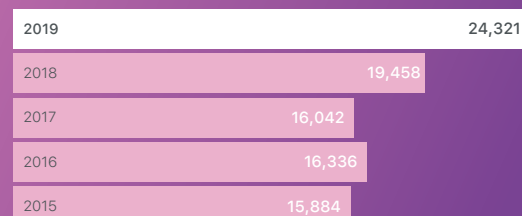
Net debt → Rub mn



24,321

↑ 25% yoy

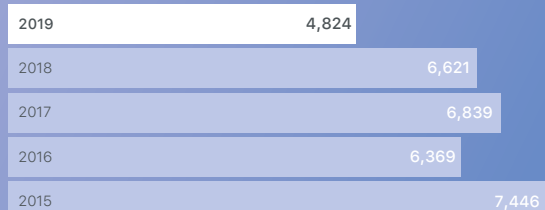
Total debt → Rub mn



4,824

↓ 27% yoy

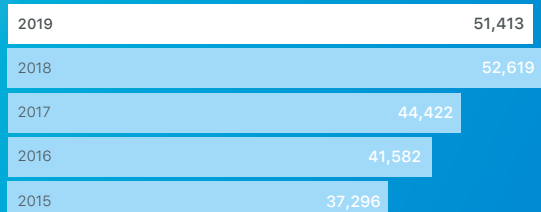
EBITDA → Rub mn



51,413

↓ 2% yoy

Revenue → Rub mn



You can find more information on our website:
grouphms.com/shareholders_and_investors/

See our Online Report at 2019.grouphms.com

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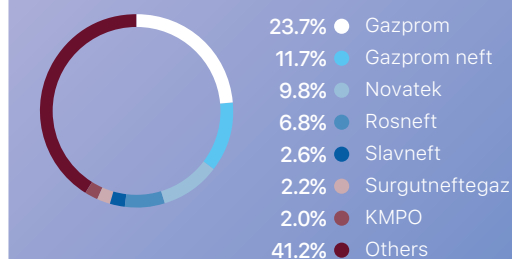
overview

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who we are

HMS Group is one of the largest privately-owned machine-building companies in Russia and the CIS. The company specializes in production of industrial machinery based around pumps, compressors as well as oil & gas equipment, including state-of-the-art and highly sophisticated solutions. HMS Group is the only machine-building company from Russia listed on the London Stock Exchange.

The company was established as a small trading company in 1993. Today, HMS is the company with a sustainable place in the market and loyal high-profile customers, such as Gazprom, Rosneft, NOVATEK, Transneft, Gazprom Neft, Rosatom, LUKoil, BP, ENI, and others.



Revenue structure by client → %

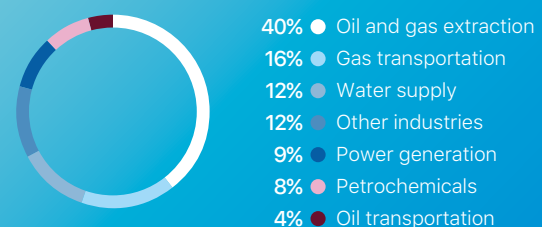
The company produces both serial and/or standard models (recurring business) and customized configurations (large integrated projects). The execution of large projects includes implementation of the crucial project's work as well as large-scale projects' turnkey execution, from project and design to commissioning and launching. Revenue from recurring business contributes c. 75-80% on average.

12

manufacturing facilities in Russia, CIS countries and Germany

6

Research & Development centres, including one of the largest pump-testing facilities in Europe



Revenue structure by industries → %

A well-diversified client base includes "blue-chip" clients, i.e. the largest oil & gas companies in Russia and the CIS. Our clients operate through numerous contracts in different subsidiaries, which take independent purchasing decisions. A significant portion of HMS' revenue is generated by the oil & gas industry, from downstream to upstream.

~6,000

well-diversified client base

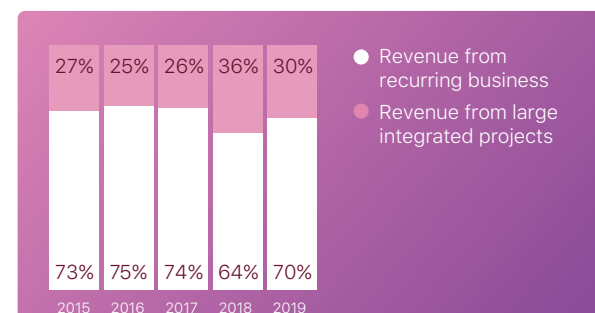
~14,000

employees

HMS is a dynamic engineering company with successful practice in the design, installation, construction and commissioning of complex oil and gas production and water facilities. It is a vertically integrated holding company with a modern corporate management system wherein the functions of the manufacturing companies' shareholders and that of its business administration are traditionally separated.

The parent holding company is HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the Republic of Cyprus). It issued securities in the form of Global Depositary Receipts at the London Stock Exchange in February 2011.

The Group consists of 12 manufacturing facilities in Russia, CIS countries and Germany, plus 6 Research & Development centres, including one of the largest pump-testing facilities in Europe, and employs 14 thousand people.



Revenue structure by contract's type → %

/// who we are

HMS Group, Russian and CIS pump market leader offers convenient products solutions and services for clients from oil & gas, energy, water supply and utilities, chemical processing, industrial applications, etc.

Our manufacturing, R&D, EPC and servicing capacities allow developing and delivering customer-oriented reliable and affordable products and services.

industrial pumps

This is the oldest business segment, responsible for the project and design, engineering, manufacturing and supply of a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS countries and across the globe. It also provides aftermarket maintenance, repair services and other support for its products.

core products and services

- Oil refineries
- Nuclear and Thermal power
- Water utilities
- Water injection
- Trunk pipelines
- General industrial pumps

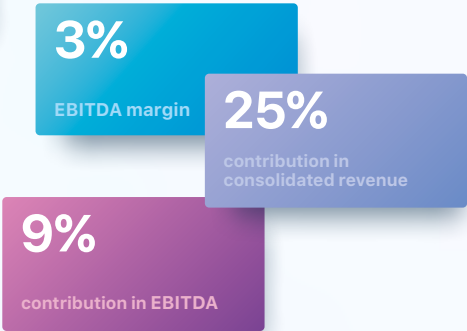


oil & gas equipment and projects

The oil & gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, and oil, gas and water processing and preparation units, as well as other equipment and systems, that are primarily used for the extraction and transportation of oil.

core products and services

- Oil pumping stations and pump stations for water injection
- Oil & gas and water processing units
- High-precision and automated metering units
- Tanks, reservoirs and vessels
- Oil development equipment

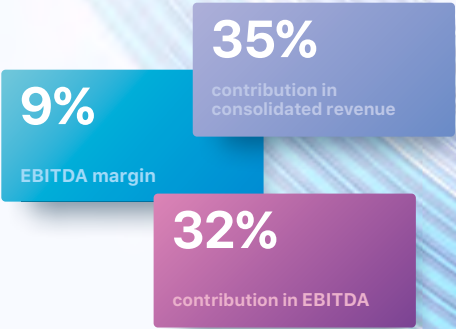


compressors

The division is responsible for project and design, engineering, manufacture, and supply of a diverse range of compressors and compressor-based solutions to customers in the oil and gas, metals and mining and other core industries in Russia.

core products and services

- Oil & gas production
- Oil & gas transportation
- Gas processing
- Oil refineries
- Oil & gas chemistry
- Refrigeration applications for various industries

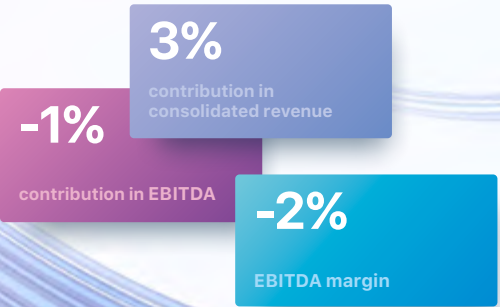


construction

The fourth operating segment consists of only one facility, Tomskgazstroy. It focuses on the main and infield pipelines and oil and gas-condensate fields, facilities construction and overhaul.

core products and services

- Construction, reconstruction and overhaul of the linear objects, e.g. namely oil pipelines, gas pipelines, product pipelines, water pipelines, condensate pipelines and power transmission lines



chairman statement



HMS Group is one of the leading producers of pumps, compressors and oil & gas equipment in Russia and the CIS, and we intend to maintain our market share in the future.

In 2019, HMS Group became one of the suppliers of gas transportation units for GAZPROM. Also, we started to actively engage in LNG projects of PAO NOVATEK as one of the suppliers of compressor-based equipment. We commercialized a new product line of double-entry pumps for water industry, and today we are involved in development of a new product line of water overhang pumps. The company continues to build a sizeable portfolio of orders for nuclear pumps.

In 2019, we continued to build long-term relations with our core customers. So, for example, in autumn 2019 we signed a Memorandum on Strategic Partnership with PAO NOVATEK which will allow us to organize a more effective collaborative work in the field of development of new products for natural gas treatment and liquefaction. In the context of cooperation, HMS Group intends to develop not only compressors but pump-based equipment, like submersible cryogenic pumps for LNG loading, and other diverse oil and gas equipment.

In 2019, HMS Group started active developing of a new activity area – Process Engineering in Oil and Gas Processing. We have built a team of highly-skilled professionals in the field of technological engineering. The company opened a Moscow branch of GTNG, which became the competence center of the institute in the area of oil and gas treatment, and petrochemicals. Consequently, today we can supply not only separate equipment, but complete technological package for oil & gas extraction facilities, petroleum refineries and gas chemical facilities as well. Our unique sci-tech competences allow us to develop and localize the production of the majority of equipment types independently within a short time if requested by our customers, from preparation of design and detailed documentation to construction supervision, installation supervision and commissioning works.

As a part of the import substitution program, HMS Group produced and delivered compressor units for the Yamal LNG project (PAO NOVATEK). These units were developed by Kazankompresormash in sci-manufacturing tandem with NIITurbokompressor involving the use of the domestic technology of natural gas liquefaction named Arctic Cascade and patented by NOVATEK. The scientific novelty of the technology is the use of the ambient temperature in the Arctic climate for natural gas liquefaction process. The experimental industrial line will be implemented at the Yamal LNG project, and its capacity will be 0.9 mln t of LNG per annum. PAO NOVATEK plans to create the whole industry – construction of LNG production lines, and, thanks to successful execution of the project, HMS Group is one of the main developers and producers of innovation-based equipment.

In 2019, HMS developed the technology of production of pump body castings, where ceramic running system with siphon CFF-filtering of liquid melt input was used. This technology will be used in production of AS-1D200-90-A pumps for nuclear power plants, which will have the safety class 2. The produced two units successfully passed all non-destructive control tests.

In the short term, we observe a number of interesting projects to participate in. We will continue playing an active role in implementation of ambitious projects in the oil & gas industry, in projects to develop nuclear and thermal power sectors, and in the national projects of the Russian Federation, primarily, with environmental focus.

Your faithfully,
Nikolay YAMBURENKO



CEO statement

The 2019 year was challenging for the company, facing the influence of several factors which affected its financial results. One of them was weak results of the oil & gas equipment business segment that were the main reason of HMS' revenue and EBITDA downswing. We believe that implemented business optimization and cost reduction demonstrated their effectiveness, given that the oil & gas equipment business segment had shifted from the losses towards a good level of profitability.

We consider HMS' entry into the domestic market of LNG equipment to be one of the company's breakthroughs.

The Memorandum on Strategic Partnership, signed with PAO NOVATEK in 2019, set the general principles of mutual cooperation in the area of development of domestic technological basis for LNG projects of PAO NOVATEK that will allow to equip LNG plants under construction with high-tech equipment made in Russia.

The fruitful cooperation of HMS Group and PAO NOVATEK in the field of LNG equipment production resulted in signing a contract to manufacture 6 main compression units for a natural gas liquefaction for the Obsky LNG in March 2020. The contract requires the supply of three types of gas compression units, developed by HMS' specialists, and equipped with high-capacity gas turbine drives.

HMS Group continues its work on winning profitable large contract. As of today, orders backlog grew 5 percent year-on-year. Based upon current pipeline of large contracts and a stable inflow of recurring business, we feel optimistic about the future, despite the challenging situation in the world.

Your faithfully,
Artem MOLCHANOV

investment thesis

Business platform and core expertise are established and provide a strong base for future growth

Mature Business Platform

- HMS Group's business is based on a mature and established business platform with a focus on products where the Company has unmatched R&D expertise and production capabilities
- The company has stable recurring business with confirmed order backlog for the next year
- EU presence: HMS Group has access and is conducting business with EU engineering companies (Siemens, Alstom, etc.) through its EU-based subsidiary Apollo Goessnitz
- Business is to be further developed organically, i.e. currently there are no plans for M&A
- Further development will be carried out with low CAPEX at ca. 1.5x the D&A level

Entering new markets

- Further development of business with Gazprom & other major names in the oil & gas industry by executing large customized projects in all HMS Group's key segments
- Customers in new markets are already a part of the client base and offer strong future opportunities
- Return to the market of oil transportation on the back of localization of trunk line pumps in Russia
- Oil & gas refining and petrochemicals represent another growth area with expanded strong references, incl. major international engineering companies

Optimisation of the business portfolio

- HMS entered the oil & gas infrastructure construction segment in 2007 with a view to offering integrated solutions
- Following the financial crises, this segment saw a sharp decrease in profitability
- HMS Group decided to exit the segment and currently has significantly reduced its exposure to construction
- HMS continues to develop Engineering and Procurement ("EP") business, based on HMS products and engineering competences

3. Management focuses on maintaining a moderate debt position

- The current Net debt-to-EBITDA ratio is conservative
- Debt is naturally hedged as HMS follows a strategy of a match in revenues, costs and debt currency structures – ca. 98% of debt is Russian ruble denominated
- Short-term debt remains at low levels and is actively managed

2. Leader in both large projects and standard production segments

- HMS is the established top player in large-scale projects (with a "blue-chip" client base)
- The company enjoys sustainable, recurring business from standard pumps and compressors with over six thousand clients

6. Market share and installed base

- HMS is a major player in pumps, oil and gas equipment and compressors, with significant market shares and established relations with clients (including follow-on services)
- The company has the largest installed equipment base in Russia

5. Low capex needs and flexible dividend policy

- HMS Group is a fully invested business with modest maintenance capital expenditure needs at c. 1.5x the D&A level
- All major acquisitions have already been completed
- There are no strict dividend commitments, which allows us to minimize payments in a harsh market environment, as was the case in 2014

4. Well-diversified quality client base

- Over 6,000 small and medium clients generate on average 70–80% of revenue
- The blue-chip client base covers nearly all Russia's oil and gas major players
- Our largest clients operate through numerous contracts in different subsidiaries, taking independent purchasing decisions and offering numerous points of entry

Factors of Business Sustainability:

1. Delivery of Mission-critical equipment

- HMS' equipment is crucial to clients. It is installed at the final stage of construction projects and is difficult to replace
- The project cost is affordable within clients' project budgets: equipment accounts for less than 2–3% of the total project CAPEX. As a result, clients do not postpone their purchases

our history

1993

1998

foundation

Three founders (German Tsoy, Artem Molchanov, and Kirill Molchanov) established the trading company Hydromashservice and brought together a core team of three founders and five sales managers

Hydromashservice actively increased sales in Russia and the CIS and built relations with key clients (primarily with companies in water utilities and metals & mining sectors)

1999

2003

ambitions for market leadership

Hydromashservice demonstrated boosting growth of the client base, expanded relations with the largest oil & gas and energy companies and gained leading positions in the pumps market in Russia and the CIS

The company gained experience in large commercial projects and humanitarian programs outside of Russia (such as the UN Oil-for-Food Programme)

The largest Russian pump manufacturer, Livgidromash, joined Hydromashservice in 2003

2004

2008

from sales to production

The company acquired its key production facilities: Neftemash (Tyumen), Nasosenergomash (Sumy), and Livnynasos (Orel region, Central Russia)

The investment industrial group Hydraulic Machines & Systems was established as an industrial holding (since 2008 – HMS Group plc.)

HMS Group continued to develop long-term relations with its key customers

The company successfully implemented its first large projects in specialist pumps for nuclear power plants in India (Kudankulam) and China (Tianwan)

The shareholders established HMS Group Management Company LLC. The extended management team was formed to achieve new ambitious goals

26 years: from a start-up to the industry leader

2009

2013

diversification and complex solutions

The Board of Directors approved the strategy for accelerated growth for 2009–2015 with a focus on M&A and complex solutions

HMS Group acquired Giprotymenneftegaz, the leading project and design institute for oil and gas fields, as well as new production assets: Sibneftemash, Dimitrovgradhimash, Bobruisk Machinery Plant, and Apollo Goessnitz, and entered the market of equipment for oil refining and petrochemistry

HMS Group ran a successful IPO on the London Stock Exchange in 2011

The company gained access to the compressor market via acquisition of the alliance: Kazankompressormash – NIIturbokompressor, the largest manufacturer of compressor equipment in Russia and the CIS

HMS Group became the provider of key technological units for large projects in oil extraction and transport: Vankor oilfield, the system of export pipelines BPS-2, ESPO-1, ESPO-2, Zapolarye-Purpe, Purpe-Samotlor and many others

The Group introduced a new line of pumps for oil trunk pipelines (NM, NPV, and NOU series) and mastered production of large-scale technological modules, as well as tanks, vessels and heat exchangers

2014

2019

engineering and gas technologies

HMS Group increased its expertise in design and manufacturing of equipment for natural and associated gas extraction and treatment on the base of Giprotymenneftegaz and Neftemash

The company (Kazankompressormash) started sales of complete gas compression systems for booster compressor stations and gas trunkline compressor stations of Gazprom

Livgidromash plant expanded its engineering and manufacturing capabilities. The new mechanical treatment shop and the new unique testing unit were built

The Group implemented a large-scale investment programme covering all production units, renewed and expanded the product portfolio, and developed new product lines for pumps, compressors, measuring and other equipment for oil & gas

HMS Group supplied technological units for large scale gas projects, including:

- Technological equipment for ROSPAN INTERNATIONAL (East-Urengoykoye field, Rosneft);
- Equipment for the extraction, transportation and processing of liquid hydrocarbons (Nadym-Pur-Taz region, Gazprom);

- Helium concentrate membrane separation unit (Chayandinskoye field, Gazprom);
- Equipment for LNG plants based on the “Arctic cascade” technology (PAO NOVATEK), followed by the Memorandum on Strategic Partnership, signed with PAO NOVATEK in 2019, as a part of the import-substitution program.

In 2019, total revenue, generated by the gas sector, reached almost a third of HMS’ consolidated revenue, improving diversification.

The top management developed the new strategy for sustainable growth with a focus on operational efficiency and leadership in the market of technological units for large-scale investment projects

our strategy

vision

HMS Group is a leading Russian machine-building company – a specialist in industrial pumps, compressors, and modular technological units, as well as a provider of integrated solutions for several industries, including oil & gas, petrochemistry, energy, metals & mining and water utilities.

We consider our customer benefits to be our highest priority: building long-term relations has always been a key focus for HMS Group. All our business processes, from R&D to quality control and from manufacturing to sales and aftersales service are geared to provide our clients with high-end products and the most efficient solutions.

strategic goals and priorities

Organic growth

Despite the uncertain economic situation, our business has continued to expand. Our objective is to maintain our leadership position across all our business segments: industrial pumps, industrial compressors, oil & gas equipment and engineering.

On the one hand, we expand sales to our existing clients by developing new products and offering sophisticated solutions. The Group continues to invest in development of its production sites to keep quality at the highest level.

On the other hand, HMS Group continues to increase its client base in all markets in Russia and the CIS, as well as in the Middle East, Asia and Europe.

We also look into options to enter new market segments, if we find them to be promising.

HMS Group concentrates on profitability growth in order to invest in further development and create additional value for shareholders. We implement systematic measures to increase the efficiency of our businesses, from the individual level of standalone plants to the level of the entire Group.

Our technical expertise and proven experience in delivery of technological units ensure our participation in high-margin large projects, and we intend to maintain a substantial share of these in our contract portfolio. We also plan to continue taking part in multiple large-scale projects across all industries in order to strengthen partnerships with industry leaders.

The company will also develop its standard and engineered product lines; the majority of our products are already among the best in their class and we will further expand our product portfolio in order to maintain the profitability of our recurring business.

We recognise different forms of strategic partnership (joint ventures, consortia, license agreements) with machinery and engineering companies, both Russian and international. Thus, we will be able to offer new, more sophisticated products and solutions to our customers.

corporate responsibility

HMS Group follows ethical principles with regard to all its stakeholders.

We strictly comply with health and safety international standards in order to lower the environmental impact of our operations.

We carry out charity activities and offer support to charitable foundations for children and the disabled. In 2019, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions of our business activities.

sustainable development

Reliable and up-to-date business processes are crucial for the company's sustainable growth.

In the face of a rapidly changing environment, we work on maintaining an effective organisation, management and corporate culture. The company is strengthening its competences in marketing, engineering and R&D.

We have a team of highly devoted professionals in all business functions and are dedicated to the development of our personnel: HMS Group has a multi-level system of training for its employees. We are focused on the culture of innovations and change by developing incentives to ensure that each employee contributes to the company's success.

After 26 years in business, HMS Group is a full-cycle machine-building company that has achieved a leading position among Russian players. The company follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements of the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.

Facing new challenges, we continue to implement the latest and most efficient IT systems, from specialised software for R&D to ERP and IT security solutions.

HMS business model

HMS Group's business model reflects the whole value chain: marketing & sales, research & development, procurement and manufacturing, as well as after-sales service across all of its business units. We may also use outsourcing from specialized suppliers

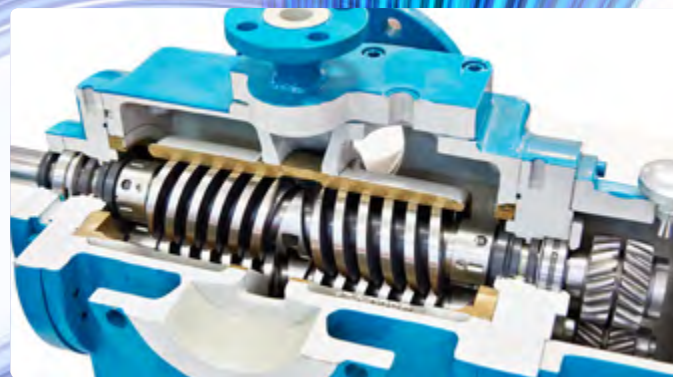
HMS Group's business consists of two main aspects: running recurring operations (sales and production of standard and customized pumps, compressors and oil & gas equipment) and delivery of technological units for large-scale investment projects of our clients.

HMS' main customers are large and medium-sized industrial companies. We also approach small businesses through our certified dealers, as well as independent trading companies. Our expertise in engineering is a basis for expanding relations with oil & gas and energy companies, clients in metals and mining industry and water utilities.

HMS Group's business model reflects the whole value chain: marketing & sales, research & development, procurement and manufacturing, as well as after-sales service across all of its business units. We may also use outsourcing from specialized suppliers.



Marketing
& sales



Research
& development



Procurement
& manufacturing



After-sales service
across all of its business units

Our core competence is research & development in a broad range of disciplines of rotating equipment. We develop new products and offer state-of-the-art solutions to maintain our leading positions on the Russian and CIS markets. HMS' expertise in engineering helps us to design efficient solutions that meet the highest customer requirements.

The Group's production facilities consist of 12 plants in Russia, Ukraine, Belarus and Germany. We benefit from cooperation between our plants, which complement each other to shorten the lead-time and optimize costs.

We continued to implement our large-scale capital expenditures program (Rub 1.6 billion in 2019) to develop our manufacturing capacities and retain the highest level of product quality. The biggest investments include the construction of a new shop for large steel casting at Kazankompressormash and the expansion of machinery shops for new lines of water pumps (DeLium, Kordis series) at HMS Livgidromash.

Our marketing function strengthens and promotes the HMS brand in both conventional and prospective markets. As part of our marketing strategy, we regularly present new products and solutions to our customers at leading trade exhibitions in Russia and abroad.

In 2019, HMS' overall sales volumes equaled Rub 51.4 billion (-2% yoy). Our direct client list comprised over 6,000 names in Russia and abroad. Industrial pumps division accounted for the largest part of the revenue – Rub 19.4 billion (+11% yoy).

Outside of Russia, HMS' sales offices are currently located in Germany, the UAE, as well as in Belarus and Kazakhstan. We are also growing our presence in new markets and developing relations with oil & gas, energy and international EPC companies in Russia and abroad.

markets &

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macro- economics

macroeconomic environment in 2019

The Russian GDP grew by 1.3% yoy in 2019 (2.5% yoy in 2018).

The main factors of this moderate growth were decrease in exports (-2.3% yoy compared with 5.5% yoy in 2018) and lower final consumption expenditure (2.4% yoy compared to 2.8% yoy in 2018), including household consumption (2.5% yoy compared with 3.3% yoy in 2018). Increased imports (+3.4% yoy compared with 2.6% yoy in 2018), gross capital formation (1.5% yoy compared with 0.2% yoy in 2018) and public spending (+2.2% yoy compared with 1.3% yoy in 2018), supported by the launch of the National projects, did not provide enough to ensure higher growth.

2.4%

✓ 2.9% in 2018

The industrial production growth → %

The industrial production grew by 2.4%, which is 0.5% less than in 2018 (2.9%). The highest growth was observed in basic pharmaceutical products and preparations (+19.6% yoy), fabricated metal products (+8.9% yoy), computers, electronic and optical products (+8.0% yoy), furniture (+6.8% yoy), wood and products of wood and cork (+5.3% yoy). Machinery and equipment declined (-2.4% yoy), while the most significant decline was in the segment of transport equipment (-12.1% yoy).

In 2019, consumer inflation in Russia (the Consumer Price Index) remained low (3.0%). The unemployment rate reached 4.6% at the end of the year, being one of the lowest in the history of the country.

1.3%

✓ 2.5% in 2018

The Russian GDP → %

3.0%

✓ 4.3% in 2018

consumer inflation in Russia → %

In 2019, the world GDP growth slowed down to 2.9% against 3.6% in 2018: advanced economies grew by 1.7% compared with 2.3% in 2018, and emerging markets and developing economies (EMDEs) grew by 3.7% compared with 4.5% in 2018. The main factors of the slow-down included the trading tensions between the United States and China and stagnation in the main European economies. The price of Brent crude oil averaged to US\$ 64 per barrel in 2019, US\$ 7 per barrel lower than its 2018 average (US\$ 71).

64.6bn

✓ 113.7 billion in 2018

current account surplus → US\$

6.25%

✓ 7.75% in 2018

CBR key rate → %

Industrial Producers Price Index declined by 4.3% in 2019. The Central Bank of Russia decreased the key rate 5 times in 2019 (from 7.75% to 6.25%) to support the economic activity on the back of low inflation, which made the loans more available for both business and households.

As a result, the total corporate debt reached Rub 41.9 trillion (+5% yoy) at the end of 2019, while loans to individuals grew up even faster, to the level of Rub 19.1 trillion (+19% yoy), so that the Central Bank of Russia took control measures to limit the credits to individuals with high credit-risk profiles.

Despite the continued sanctions of the United States and the European Union **the Russian ruble remained stable** in 2019: it declined by 3% against the US Dollar (average USD/RUB: from 62.6 to 64.8) and grew by 2% against the Euro (average EUR/RUB from 74.1 to 72.4).

The year 2019 was marked by the beginning of the pension reform in Russia, which will result in the retirement age increase by 5 years for both men (increase from 60 to 65 years) and women (increase from 55 to 60 years). The reform will eventually increase the country's available labor force in the face of the ageing population.

Starting from January 1, 2019, the Value Added Tax in Russia increased from 18% to 20%, which will bring additional revenue into the Russian budget.

The current account surplus was at the level of US\$ 64.6 billion for 2019 (lower than US\$ 113.7 billion in 2018).

Commodities Exports amounted to US\$ 417.9 billion, with US\$ 121.6 billion coming from crude oil, US\$ 66.3 billion – from oil products, US\$ 41.5 billion – from gas, US\$ 8.4 billion – from LNG (total sum of oil and gas exports, including oil products reached US\$ 237.8 billion). Commodities Imports reached Rub 254.8 billion. Direct investments amounted to US\$ 26.9 billion, a significant increase compared to US\$ 5.9 billion in 2018. Exports of services reached US\$ 63.6 billion, while Imports of services amounted to US\$ 98.3 billion.

500bn

^ 9.9% yoy

total external debt of Russia → US\$

The Russian Budget showed a surplus of Rub 1.9 trillion, equal to 1.8% of the GDP. Budget revenue increased by 3.8%, while spending grew by 9.0%. Total external debt of Russia (both government and corporate) increased by 9.9%, to the level of US\$ 500 billion.

As the result of favorable economic conditions, the MOEX Russia Index increased from 2,369 points at the end of 2018 to 3,046 points at the end of 2019 (+29%), with a total capitalization of Rub 11.8 trillion. The RTS Index growth was even higher, from 1,069 points to 1,549 points (+45%) during 2019, with a total capitalisation of US\$ 190.4 billion.

market trends

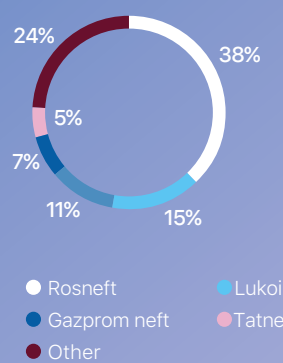
oil and gas industry

In 2019 extraction of minerals brought 12.6% to the Russian GDP (-0.6% yoy). The oil and gas share in total income of the Federal Budget of Russia decreased from 46% in 2018 to 39% in 2019, as a result of decline of Urals oil price from US\$ 70 per barrel to US\$ 64 per barrel. Yet, the oil price was sufficient to ensure the funding of the Russian Budget and further CAPEX of oil and gas companies.

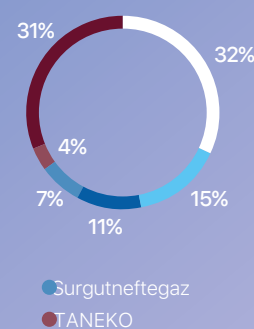
Russian oil industry consists of a number of large players, 5 largest companies account for 3/4 of country's oil production and refining, while Gazprom is the major gas company in Russia.

About a half of the oil produced is processed at the Russian refineries, while the other half is exported.

Top oil producers in Russia, 2019 → %



Top petroleum refiners in Russia, 2019 → %

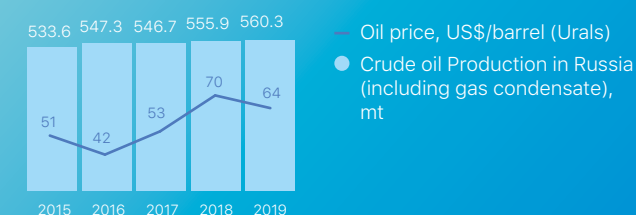


upstream

The overall situation on the oil market remained stable in 2019. Russia increased its production of oil to 560.3 million tons in 2019 (+0.9% yoy). During the year, the country's well stock increased from 181.7 thousand units to 187.1 thousand units (+3% yoy). The total measured drilling depth declined by 1% yoy to 28.4 thousand meters.

Total investments in oil & gas production increased by 7% yoy in 2019, to Rub 2 trillion.

In 2019, 569 wells on new oilfields (not older than five years) were put into operation, including newly launched the Zapadno-Erginskoye, the Traygorodsko-Kondakovskoye and the Lenskoye fields.



Crude oil production in Russia and Urals oil price dynamics

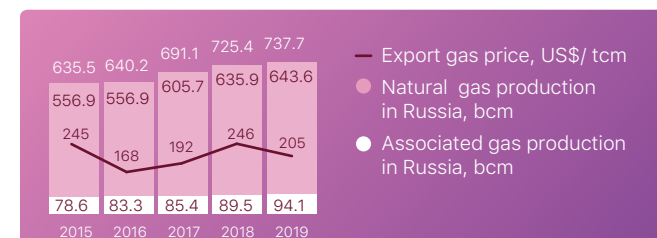
Natural gas extraction in Russia hit the 2018-year record – 737.59 bcm were produced (+1.7% yoy), the average export prices declined by 17% yoy to US\$ 205 bcm, because of growing competition from LNG producers.

In 2019, Gazprom launched the Chayandinskoye gas field – one of the largest fields in Eastern Siberia and continued development of a number of other large projects, including the Kovyktinskoye field and the Achimov deposits of the Urengoyenskoye field.

29.5mt

^ 9% yoy

The volume of LNG produced in Russia → mt



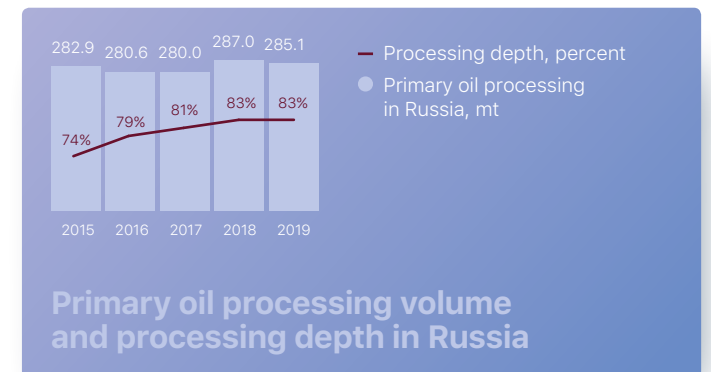
Natural and associated gas production in Russia, and average export price of gas

midstream

As Russian oil fields and gas fields are widespread across the country, Russia has the largest oil and gas pipeline networks in the world, which has been significantly developed during the last ten years.

Transneft is the major operator of the Russian oil trunk pipeline system (51,600 km) and oil-product trunk pipeline system (16,700 km). The annual CAPEX in the oil transport system exceeded Rub 266.7 billion in 2019 (+3% yoy).

The total length of the Russian gas transportation system is ~172,600 km; the only operator of gas pipelines is Gazprom. In 2019, Gazprom launched the Power of Siberia that will supply gas to China, finalized works on the Turk Stream, and continued construction of other pipelines, such as a part of the Sakhalin-Khabarovsk-Vladivostok and the Ukhta-Torzhok (Yamal) pipelines.



Primary oil processing volume and processing depth in Russia

downstream

There are 39 large oil refineries in Russia with total crude oil distillation capacity of 0.8 million tons per day. Rosneft, the leading Russian oil company, is the largest refinery operator owning 12 major refineries. LUKOIL, with 4 major refineries, is the second-largest refineries operator. In Russia, primary oil processing reached 285.1 million tons, a decrease by 0.6% yoy, compared with 2018. The depth of processing remained 83 percent, at the level of 2018.

In 2019, total CAPEX in oil & gas downstream grew by 28% yoy to Rub 0.5 trillion.

A number of future projects on the modernisation of oil refineries as well as new construction are planned on the horizon until 2025. Examples of projects include the construction of new units at Taneco (Tatneft), Khabarovsk refinery (NNK), Orskneftegazsyntez (Safmar).

In 2019, seventeen large gas-processing plants in Russia (processing over 1 bcm per year each) and nineteen smaller plants processed in total 122.37 bcm of natural gas and petroleum associated gas (+13.4% yoy). The main trend in gas processing is the steadily increasing share of LNG production. The volume of LNG produced in Russia reached 29.5 mt compared with 19.8 mt the previous year (+49% yoy). The largest LNG projects include the Yamal LNG and the Arctic LNG-2 (NOVATEK).

///market trends

power generation

In 2019, Russia continued to increase its electricity output, which reached 1,096.2 billion kWh (+1.2% yoy). Total installed capacity of Russian power system increased by 2.96 GW (+1.1% yoy) and amounted to 252 GW.

Total number of large power plants in Russia is 805 (with installed capacity higher than 5 MW each). The structure of the installed capacity in the Unified power system remained practically unchanged in 2019: thermal power plants accounted for 67 percent of installed capacity, hydro power plants – 20 percent, nuclear power plants – 12 percent.

Total investments in the energy industry declined by 8.8% yoy to Rub 962.1 billion.

Russian energy companies continued construction of new power plants, such as nuclear Kursk-2 NPP, Leningrad-2 NPP, Novovoronezh-2 NPP, conventional Primorskaya TPP, Voronezh TPP (new 115 MW unit) and other.

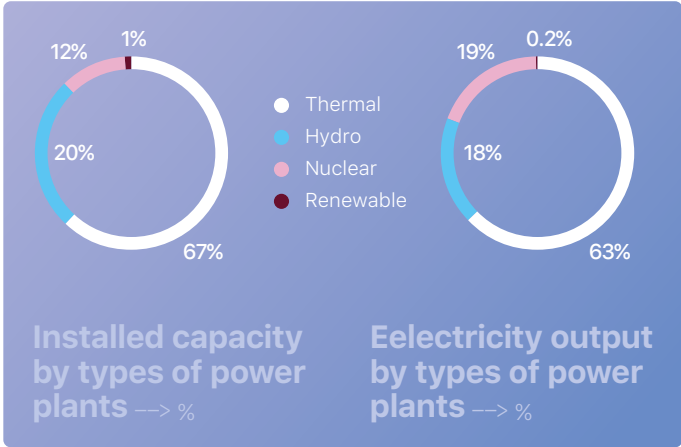
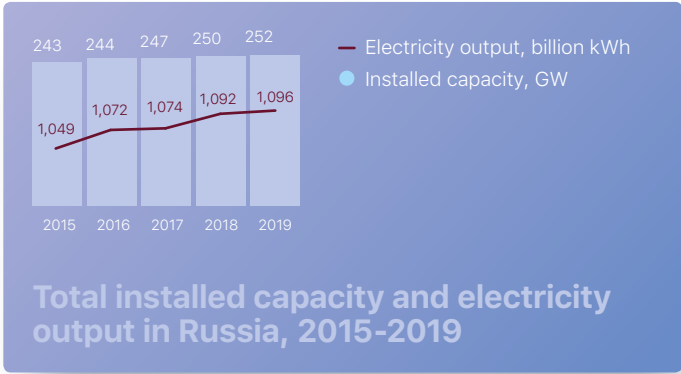
The State Atomic Energy Corporation, ROSATOM, also runs a number of projects on NPP construction abroad with Russian technology and equipment, such as: Akkuyu NPP in Turkey, Kudankulam NPP in India, Buzher NPP in Iran, Belarusian NPP, Tianwan-2 NPP in China and has a number of projects under negotiation.

A new program of TPP modernization was launched in 2019 – new capacity of 17.2 GW will be built in 2022-2025, with total CAPEX over Rub 200 billion.

93.3bn

^ 27% yoy

Crude oil exports brought Russian companies in 2018 → US\$



3.1% yoy

^ in 2019

Overall extraction of mineral resources → %

metals and mining

Mining industry in Russia is highly concentrated, and consists of large companies, which typically have a full production cycle from ore mining to the production of metal products with high value added.

In 2019, overall extraction of mineral resources grew by 3.1% yoy, where:

- Extraction of metal ores increased by 5.2% yoy;
- The volume of coal production amounted to 439.2 million tons, a 0.2% yoy decrease compared with 2018;
- Coal exports decreased to 192.4 million tons (-0.4% yoy).

In 2019, overall investments in metal ores extraction slightly declined to Rub 274.9 billion (-0.2% yoy), while investments in coal industry reached Rub 179.2 billion (+18% yoy).

In 2019, overall production of metals increased by 0.6% yoy, where:

- Production of cast iron was at the level of 51.2 million tons (a 1.2% decrease yoy), while production of stainless steel reached 199 million tons (+4.4% yoy);
- Production of some rare and precious metals showed even higher growth: gold production grew by 17% yoy, cobalt by 5.7% yoy, and titan by 3.6% yoy.

Total investments in the production of metals grew by 6.3% yoy to Rub 324.1 billion.

Russian metals and mining companies continue to implement large-scale investments programs. EVRAZ, Severstal, Rusal, Nor Nickel and others are running long-term programs on development of new mines and construction of new production units (coke batteries, new furnaces, etc.) that will ensure investments in the industry for the next years.

water utilities

Municipal water utilities were supported by the continued growth of tariffs. For example, in 2019, tariffs for cold water supply increased by 5.0% yoy, hot water supply – by 4.1% yoy, and sewerage – by 6.0% yoy.

Total investments in water utilities and waste utilization in Russia reached Rub 158 billion (+5.7% yoy). Some of the most important ongoing projects in water utilities construction and modernization in 2019 were at St. Petersburg, Belgorod and Saratov water facilities.

In 2019, the implementation of the National project "Ecology" (consisting of 11 Federal projects) continued, that will ensure large modernization of water facilities all over the country, yet it was going much slower than the plan. By November 2019, only 27.1 percent of the planned for the period budget had been spent (Rub 15.4 billion), including only 12.4 percent of the "Clean Water" Federal project budget. The main reason for this delay was the lack of expertise in preparation, approval and implementation of such investment projects.

158bn

^ 5.7% yoy

Total investments in water and waste utilization → Rub

performance

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financial & operational overview

///FY 2019 financial results

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 4Q 2018 | Change yoy |
|-----------------------------|---------|---------|------------|---------|---------|------------|
| Orders | 52,196 | 55,891 | -7% | 15,970 | 25,176 | -37% |
| Backlog | 44,693 | 42,634 | 5% | 44,693 | 42,634 | 5% |
| Revenue | 51,413 | 52,619 | -2% | 14,732 | 20,757 | -29% |
| EBITDA | 4,824 | 6,621 | -27% | 1,432 | 2,302 | -38% |
| EBITDA margin | 9.4% | 12.6% | | 9.7% | 11.1% | |
| Profit for the period | 151 | 1,946 | -92% | (45) | 772 | -106% |
| Depreciation & amortization | 2,296 | 1,843 | 25% | 597 | 521 | 14% |
| Free cash flow | 23 | (139) | na | 2,646 | 1,854 | 43% |

group performance

Order intake declined by 7% yoy to Rub 52.2 billion, compared with Rub 55.9 billion for 2018FY, mainly due to a decrease in the compressors business segment because less large contracts were signed in the reported period.

Backlog, in contrast, grew to Rub 44.7 billion by 5% yoy, compared with Rub 42.6 billion last year, based on growth in the pumps and the oil & gas equipment. In terms of contracts type, the recurring business was the main contributor to this growth.

Revenue decreased to Rub 51.4 billion, down by 2%, compared with Rub 52.6 billion for 2018FY, due to weak results of the oil & gas equipment business segment.

EBITDA was down to Rub 4.8 billion compared with Rub 6.6 billion (-27% yoy) mainly because of the oil & gas equipment projects and partly because of the compressors.

Revenue from recurring business increased by 8% yoy, and revenue from large projects declined by 19% yoy. EBITDA from recurring business increased by 56% yoy, and from large projects contracted by 62% yoy.

EBITDA margin was down to 9.4%, compared with 12.6% for 2018FY.

Profit for the 2019 year declined to Rub 151 million, compared with Rub 1.9 billion for 2018FY, down by 92% yoy.

Depreciation & amortization was up 25% yoy to Rub 2.3 billion, compared with Rub 1.8 billion for 2018FY because of assets acquired in 2019.

Free cash flow grew to Rub 23 million, compared with Rub (139) million for 2018FY, mainly due to a decrease in working capital (-3% yoy).

HMS austerity program

In 2019, HMS experienced the influence of several negative factors that affected the company's financial results:

- Change in a mix of large contracts portfolio, where compressor-based large contracts increased their share, and they traditionally have lower margins compared with pumps and oil & gas equipment:

HMS addressed this by working on prospective profitable contracts. As a result, today the company has signed already a sustainable volume of large contracts in the pumps and the compressors segments. In the oil & gas equipment and projects segment, the portfolio of large contracts is improving. Also, based on a current pipeline of large projects, the oil & gas equipment and projects segment has a potential of the further portfolio's development.

- Weak results of the oil & gas equipment and projects business segment in recurring business:

HMS had analyzed the factors that affected financial results of the segment, and has taken actions to mitigate their impact on 2020FY results.

- Postponement of a number of the oil & gas equipment signed and budgeted deliveries from 3-4Q 2019 to the 2020 year due to HMS customers' decisions:

One the one hand, this factor affected 2019 FY financial results, and on the other hand, it should positively influence 2020 FY financial results.

- The "Arctic Cascade" project of PAO NOVATEK, the first ever HMS project in the field of designing and manufacturing of compressors for liquefaction of natural gas:

HMS Group had analyzed the project, and has taken actions to prevent losses in foreseeable projects of that kind. The equipment was manufactured under the innovative proprietary natural gas liquefaction technology called the "Arctic Cascade" patented by PAO NOVATEK in 2018.

The aim of the project was to localize the manufacturing and assembly of LNG equipment to decrease the overall cost of liquefaction and develop a technological base within Russia. While the participation in the project incurred losses for the company due to the fact that HMS has developed a new product, the project's successful execution has given the access to the new and prospective LNG market in Russia.

- Austerity measures time lag:

HMS had started the cost-optimization program at the end of 1H 2019. It has taken several months from the implementation of austerity measures to the decrease of fixed costs and increase of profitability, which were clearly seen at the improved results of 2H 2019.

The cost-optimization program of HMS Group consists of two types of austerity measures - short-term and long-term. The short-term measures have been already implemented and realized. In 2020, the short-term ones will be partly complimented or replaced by long-term measures.

The short-term measures include (1) a temporarily decrease of wages, which has been already realized in 2H 2019, and (2) a decrease or cancellation of dividend payments in 2020, which decision will depend on 2019 FY results and general situation with large contracts portfolio in the spring 2020.

The long-term austerity measures include, among others:

- Rightsizing (personnel optimization);
- Minimization of operating costs including optimization of procurement processes and improvement of products' design solutions;
- Reduction of capital expenditures to Rub 1.5 billion per annum (pure maintenance level);
- Strengthening of control over working capital;
- Analysis of non-performing assets for further decision-making regarding restructuring of HMS business.

1. Herein, materials & components, labour costs and social taxes, construction & design were additionally derived from Change in work in progress and finished goods, thereby do not coincide with the note in the financial statement

///financial & operational overview

expenses and operating profit

Cost of sales was up to Rub 41.8 billion by 3% yoy, compared with Rub 40.6 billion for 2018FY, due to the increase in Materials and components (+1% yoy). The main reason of the increase was large compressor contracts, which had a higher share of outsourced components in their costs of sales.

Gross profit was down 20% yoy to Rub 9.6 billion, compared with Rub 12.0 billion for 2018FY.

Distribution and transportation expenses grew by 2% yoy, due to the grown transportation expenses (+25% yoy) that was because of increased deliveries of equipment produced under large contracts to the remoted regions of Russia.

| RUB mn | 2019 FY | 2018 FY | Change yoy | Share of FY 2019 revenue | Share of FY 2018 revenue |
|--------------------------------------|---------|---------|------------|--------------------------|--------------------------|
| Gross profit | 9,609 | 12,002 | -20% | 18.7% | 22.8% |
| Distribution and transportation | 1,961 | 1,916 | 2% | 3.8% | 3.6% |
| General and administrative | 5,395 | 5,636 | -4% | 10.5% | 10.7% |
| SG&A expenses | 7,356 | 7,551 | -3% | 14.3% | 14.4% |
| Other operating expenses | 196 | 250 | -22% | 0.4% | 0.5% |
| Operating expenses ex. Cost of sales | 7,553 | 7,802 | -3% | 14.7% | 14.8% |
| Operating profit | 2,057 | 4,200 | -51% | 4.0% | 8.0% |
| Finance costs | 1,785 | 1,611 | 11% | 3.5% | 3.1% |

| RUB mn | 2019 FY | 2018 FY | Change yoy |
|----------------------------|---------|---------|------------|
| Finance costs | 1,785 | 1,611 | 11% |
| Interest expenses | 1,764 | 1,598 | 10% |
| Interest rate, average | 8.56% | 8.72% | |
| Interest rate Rub, average | 8.69% | 8.91% | |

| RUB mn | 2019 FY | 2018 FY | Change yoy | Share of FY 2019 revenue | Share of FY 2018 revenue |
|--|---------|---------|------------|--------------------------|--------------------------|
| Cost of sales ¹ | 41,804 | 40,617 | 3% | 81.3% | 77.2% |
| Materials and components | 27,957 | 27,628 | 1% | 54.4% | 52.5% |
| Labour costs incl Social taxes | 7,060 | 7,276 | -3% | 13.7% | 13.8% |
| Depreciation and amortization | 1,954 | 1,567 | 25% | 3.8% | 3.0% |
| Construction and design and engineering services of subcontractors | 2,467 | 2,102 | 17% | 4.8% | 4.0% |
| Others | 2,365 | 2,045 | 16% | 4.6% | 3.9% |

As a share of revenue, distribution and transportation expenses was up to 3.8% compared with 3.6% last year.

General and administrative expenses were down by 4% yoy to Rub 5.4 billion, compared with Rub 5.6 billion last year, due to the sizable 9% yoy totaling decrease in labor costs and social taxes. As a share of revenue, general and administrative expenses decreased to 10.5% from 10.7% for 2018FY.

SG&A expenses¹ declined to Rub 7.4 billion, compared with Rub 7.6 billion (-3% yoy), and as a share of revenue, declined to 14.3% from 14.4%.

Operating profit was down to Rub 2.1 billion, compared with Rub 4.2 billion last year (-51% yoy).

Finance costs were up to Rub 1.8 billion, compared with Rub 1.6 billion for 2018FY, due to the increase of interest expenses (+10% yoy) because of a higher level of total debt. Average rates decreased to 8.56% p.a. compared with 8.72% p.a. last year.

business segments performance

///industrial pumps¹

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 4Q 2018 | Change yoy |
|---------------|---------|---------|------------|---------|---------|------------|
| Orders | 22,792 | 19,573 | 16% | 6,369 | 6,141 | 4% |
| Backlog | 19,572 | 17,152 | 14% | 19,572 | 17,152 | 14% |
| Revenue | 19,770 | 17,811 | 11% | 5,866 | 6,613 | -11% |
| EBITDA | 2,599 | 2,390 | 9% | 728 | 1,191 | -39% |
| EBITDA margin | 13.1% | 13.4% | | 12.4% | 18.0% | |

Order intake of industrial pumps grew by 16% yoy based mainly on large contracts.

Backlog grew by 14% yoy to Rub 19.6 bn due to both recurring business and large contracts, mainly in the sphere of pumps for nuclear power plants.

Revenue was Rub 19.8 bn, up 11% yoy, compared with Rub 17.8 bn for 2018FY. The growth was based on both recurring business and large contracts.

EBITDA increased to Rub 2.6 bn, by 9% yoy, from Rub 2.4 bn for 2018FY due to recurring business. And EBITDA margin was 13.1%, compared with 13.4% for 2018FY, with a minor drop, because recurring business generated a larger share of EBITDA compared with 2018FY.

There are two low-margin production facilities in the pumps business segment, and their negative effect has been already reflected in the company's financial results. Currently, HMS is working on an optimization strategy of their operations.

1. SG&A expenses – Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

/// financial & operational overview

///oil and gas equipment" & projects (OGEP)

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 4Q 2018 | Change yoy |
|---------------|---------|---------|------------|---------|---------|------------|
| Orders | 11,887 | 12,023 | -1% | 791 | 3,203 | -75% |
| Backlog | 7,426 | 6,658 | 12% | 7,426 | 6,658 | 12% |
| Revenue | 13,160 | 20,859 | -37% | 4,562 | 4,346 | 5% |
| EBITDA | 430 | 2,883 | -85% | 601 | 166 | 261% |
| EBITDA margin | 3.3% | 13.8% | | 13.2% | 3.8% | |

Order intake slightly declined to Rub 11.9 bn, compared with Rub 12.0 bn for 2018FY, and totally consists of recurring contracts.

Backlog was up by 12% yoy to Rub 7.4 billion, compared with Rub 6.7 bn for 2018FY, also based on recurring contracts.

Revenue decreased by 37% yoy to Rub 13.2 bn, compared with Rub 20.9 bn for 2018FY. EBITDA declined to Rub 430 mlnn, compared with Rub 2.9 bn, and EBITDA margin was 3.3% vs. 13.8% for 2018FY.

The main reason of the decline were absence of new large contracts under execution in 2019FY compiled with a low profitability of recurring business in 1H 2019.

When its backlog of large projects decreased in mid-2018, the production facility didn't manage to cut quickly its fixed costs. Also it didn't manage to sign a sufficient volume of profitable recurring contracts to replace large contracts. The combination of the above-mentioned factors resulted in a decrease of revenue and margins in the period from 4Q 2018 to 2Q 2019. Consequently, recurring business generated less EBITDA than expected.

HMS Group has changed management at HMS Neftemash to speed up the costs reduction. Implemented austerity measures align with more profitable orders portfolio resulted in a recovery of the oil & gas equipment and projects segment's financial results.

HMS Neftemash postponed deliveries from 3-4Q 2019 to 2020, worth c. Rub 0.4 billion EBITDA, that should positively influence 1H 2020.

///compressors"

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 4Q 2018 | Change yoy |
|---------------|---------|---------|------------|---------|---------|------------|
| Orders | 17,363 | 23,883 | -27% | 8,785 | 15,811 | -44% |
| Backlog | 16,067 | 16,688 | -4% | 16,067 | 16,688 | -4% |
| Revenue | 17,884 | 14,678 | 22% | 4,558 | 9,371 | -51% |
| EBITDA | 1,546 | 1,758 | -12% | 280 | 1,320 | -79% |
| EBITDA margin | 8.6% | 12.0% | | 6.1% | 14.1% | |

Order intake was down 27% yoy to Rub 17.4 billion, compared with Rub 23.9 billion, because of a lower volume of large contracts signed. Recurring business orders, in contrast, grew by 7% yoy.

Backlog decreased by 4% yoy to Rub 16.1 billion, compared with Rub 16.7 billion last year, also because of less large contracts signed.

Revenue was up by 22% yoy to Rub 17.9 billion, compared with Rub 14.7 billion, based on both recurring business and large contracts. EBITDA declined by 12% yoy to Rub 1.5 billion, compared with Rub 1.8 billion for 2018FY. EBITDA margin was down to 8.6% compared with 12.0% for 2018FY.

In the 2nd half of 2018, HMS Group started execution of the pilot "Arctic Cascade" project. That was a project to supply a main 25 MW gas compression system for the Yamal LNG project of PAO NOVATEK.

Since HMS had developed a new product, it has incurred losses for the company, and that was one of the main factors that affected the compressors segment's EBITDA. But on the other hand, the company had analyzed the project, has taken actions to prevent them and is fully prepared for execution of similar projects in the future.

The "Arctic Cascade" allowed HMS to develop competencies in the new area of equipment for liquefaction of natural gas and penetrate the Russia's booming LNG market.

The successful execution of the "Arctic Cascade" turned PAO NOVATEK into one of HMS largest clients. In September 2019, PAO NOVATEK and HMS Group signed the Memorandum on localization of LNG equipment.

In 2019, PAO NOVATEK and HMS Group signed two large compressor contracts worth Rub 3 billion rubles. And in 2020, another large contract was signed, to engineer and manufacture 6 main gas compression units to deliver and install at the Obsky LNG processing plant.

///construction"

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 4Q 2018 | Change yoy |
|---------------|---------|---------|------------|---------|---------|------------|
| Orders | 155 | 411 | -62% | 25 | 20 | 25% |
| Backlog | 1,628 | 2,137 | -24% | 1,628 | 2,137 | -24% |
| Revenue | 1,394 | 1,795 | -22% | 295 | 537 | -45% |
| EBITDA | (29) | (138) | na | (78) | 23 | na |
| EBITDA margin | -2.1% | -7.7% | | -26.4% | 4.2% | |

Order intake equaled Rub 155 million. Backlog was Rub 1.6 billion.

Revenue was down to Rub 1.4 billion, compared with Rub 1.8 billion for 2018FY. EBITDA was Rub (29) million, compared with Rub (138) million last year.

/// financial & operational overview

/// working capital and capital expenditures

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 3Q 2019 | Change qoq |
|-------------------------------|---------|---------|------------|---------|---------|------------|
| Working capital | 8,846 | 9,115 | -3% | 8,846 | 11,522 | -23% |
| Working capital / Revenue LTM | 17.2% | 17.3% | | 17.2% | 20.1% | |
| Capex | 1,571 | 2,335 | -33% | 367 | 403 | -9% |
| Acquisition | 670 | (112) | | - | - | |

working capital and capital expenditures

Working capital was Rub 8.8 billion, down by 3% yoy, compared with Rub 9.1 billion for 2018FY. As a share of revenue, working capital slightly declined to 17.2%.

Capital expenditures were Rub 1.6 billion, down by 33% yoy, compared with Rub 2.3 billion last year, as the result of the implemented austerity measures.

debt position

Total debt increased to Rub 24.3 billion, up by 25% yoy, compared with Rub 19.5 billion for 2018FY. Net debt was Rub 14.4 billion, up by 9% yoy, compared with Rub 13.2 billion for 2018FY.

Net debt to EBITDA LTM ratio increased to 2.98x compared with 1.99x last year.

shareholding and HMS GDRs

In December 2019, the major shareholder of HMS Group, JSC HMS Holding ("HMS Holding"), completed the process of cancellation (disposal by HMS Holding) of 2,924,207 global depositary receipts issued under the Company's depositary receipts program representing 14,621,035 shares in the Company (the "Underlying Shares") and withdrawal of (acquisition by HMS Holding of) the Underlying Shares from the depositary (the Bank of New York Mellon) in the name of HMS Holding (the "Conversion").

As a result of the Conversion, HMS Holding retains full control over the majority shareholding in the Company being a direct holder of 71.51 percent of the Company's issued share capital, and, consequently, the Conversion neither triggers an obligation of the Company or HMS Holding to make any mandatory offer to the GDR holders, nor lead to any change in corporate governance of the Company.

/// debt position

| RUB mn | 2019 FY | 2018 FY | Change yoy | 4Q 2019 | 3Q 2019 | Change qoq |
|-----------------------|---------|---------|------------|---------|---------|------------|
| Total debt | 24,321 | 19,458 | 25% | 24,321 | 21,115 | 15% |
| Net debt | 14,369 | 13,163 | 9% | 14,369 | 16,960 | -15% |
| Net debt / EBITDA LTM | 2.98 | 1.99 | | 2.98 | 2.98 | |

significant events after the reporting date & financial management

large contracts

After the reporting date, HMS announced the signature of a large compressor contract with PAO NOVATEK, to deliver main compression units to the Obsky LNG processing plant.

debt refinancing

In February 2020, the Group made a full Rub 3 billion redemption of its bonds, issued in 2017, at 100% par value. In 4Q 2019, HMS Group attracted Rub 3 billion bank credit, that was deposited, for this bonds redemption.

covid-19 and fall in oil prices

Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

In addition to that, in March 2020, oil prices dropped by more than 40%, which resulted in immediate weakening of Russian Rouble against major currencies.

Management considers the outbreak of COVID-19 coronavirus infection and the reduction in oil prices to be non-adjusting events after the reporting period.

The Group developed a stress scenario of the possible impact of the current operating environment on the Group's business, including the analysis of possible deviations in execution of large contracts, included in the Group's budget for 2020, as well as assessment of probability of reduction in revenues on recurring business, the analysis of factual liquidity and debt position of the Group at the date of issuance of these consolidated financial statements, its future expected cash inflows and outflows and the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.

- i.

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solutions as well as pumps built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.
- ii.

The oil and gas equipment and projects business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.
- iii.

The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.
- iv.

The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.

2019 calendar of events

january

- The major shareholder of HMS Group, H.M.S. Technologies Limited, transferred 2,000,000 (two million) ordinary shares in HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC comprising 1.7070 percent of the total number of shares in its share capital to JSC HMS Holding, the subsidiary undertaking of H.M.S. Technologies Limited, in the form of the shareholder's asset contribution for nil consideration. This transaction was completed as part of the ongoing restructuring of the core shareholders' shareholding in the Company and does not lead to any change in their effective interest in the Company.

february

- Apollo Goessnitz GmbH participated in the Egypt Petroleum Show that took place within February 11–13 in Egypt International Exhibition Center (Cairo). At the exhibition the company exposed models of the pumping equipment product line for oil and gas upstream, midstream and downstream. All the equipment is compliant with widely recognized industry standards and highly esteemed by the customers for reliability and great operating performance.

Apollo Goessnitz presented the following equipment:

- KRH/KRHA series overhang radially split process pumps (type OH2, API610) that features low operational costs and ease of maintenance due to back pull-out design with de-mountable coupling and retrofittable runners;
- AMG series between bearing axially split process pumps (type BB3, API610) featuring high reliability low vibration due to back to back impellers design;
- TL/TG series barrel multistage radially split process pumps (type BB5, API610) with cartridge pull-out that enables changeover of inner case on-site without dismantling the outer case.

- HMS Group repurchased 1,200 of its global depositary receipts representing 0.01 percent of the Company's issued share capital during the period from February 4, 2019 up to and including February 8, 2019. Since the start of the programme, the Company has repurchased 1,144,769 GDRs in total (representing 4.89 percent of its issued share capital).

march

- The major shareholder of HMS Group, H.M.S. Technologies Limited ("HMST") registered at Cyprus, transferred its entire shareholding in the Company to JSC HMS Holding ("HMS Holding"), registered at Russia, the subsidiary undertaking of HMST, via the following transactions:

- HMST transferred 67,159,421 ordinary shares in the Company (comprising 57.32 percent of the Company's issued share capital) to HMS Holding in the form of the shareholder's asset contribution for nil consideration;
- HMST transferred 2,924,207 global depositary receipts issued under the Company's depositary receipts program ("GDRs") (representing 14,621,035 shares in the Company and comprising 12.28 percent of the Company's issued share capital) to HMS Holding in exchange for additionally issued shares in HMS Holding.

As a result of this restructuring:

- HMS Holding became a direct holder of 69,159,421 ordinary shares in the Company and 2,924,207 GDRs comprising in aggregate 71.51 percent of the Company's issued share capital; and
- HMST remains the sole voting shareholder of HMS Holding retaining control over the majority shareholding in the Company, and

consequently none of the transactions made as a part of the restructuring triggers an obligation of the Company, HMST or HMS Holding to make any mandatory offer to the GDR holders.

This restructuring of the core shareholders' shareholding in the Company did not lead to any change in corporate governance or corporate control of the Company. All applicable regulatory approvals have been obtained in connection with this restructuring.

- HMS Group repurchased 59,380 of its global depositary receipts representing 0.55 percent of the Company's issued share capital during the period. Since the start of the programme, the Company has repurchased 1,204,149 GDRs in total (representing 5.14 percent of its issued share capital).

- One of HMS' managers acquired 14,500 of HMS Group's GDRs using his own funds

- Three screw compressor systems made by KKM were placed in pilot operation as part of a new associated petroleum gas (APG) compressor station at the preliminary water knock-off unit No. 34 (Bashneft-Dobycha) under the target program of APG utilization increase implemented by ANK Bashneft.

The TAKAT compressor systems with a unit capacity of 2,329 Nm³/h and discharge pressure of 7 bar are based on single-stage oil-injected screw compressors with a common lube oil system. The systems have block-container design and equipped with 200 kW electric motors as well as automation system operated from a separate room. These systems were designed and manufactured in accordance with the requirements of international (API 619) standards

///2019 calendar of events

april

● HMS Group participated in the 23rd International Exhibition of machines and equipment for mining, processing and transportation of minerals MiningWorld Russia 2019. The HMS Group exposition featured the pumping equipment for the main processes of the mining industry, including a new HDP series slurry pumps with capacity up to 8,000 m³/h and head up to 100 m for abrasive hydraulic mixtures with solids content up to 200 mm. The exposition also included the samples of the new advanced pump series:

- DeLium – new generation double suction pump for process water circulation systems
- VVN water-ring vacuum pump for steam-gas mixtures removal in the ore processing
- Sidus submersible drainage pump for transfer of liquids with a high content of solid particles
- 2NK overhung pump for chemical solutions supply in the ore dressing process

● HMS Group repurchased 133 of its GDRs. Since the start of the buyback programme, the Company has repurchased 1,204,282 GDRs in total (representing 5.14 percent of its issued share capital)

● One of HMS' managers acquired 975 of HMS Global depositary receipts using his own funds

● HMS Group signed two contracts to deliver gas transportation units worth Rub 4 billion. The manufactured equipment is to be delivered by the end of 2019

june

● KKM completed testing of the main gas compression system manufactured for NOVATEK's "Arctic Cascade" liquefied natural gas (LNG) production technology. The system was designed to operate in the natural gas liquefaction complex of the 4th stage of Yamal LNG project. The integrated compressor unit consisting of three centrifugal compressors designed to handle three process gases (methane, nitrogen and ethane). All three compressors are driven by a single Russian-made 25 MW gas turbine through a multi-shaft gearbox with one input and three output shafts. One of the compressors is designed as a multi-shaft unit of five compression stages

july

● Fitch Ratings affirmed JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDR)s of "B+", the outlook "Stable". The full text of Fitch's press release is available on the agency's website <https://www.fitchratings.com/site/pr/10084287>

august

● HMS signed a contract to engineer and procure compressors and complementary equipment worth Rub 1.7 billion to a compressor station. The manufactured equipment will be delivered in 2020.

● HMS signed a contract to engineer and procure gas transportation units worth Rub 3 billion to a gas booster station. The manufactured equipment will be delivered in 2020.

september

● HMS signed a contract to engineer and procure gas transportation units worth Rub 2.3 billion for an oil & gas condensate field. The manufactured equipment will be delivered in 2020

● HMS signed Euro 16 million contract to engineer and procure compressors for an oil processing plant in Russia. The manufactured equipment will be delivered by the end of 2020

● HMS signed two contracts to engineer and procure nuclear pumps and pump-based solutions worth a total Rub 1.9 billion. The manufactured equipment will be delivered in 2021-2022

● HMS signed two contracts to engineer and procure oil & gas equipment worth a total Rub 1 billion. The manufactured equipment will be delivered in 1H 2020

● HMS Group refinanced a number of credits worth a total Rub 5 billion with payment due in 2020-2021, shifting repayment dates to the 2022 year. Average interest rate of refinanced credits was decreased on 0.21 percent

october

● HMS signed a contract to engineer and manufacture gas transportation units worth Rub 6.1 billion. The equipment is to be delivered in 2021.

● The company and PAO NOVATEK signed the Memorandum on Strategic Partnership, which aims the further development of mutual cooperation in a field of design and manufacture of first-of-its-kind-in-Russia equipment for LNG projects. The Memorandum set the general principles and main directions of mutually beneficial cooperation. It composes the long-term intention of the Parties to pursue a wide-scale cooperation to localize the manufacturing of compressors, pumps and other equipment for NOVATEK's LNG projects.

Taking into account a successful experience of cooperation between HMS Group and NOVATEK on design and manufacture of the key compressor-based equipment under the "Arctic cascade" technology (home-grown technology of natural-gas liquefaction, which was developed by NOVATEK), the Parties fixed their mutual interest in cooperative development of new types of high-performance equipment for natural-gas liquefaction as well as further localization of equipment for large-capacity LNG projects and their raw-material base.

Prioritized directions of cooperation, fixed in the Memorandum, comprise design, manufacture and testing of hi-tech pumping and compressor equipment, including submersible cryogenic LNG-unloading pumps, as well as column, heat-exchanging and vessel equipment for natural-gas treatment and liquefaction units.

december

● The Group signed Rub 2 billion contract to deliver gas transportations units

● HMS signed a Rub 1.4 billion follow-up contract to a recently signed Rub 3 billion compressor contract. The manufactured equipment will be delivered in 2020

● KKM produced and delivered a centrifugal compressor system with a capacity of up to 1 Mtpa for a LNG complex in Sabetta (Yamal-LNG, NOVATEK)

HMS key projects, development & innovations

export activities

Export sales revenue of HMS Group outside the FSU has reached US\$ 56 million including international nuclear power plants projects, showing steep 37% yoy increase versus a previous year.

Adding up sales revenue from projects involving international EPC companies in Russia and the CIS of US\$ 12 million makes total HMS export sales revenue figure equaling US\$ 68 million, i.e. 103% of the HMS Group Export Sales strategy adopted by the HMS Board of Directors in 2016.

Signing in 2019 high value contracts in Persian Gulf/ MENA region has anchored considerable export sales revenue backlog for 2020 amounted in c. US\$ 90 million , including international nuclear power plants projects that keeps export sales growth pace at the challenging level of over 30% yoy compared to 2019.

In 2019, Export sales directorate has broadened the export sales product portfolio starting sales of centrifugal compressors and static equipment for international EPC projects in Russia.

56mn

^ 37% yoy

Export sales revenue → US\$

30% yoy

^ in 2019

export sales growth pace → %



HMS Group follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements on the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.



research and development

PUMPS

In 2019, the company set up smelting of high-alloy nickel cast iron, analogy of foreign Ni-resist ASTM A 436 cast iron. Production of wetted part casting from this kind of cast iron will allow improve operating properties of pumps and increase their performance life in aggressive environment.

Nuclear power generation

HMS Group developed the technology of production of pump body castings, where ceramic running system with siphon CFF¹-filtering of liquid melt input was used. This technology will be used in production of AS-1D200-90-A pumps for nuclear power plants, which will have the safety class 2.

The produced two units successfully passed all non-destructive control tests.

Sewage water

HMS Group continues to expand the range of standard sizes of mass-produced rotor-dynamic pumps intended for sewage water, type CD. Centrifugal CD pumps and electric pump units, made on their base, are used for urban and industrial waste waters and other non-aggressive liquids with a possible additions of petroleum products of max 2 percent.

| | Capacity (rated), m³/h | Head, m | Pressure at the pump inlet, MPa, maximum | Power consumption of the pump (max.), kW | Rotational speed, rpm | Positive suction head, m, maximum |
|--------------|------------------------|---------|--|--|-----------------------|-----------------------------------|
| CD 100/40 | 100 | 40 | 0.25 | 26 | 2,900 | 9.0 |
| CD 100/40a | 90 | 32 | 0.25 | 20 | 2,900 | 9.0 |
| CD 100/40b | 80 | 28 | 0.25 | 17.8 | 2,900 | 9.0 |
| CD 250/22,5 | 250 | 22.5 | 0.25 | 32 | 1,450 | 5.0 |
| CD 250/22,5a | 225 | 18.5 | 0.25 | 26 | 1,450 | 5.0 |
| CD 250/22,5b | 205 | 16 | 0.25 | 20 | 1,450 | 5.0 |

¹ CFF – ceramic foam filter, is used to remove inclusions which are generated between the refining system and the mold table. The ability of the ceramic foam filter to capture these inclusions is critical to maintaining a clear ingot during to solidification of metal.

///HMS key projects, development & innovations

Liquid-packed ring vacuum pumps

HMS Group continues to expand the range of mass-produced liquid-packed ring vacuum pumps of VVN type and started the serial production of VVN2-50 pumps. These pumps and units, made on their base, are applicable in petrochemicals, metals & mining, pulp & paper industries, agriculture, construction and medicine. The pumps are intended for exhaustion of air, water-insoluble inert or aggressive gas, depending on the flow part's material, to create or maintain vacuum. The pump is produced in 3 standard sizes: rotational speed of 500 rpm, 600 rpm and 750 rpm with 40m3/hour, 50m3/hour and 60m3/hour ensure capacity respectively.



OIL & GAS EQUIPMENT

Thermo-Chemical Binary Mixture Technology (TCBXT)

In 2016-2018, HMS Group was developing the technology and the equipment complex for thermo-chemical and oil-and-gas-bearing formation treatment, with the aim of increasing hydrocarbon production and restoring the ecological environment on oil and gas fields, instead of using the foreign technology of proppant-gel fracturing. The project was being carried out in cooperation with Tyumen State University and the Institute of

Biochemical Physics of the Russian Academy of Sciences in accordance with a contract with the Ministry of Education of the Russian Federation.

In 2019, the Group concentrated on promoting and commercialization of the new technology. Also, the company acquired the industrial patent # 2696714 for a thermochemical treatment of oil-and-gas-bearing formation.

HMS aimed at oil & gas companies, which expressed interest in the implementation of the new technology. As an example, PAO "Tatneft" signed the first commercial contract to treat 10 wells on a number of its oil & gas fields.

The company entered into cooperation with the Kazan University regarding conduction of laboratory and stand research of different binary systems under diverse reservoir conditions. Also, in Tyumen, HMS organized laboratory experiments, laboratory and stand testing of cores, subsamples of crude oil and oil-field water.



Mobile Secondary Reference Metrology Complex

In 2019, HMS continued research and development upon an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex mounted on a cross-country chassis.

The new Mobile Metrology Instrument will allow oil & gas companies to calibrate online metering units, without interruption of hydrocarbons' extraction, thus lowering costs of extraction.

The company successfully completed the following project's milestones:

- Completion of 3D-model and the electronic paste-up of the unit;
- Completion of research testing of the electronic paste-up. Completion of simulation of circulation of multi-phase flows inside the complex's elements. Evaluation of working effectiveness of the complex;
- Completion of engineering analysis of the complex's core elements by the finite-element method;
- Development of design & operational and design & technological documents;
- Completion of a design of a crude oil analyzer. Completion of its 3D-model and corresponding engineering analysis;
- Completion of development of the complex's APCS software.

Hydromechanical drive for sucker rod pumping units

The main advantages of the hydromechanical drive developed by HMS Group are:

- No need to redevelop an oil-well for an offered technology;
- Release of sucker-rod-pumping-unit foundation land, improvement of the environmental security of surface management (elimination of oil product leaks through seals and stuffing-box seals of a rod);
- Reduction in metal consumption during replacement of the obsolete rocker-machines fleet;
- The no-sucker-rod enables mechanical dewaxing of a lift;
- Increase in pumps' volumetric efficiency, improvement of oil recovery efficiency, decreased level of power consumption;
- Option to use downhole-to-surface telemetry with online output to a dispatcher console with controllability of the main well

measures (pressure, temperature, etc.);

- Conversion of wells from periodic to constant duty;
- Operation of wells with high content of aromatic hydrocarbons, gas and solids.

In 2019, HMS Neftemash continued the project on a rodless oil extraction mechanism. Following the results of the factory acceptance testing, the company modernized and put the finishing touches to the mechanism:

- Implemented an additional fine filter in a delivery line of a hydraulic unit to enhance reliability of the unit and a hydraulic motor;
- Increased a diameter of a transmission shaft of a protector module to 25 mm for its vibration isolation at a high idle;
- Upgraded an axial piston pump, which complies with technological and weight-size requirements

A pilot run was coordinated on a number of oil & gas fields.



///HMS key projects, development & innovations

COMPRESSORS

Compressor units for NOVATEK

HMS Group continues to expand As part of the import-substitution program, Kazankompressormash developed a number of compressor unit for NOVATEK.

The main gas transportation unit for NOVATEK’s 4th stage of the Yamal LNG project. The unit consists of three centrifugal compressors and is intended for compression of three technological flows: feed gas, nitrogen and ethane. All three compressors are driven by a single 25 MW gas turbine, made in Russia, though a multi-shaft gearbox with one input and three output shafts. One of the compressors was designed as a multi-shaft unit of five compression stages.

The first-of-its-kind solution makes it possible to reduce the mutual thermodynamic impact of compression stages and reduce significantly the overall dimensions and the mass of the entire compressor system of the LNG production complex. All elements were designed and produced in accordance with the API standards and were completed with a local automatic control system.

HMS Group designed and manufactured a centrifugal compressor system with a capacity of up to 1 mtpa for Yamal-LNG. The complete boil-off gas compressor system is intended to compress a boil-off gas flow and supply into feed gas, which is to be liquefied. The 6.87 MPa discharge pressure system is designed in accordance with the API 617 and ASME PTC-10 international standard requirements and is capable to operate on a cold gas.



The system is designed under the “Arctic Cascade” technology patented by NOVATEK, and it helps to reduce the capital costs and develop the engineering base for LNG projects in Russia through the domestic equipment application.

Compressor impellers

Kazankompressormash began embracing of alternative technologies of production of self-balancing unicycle (compressor impeller). Today, impellers are cut from a unitary block of a forging, which means a low capacity ratio and a high level of labour inputs. The time period from a project to a developmental prototype made in metal takes 120 days.

In 2019, Kazankompressormash implemented the additive manufacturing technology, 3D printing. The new technology shortened the time period from a project to a prototype to 10 days.

The printed and tested impeller was produced from titan in accordance with the method Selectiv. During the overspeed test, the pilot compressor impeller was put on the maximum 23,500 rpm, and didn’t demonstrate any configuration’s changes or defects in the form of cracks in the metal.



ENGINEERING

In 2019, GTNG started active development of a new activity area – Process engineering in oil and gas processing, oil extraction and petrochemical industry, where the facility provides with the full range of services:

Project activities:

- Concept development
- Preparation of a technical inquiry
- Preparation of a business case and a cost-benefit analysis
- Basic design
- Customization of a basic design and FEED according to Russian codes and standards
- Preparation of documents to assessment of environmental impact
- Project approval by the Russia’s State Expert Evaluation Department
- Project approval by the Russia’s State Environmental Expertise
- Detailed design
- 3D-project design
- Update of 3D-project design to “As built”

Project management:

- Interaction with the leading world licensors
- Analysis, comparison and selection of the best possible technology
- Organization of complex engineering surveying
- Preparation of land surveying documentation
- Development of the project’s specific technical specifications
- Interaction with the Russia’s State bodies
- Development and supervision of project schedule and budget
- Construction supervision
- Installation supervision and commissioning works.

In 2019, GTNG completed more than 10 innovative research projects for Russia’s oil & gas companies, and patented the invention “Method of individual-group metering of the oil well cluster’s product flow and the metering system”. Also, GTNG was ranked the best regional “Innovative company of the Year”.



LEGAL PROTECTION OF INTELLECTUAL PROPERTY

HMS’ current operating portfolio consists of more than 300 objects of intellectual property, including 241 patents, 31 registered computer programmes, and 54 registered trademarks.

In 2019, the company received exclusive rights to 12 inventions and utility model patents, and filed applications for 9 patents including the international PCT procedure.

300

^ current operating portfolio

Objects of intellectual property → amount

12

^ in 2019

New registered inventions and utility model patents → amount

modernization

PUMPS

Machining

In 2019, HMS Livgidromash continued modernization of its machining production shop and placed in operation a CNC¹ lathe machining center PUMA V8300MR developed by DOOSAN (South Korea).

The vertical turning center is intended for heavy duty and high precision cutting over long-term operations, including cutting of large diameter workpieces and complete milling, drilling and tapping operations in a single setup. The facility uses the center for processing of pump bodies, seal cases, impellers and bearing caps. Since the center was placed in operation, the labour intensity of details processing decreased by 16.2%, and the machining quality of pump parts significantly improved.

Also, the facility placed in operation a CNC lathe machining center PUMA 2600B developed by DOOSAN as well. This high-performance and multifunctional turning center is intended for fine turning, milling, drilling and screwcutting of stainless, tempered and heavy-duty materials.

Since placed in service, the labour intensity was down by 9.2%.

In 2019, the facility purchased a 4-plate roll bending machine HRB-4 2035 developed by DURMA. After it is placed in service, HMS Livgidromash will be able to produce circular rings, conical billets and other radius parts from sheet materials 20-60 mm thick and up to 2,050 width. Commissioning of this roll bending machine will allow production of circular rings for further manufacturing of heavy bodies for pumps used in petrochemicals, nuclear power generation, etc. The facility plans to start its industrial use in 1H 2020.

In 2019, Livnynasos was equipped with two new CNC horizontal lathe machining centers PUMA 2600Y by DOOSAN, that allowed to reach the new level of precise and high-quality surface machining. These centers are utilized for complex mechanical machining of pump parts with simultaneous milling, drilling and tapping, that significantly decreased labour intensity and excluded additional movement of parts between drilling and milling machines.

Also, the next step in sophistication of the facility's production process was the implementation of a CNC vertical turning machine EMAG VL-2 (Germany) intended for machining of space sleeves of ECV 8 pumps. The utilization of the center improved preciseness and quality of parts, i.e. reliability of pump parts' friction.



In 2019, the Ukrainian facility of HMS Group, NEM, placed in operation a multifunctional CNC machining center SKODA HCW 1. The center provides with high precise complex machining of bodies and caps, pump cradles, and other pump parts and pieces.

Colouring and Dyeing of metals

NEM installed a spay booth with inside dimensions 6990x4500x3000mm. The booth is equipment with an intake-outtake air filtering system as well as coloring & dying temperature monitoring system. Due to the full insulation of coloring and dying from other kinds of work, the facility reached the high quality of anti-corrosion coating.

16,2% yoy

✓ in 2019

labour intensity of details processing → %

COMPRESSORS

Foundry

Kazankompressormash continued an investment project on the foundry re-equipment to create the modern foundry complex on its base. The modernization will expand the range of sizes and materials and enhance quality and accuracy of production the castings of a wide range of alloys, including the steel ones of a large size. The smelting complex comprises three furnaces made by EFAS (Turkey) with 8, 6, and 3 tons capacity, which are automatically operated and have an option of gas purging through a molten metal. The new shot-blasting machine made by Tachtech (Czech) with an overhead conveyor for the large castings shorten finishing operations time by three times.

A complex of four heat-treating furnaces with a total capacity up to 90 tons was put into pilot operation also. The heat-treating complex allows heat treatment of castings, forgings, assemblies and other large-sized parts with an in-process temperature range from 550 to 1200°C.

The foundry complex is intended, primarily, for production of large-size castings and is capable of simultaneous smelting up to 17 tons of liquid metal to produce high-quality steel castings with weight up to 9 tons and cast iron castings with a weight up to 13 tons.

The facility expect to complete the third stage of the upgrade by the end of 2020, that comprises foundation of the molding area for large-sized castings and a pattern shop equipped with three- and five-axis machining centers.

¹ CNC – computer numerical control

corporate social responsibility

primary areas of social policy

Social development policy and providing adequate living standards and normal working and life conditions for HMS' employees.

The company has developed and implemented collective agreements, in-house policies and acts, which reflect social welfare issues, benefits, compensations and guarantees granted to the employees, including:

- Hardship-duty pays;
- Preservation of average earnings after transfer to easier work;
- Pecuniary aid in the event of the worker's death;
- Pecuniary aid for medical treatment, and purchase of expensive pharmaceutical drugs;
- Bonus payments to veterans;
- Maternity coverage on monthly basis;
- Additional holidays in case of significant events, and for continuous service with the company;
- Pecuniary aid to non-working veterans, including for public holidays;
- Events to support young people.

Support and building heritage:

- Honoring HMS' veteran workers on Machine Builders Day ;
- Meetings with mentors;
- Professional skill competitions among young workers;
- Honoring best workers;
- Meetings of veteran workers (former employees) with the colleagues.

Local life

HMS Group fully participates in the local life of the regions where its facilities operate:

- Taking part in local creativity competitions, cultural, sport, charity and other events;
- Holding festivals;
- Helping schools, hospitals, childcare centres and religious organisations.



The company continues to sponsor one of its engineers, **Mr. Nikolay Kuzovlev**, the leading Russian athlete in Ice Climbing. In 2019, he clinched the Ice Climbing World Cup.

In 2019, HMS Group took part in the Awards "The most socially responsible company in the oil & gas industry of Russia" hold by the Ministry of Energy of Russian Federation. The goal of the Awards was to promote social policies of fuel-and-energy companies, identify and survey the most active socially responsible companies, which reached a high efficiency in accomplishment of social tasks, improvement of quality of employees' work environment and life, and to popularize the oil and gas industry.

HMS Group won in nominations "Interaction with professional education institutions. 10 to 100,000 work force company" and "Employees' motivation and building their loyalty. Additional benefits granting to employees".

safety and health

HMS Group believes that achieving its strategic goals and maintaining its competitive advantages requires systematic management of labor health protection and the prevention of industrial injury and professional illness. Production facilities introduce modern methods of accident prevention and maintain hygiene and sanitary conditions, which prevent professional illnesses and ailments driven by workplace factors.

On this basis, the company set up four main goals in the area of labor health protection and accident prevention:

- 1.** Prioritisation of its employees' health and safety over business performance results and continuous improvement of work conditions and labor health protection at every working place.
- 2.** Significant decrease of risks of industrial traumatism and professional illness of the company's employees:
 - Regular medical examinations, and availability of stationary medical and feldsher's stations.
 - Issuance of free personal protective equipment, including work clothes, safety shoes and other personal safety apparel. The special commissions at HMS' facilities analyse the given personal safety apparel on a regular basis and examine novelty products, which appear on the market.
 - Issuance of milk to employees with harmful working conditions, etc.

We promote and encourage a healthy lifestyle, not only because it helps to maintain a productive and positive workplace, but also because it is the right thing to do.

3. Compliance of HMS' activities in the area of labor health protection with the requirements and expectations of all interested parties, and with rules and regulations, established under legislation and normative technical documents:

- Regular examination of industrial safety, and
- Regular training in the area of industrial safety.

4. Establishment of personal responsibility by company employees of all levels for meeting all labour health protection requirements accurately and in a timely manner. Also, HMS actively engages its employees while developing in-house documentation, which determines the regulations of implementation and realisation of the labor health safety system.

/// corporate social responsibility

charity and social assistance

The company believes in its responsibility for social and economic climate in regions where it operates, takes part in social projects and programs, among other things on a voluntary pro-bono basis. The charity activities are realized in the form of public private partnership aiming sustainable development of the company and the region, where it operates.

HMS Group focuses on helping children who are in need of medical treatment, as well as children in need of social and professional assistance. These projects are realised through:

- Social support and protection of citizens, including improvement of the financial position of the indigenous peoples, social assistance to the unemployed, the disabled and other disadvantaged groups who, due to their specific physical or intellectual condition or other circumstances, are unable to implement their legitimate rights and interests by themselves;
- Promoting the prestige and the role of the family in society;
- Promoting the protection of motherhood, fatherhood and childhood.

HMS Group forms the charity program based on an opinion of experts, heads of regional social agencies as well as selected fiduciary boards. The company doesn't make any independent monitoring of social situation in the presence regions.

Besides targeted aid to schools, foster homes, indigenous people and others, the Group continues being one of the main sponsors of The Tatarstan Judo Federation.

Every autumn, the festivals of professions are hold for 6-11 class pupils in Russia's regions. These are the main events as a part of the project "Ticket to the future", and are hold by the international organization, WorldSkills International. **The "Ticket to the future" is the leading educational platform in the form of professional tests, that unites pupils, industry experts, teachers and career-guidance specialists.** The workshop consists of several clusters: Health, Urban environment, IT, Novel materials, Transport, Agriculture and Power generation. The career-guidance is given in the form of practical training under tenure of an experienced mentor.

The employees of HMS Neftemash participated as experts in this event for the first time, and represented the facility in the cluster "Novel materials". They told pupils about modern technologies, used for production of metal work and steels test methods, which won't fade in the future. Also, the experts demonstrated capabilities of HMS Neftemash modern lab equipment. More than 400 pupils received the basic skills of work with the lab equipment, including operational principles of a spectrometer.



As a part of strategy to develop the corporate culture and internal communications, HMS Group hold a number of social events, such as the Pancake Week, Victory day, New Year celebration, volunteer clean-ups and environmental campaigns.

On the yearly basis, HMS' facilities hold sporting competitions with participation of all organization units in checkers, kettlebell lifting, shooting, ski, biathlon, running, and other kinds of sport.

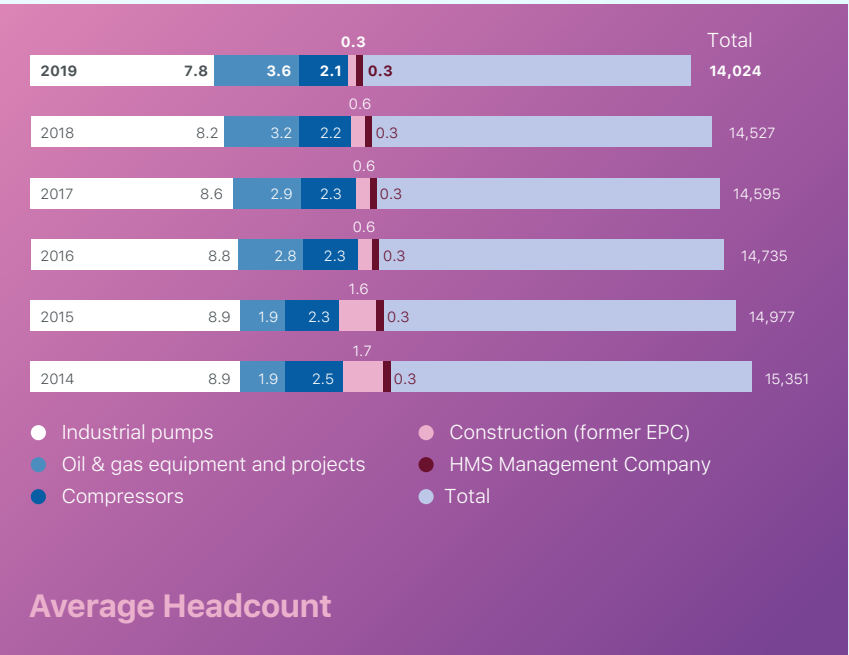
the environment

In general, the environmental impact of our production facilities is low due to the business specifics. Nevertheless, the management and personnel of HMS Group fully recognise their responsibility to nature and to future generations. The company continues to work on developing and selling energy-efficient products and service solutions. Apart from that, HMS Group set the following environmental goals, which are critical in the company's view:

- Reducing emissions of harmful substances into the atmosphere;
- Abating waste water pollution;
- Improving waste management in the area of reducing waste and curbing adverse environmental impact;
- Developing and widely using waste-free technologies in industrial processes;
- Rational usage of raw materials, environmental items and energy;
- Improving HMS' image in this sphere.

HMS Group's facilities conducted quarterly surveys of emission of harmful substances into the atmosphere and evaluations of the effectiveness of dust and gas catchers. The company conducted an examination of emission sources, revised a draft of maximum permissible emissions, received new permits for air emissions, and developed a set of actions to decrease the level of pollutant emissions under unfavourable weather conditions. For the last three years, no excess of the maximum allowable pollutant emissions has been discovered.

The Group's production facilities conducted chemical and microbiological analyses of natural surface water and waste storm water on a quarterly basis, and spillover tracking of storm water on a monthly basis.



people

As an employer of 14 thousand people, HMS is one of the major job creators across the cities where its facilities are located. Employees are one of HMS Group's core assets, and the company encourages them and assists them in achieving their full potential.

In 2019, HMS continued staff training and education, with a focus on the areas of accounting and functional education.

As part of the national project "Workforce productivity and employment support", KKM placed 14 core operations executives for a "Productivity leaders" training and 1 executive for "Export growth accelerator" training. Also, KKM took part in the federal project "The Older generation", and as part of this project placed 30 soon-to-retire employees for skills training and additional skills training. Also, the facility held "Lean management" and "Effective management of large projects" trainings for top-management and core operations executives.

HMS Neftemash placed 1,216 employees for skills training and reskilling. 149 of them were placed for training under the "Workforce productivity and employment support" federal program. 734 employees were placed for training as a part of the internal technical instruction.

Sibneftemash placed 236 employees for all kinds of trainings, including targeted skills improvement. 187 employees were placed for training under the "Workforce productivity and employment support" federal program.

In 2019, the average headcount decreased by 503 people (-3.5% yoy) mainly due to the Industrial pumps personnel optimization and a decrease in the Construction because of business downturn. Oil & gas equipment and projects grew because of the asset, acquired at the beginning of the year.

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governance

board of directors

Good governance generates trust and engagement between a company and its stakeholders and contributes to the company’s long-term success. Accountability, integrity, transparency, fairness, equity, sustainability and ethics are all fundamental values of good governance.

The Board of Directors of HMS Group is committed to the highest standards of corporate governance and aims to ensure on an ongoing basis that the Company is a modern, transparent, competitive and sustainable organization. By adopting best practices in corporate governance and corporate administration, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to the successful implementation of its strategy.

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.

HMS Group continues to review its corporate governance policies in line with international best practice.

performance

General Overview

As at 31 December 2019, the Board comprised of nine (9) Directors: the Group Chairman who was independent on appointment, three (3) Executive Directors and five (5) Non-executive Directors. During the year ending 31 December 2019, Mr. Vyacheslav G. Tsoy was appointed as a Director of the Company by the Board of Directors.

Chairman

Mr. Nikolay N. Yamburenko

Chairman of the Board of Directors, Non-Executive Director, Chair of the Strategy and Investments Committee

Mr. Yamburenko was appointed as a member of the Board of Directors in October 2010. He has been a non-executive member of the Board of Directors since 10 July 2014, when he was appointed Chair of the Board of Directors.

Mr. Yamburenko previously held the position of Head of the Industrial Pumps Business Unit from 2005. Prior to joining the Group, Mr. Yamburenko was the CEO of Livhydromash (HMS Pumps), which is now part of the Group. Mr. Yamburenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of the Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

Executive Directors

Mr. Artem V. Molchanov

Member of the Board of Directors, Managing Director (CEO)

As one of the founders of the Group, Mr. Molchanov has held various executive positions within the HMS Group since its establishment in 1993. Mr. Molchanov became the President of the HMS Group in 2008 and was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov has more than 20 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics), where he gained a degree in industrial economics.

Mr. Kirill V. Molchanov

Member of the Board of Directors

As one of the founders of the Group, Mr. Molchanov has held various executive positions within the HMS Group since its establishment in 1993. Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010 and has served as Vice President of the HMS Group since 2008. Mr. Molchanov has 20 years of industry experience. He graduated from the Bauman Moscow Higher Technical School (currently the Bauman Moscow State Technical University) with a degree in electromechanical engineering. He graduated from the Judge Business School, University of Cambridge with an executive MBA degree.

Mr. Yury N. Skrynnik

Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Compressor Business Unit, a position he has held since its establishment in 2012. Previously, Mr. Skrynnik held the position of Director for Strategic Marketing. Prior to joining the HMS Group, he served as the Chief Representative of JSC "Sumy Frunze NPO" (Ukraine) in Russia from 1999 to 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of "Machines, Equipment, Technologies, Products and Services" Ltd. from 1992 to 1999. He served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) from 1986 to 1988. Mr. Skrynnik has more than 20 years of science and management experience. He graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and creator of 20 inventions.

Non-executive Directors

Mr. Ezio Vergani

Member of the Board of Directors, Chair of the Audit Committee

Mr. Vergani was appointed as an independent non-executive member of the Board of Directors in June 2018.

Mr. Vergani is the owner and the President of Asco Pompe, an Italian company which produces, distributes, supplies and integrates products and technological systems for fluid handling, monitoring and water treatment. Prior to joining Asco Pompe, from 1985 to 2008, Mr. Vergani was the CEO and major shareholder of Finder Pompe, one of the European leading companies in the design and manufacture of engineered pumps and systems for oil & gas. Mr. Vergani has received a Master’s degree in Mechanical Engineering from the Politecnico University of Milan, Italy and the Executive Program Certificate of the Stanford Business School, Palo Alto, California, USA. He has served as a Board member in Confindustria Lecco since 2014.

Mr. Andreas S. Petrou

Member of the Board of Directors

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2010. From 1989 to 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing the interests of the Government of the Republic of Cyprus. From 1987 to 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law firm. He is an honours graduate of the Law School of Democrius University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

///board of directors

Mr. Giorgio Veronesi

Member of the Board of Directors, Chair of the Remuneration Committee

Mr. Veronesi was appointed as an independent non-executive member of the Board of Directors in June 2018.

He has graduated in Chemical Engineering at the University of Padua, Italy and has over 35 years of experience in the international engineering and construction sector. Mr. Veronesi has held various senior positions at leading engineering companies Foster Wheeler, Tecnimont, Siirtec Nigi and Techint.

He has been the Commercial Manager in Techint E&C since 2012.

Mr. Vladimir V. Lukyanenko

Member of the Board of Directors

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in July 2016. He is also the member of the Remuneration Committee, the Audit Committee and the Strategy and Investments Committee. Currently he is the Director General of PROFITPROM LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of Hydraulic Machines LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of the HMS Group. He has served as the Chairman of the Supervisory Board of Sumy Frunze NPO PJSC (Ukraine) from 2003 until 2007. He graduated from Moscow Chemical Engineering Institute (currently Moscow State University of Engineering Ecology) with a degree in machine building in 1991. Mr. Lukyanenko has over 18 years of experience in the industry.

Mr. Vyacheslav Tsoy

Member of the Board of Directors

Mr. Tsoy was appointed as Non-executive Member of the Board of Directors in April 2019. Currently he is General Director of "ITS" LLC, a manufacturer of prefab modular equipment. Prior to joining "ITS" LLC from 2006 to 2011, Mr. Tsoy served the position of analyst and deputy director of capital markets at HMS Group. From 2003 to 2006 Mr. Tsoy was the analyst at "Smith Barney", private wealth management Company. Mr. Tsoy graduated with honors from Drew University, New Jersey, USA with a degree in Economics and Finance in 2003.

principal activities of the board of directors in 2019

The Board of Directors held four meetings in 2019, all of which occurred in Cyprus. During the course of the year, the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategy, including investment plans, M&A activities, budgeting, long-term incentive program for the management of the Company and general corporate development.

At its meetings, the Board of Directors also reviewed other issues connected with the activities of the Company that are within its remit, including the approval of corporate reports.

the board of directors committees

In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the Audit Committee, the Remuneration Committee, and the Strategy and Investments Committee. Each Committee has its own internal terms of reference which set forth its duties and responsibilities, as well as qualifications for Committee membership, procedures for Committee member appointment and removal, Committee structure and operations and reporting lines to the Board of Directors. A brief description of the main activities of these Committees in 2019 is set out below.

Audit Committee

General Overview

As at 31 December 2019, the Audit Committee comprises three independent Directors and is expected to meet two to four times per year. Currently, the Audit Committee is chaired by Mr. Ezio Vergani; its other members are Mr. Giorgio Veronesi and Mr. Nikolay N. Yamburenko.

The Audit Committee is responsible for considering, amongst other matters:

- the integrity of the Group's financial statements, including its annual and interim financial statements;
- the effectiveness of the Group's internal controls and risk management systems;
- auditors' reports on the Group; and the terms of appointment and remuneration of the auditors of the Group.

The Audit Committee supervises, monitors, and advises the Board of Directors on risk management, control systems, and the implementation of codes of conduct. The Audit Committee also supervises the Group's submission 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.

Activities in 2019

Two meetings of the Audit Committee were held in 2019. The main issues that the Audit Committee oversaw during the year were the preliminary review of IFRS financial statements, internal control and risk management (including the audit plan).

The Audit Committee also supervised the internal and external audit procedures, and the implementation of the annual tax strategy within the course of the year. The Audit Committee also made recommendations to the Board of Directors with regards to internal control efficiency.

External Audit of Financial Statements

Every year the Company/Group appoints an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company/Group in compliance with IFRS. The external auditor also prepares reviews of the consolidated interim financial information of the Company/Group in compliance with IFRS requirements. The external auditor of the Company/Group is selected from leading audit firms after a thorough review of their respective proposals. Following the review, the Audit Committee gives its recommendations to the Board of Directors regarding the candidacy of the external auditor and the level of the auditor's compensation and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2019, based on the recommendation of the Audit Committee, the Board of Directors selected Deloitte (Cyprus) to conduct the audit of the financial statements of the Company/Group for the year ending 31 December 2018. Deloitte remains appointed for the 2019 audit.

Remuneration Committee

General Overview

The Remuneration Committee comprises four Directors and is expected to meet at least once per year. Currently, the Remuneration Committee is chaired by Mr. Giorgio Veronesi; its other members are Mr. Nikolay N. Yamburenko, Mr. Ezio Vergani and Mr. Vladimir V. Lukyanenko. The Remuneration Committee is responsible for, amongst other matters, determining and reviewing the Group's remuneration policies. The remuneration of independent Directors is a matter for the Chair of the Board of Directors and the Executive Directors. No Director or manager may be involved in any decisions regarding their own remuneration.

Activities in 2019

Four meetings of the Remuneration Committee were held in 2019. The main matter reviewed by the Remuneration Committee was the development and further implementation of the Group's updated Long-Term Incentive Program as well as the 2019 Program targets and the list of participants. The Remuneration Committee also adopted decisions and made recommendations to the Board of Directors regarding the CEO's contract

Strategy and Investments Committee

General Overview

The Strategy and Investments Committee comprises four directors, one of whom is independent. The Committee is expected to meet at least once each year. Currently, the Strategy and Investments Committee is chaired by Mr. Vladimir V. Lukyanenko and the other members are Mr. Giorgio Veronesi, Mr. Yuri N. Skrynnik and Mr. Nikolay N. Yamburenko.

The Strategy and Investments Committee is responsible for considering, amongst other matters:

- strategic business combinations;
- acquisitions, mergers, disposals and similar strategic transactions involving the Company; and
- fundamental investments of the Company.

Activities in 2019

One meeting of the Strategy and Investments Committee was held in 2019. The main matter reviewed by the Committee was the updated strategy and financial model of the Group.

Directors' Compensation

The total compensation of the Chairman of the Board was Euro 270,115 for the year ended 31 December 2019.

The total compensation of the independent Directors, as set out in the Group's consolidated statement of profit or loss and other comprehensive income, was Euro 260,000 for the year ended 31 December 2019.

Diversity policy statement

The Company operates in accordance with the fundamental principles of equality, diversity and non-discrimination and the Charter of Fundamental Rights of the European Union. All career, training and development opportunities are afforded on the basis of gender, religious and other possible forms of equality. Decisions and policies in respect of remuneration and recognition are similarly based on the principles of equality, merit and ability. In the Board's opinion, this approach, which incorporates equality and diversity as qualitative measures, achieves its aims better than a formal diversity policy focused on quantitative measures, and for this reason the Company does not have a formal diversity policy in place. Nevertheless, the Board maintains a regular review of this position.

risk

management

& internal control

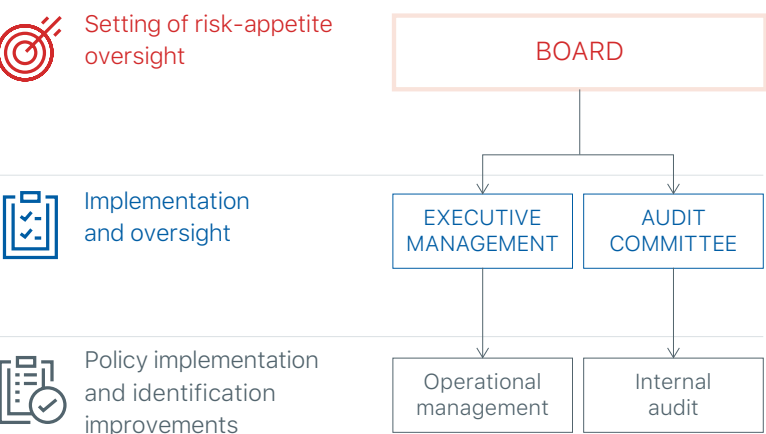
overview

HMS Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. A risk management and internal control system has been integrated into the Group's operations in order to minimise the negative impact of such risks and to benefit from available opportunities.

The overall objective of this system is to obtain reasonable assurance that HMS' goals and objectives will be achieved.

The main principle in the design and maintenance of such systems is that the expected benefits should outweigh the associated costs.

///system of internal control



key features of the internal control system over financial reporting

The Group uses a formal risk management program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks the company faces. Risks are classified according to their likelihood and significance; different strategies are used to manage identified risks. This process is regularly reviewed by the Board in accordance with applicable guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control and risk management monitoring is performed through internal and external assurance providers, which include:

- Financial statement audits performed by external auditors. Discussion by the Audit Committee of the results of the audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters.
- Review and formal approval of the financial results by the CEO, CFO, Audit Committee and the Board.
- Board and sub-committee approval and monitoring of operating, financial and other plans.
- Consolidation and verification of correct identification and proper assessment of critical business risks. The Audit Committee reviews changes to the risk profiles together with progress on actions for key risks on a regular basis.
- Internal audit function. The Head of Internal Audit functionally reports to the Audit Committee and administratively to the First Deputy CEO. The internal audit department performs its activities in accordance with an audit plan and incorporates review of material controls, including financial, compliance and operational controls. The results of each audit are discussed in detail with the companies and business units concerned and action plans are agreed upon.

continuous improvement

HMS Group's goal is to continuously improve its governance and risk management sub-systems. We assess the findings of audits and internal investigations and use them to revise our internal processes and procedures.

The key features of the risk management process include:

- The gathering and analysis of information related to internal and external factors which can affect the achievement of the Group's objectives;
- Identifying the possible negative impact of various events on operational and financial results in accordance with applicable risk-assessment methods;
- Setting appropriate risk-tolerance levels;
- Ranking risks according to their significance and probability;
- Making appropriate decisions to manage identified risks;
- Actively monitoring the steps taken to control the most significant risks.

/// risk management and internal control

///categories of the risks

| RUB mn | Enhancing margins | Driving growth | Generating cash | Maximising returns | Securing customers | Securing longterm suppliers |
|--------------------------------------|-------------------|----------------|-----------------|--------------------|--------------------|-----------------------------|
| Global politician and economic risks | ○ | ○ | ○ | ○ | | |
| Sales | ○ | ○ | ○ | ○ | | |
| Project execution risks | ○ | ○ | ○ | ○ | ○ | ○ |
| Human Capital | ○ | ○ | ○ | ○ | | |
| Acquisitions and disposals | ○ | ○ | ○ | ○ | | |
| Fraud and corruption risks | ○ | ○ | ○ | ○ | ○ | ○ |
| Technology | | ○ | | | | |
| Legislation and regulations | ○ | ○ | ○ | ○ | | |
| Product liability and litigation | ○ | ○ | ○ | ○ | | ○ |
| Financial risks | ○ | ○ | ○ | ○ | | |

principal risks and uncertainties

The table below shows the relationship between the main categories of the risks we encounter and how they affect our strategy.

Below is the summary of the principal risks facing the Group's business. HMS also faces other risks both known and unknown; some of them apply to similar companies operating in both the Russian and international markets.

global political and economic risks

The Group may be exposed to various political, economic and other risks not only in the countries where it has primary production facilities (Russia, Ukraine, Belarus, Germany) but also in jurisdictions, where the company has other interests (e.g. EPC projects in the Middle East and Central Asia).

Starting in 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies. The above-mentioned events have led to reduced access of Russia's businesses to international capital markets. The impact of further economic and political developments on future operations and the Group's financial position might be significant.

The introduction of new regulations or the imposition of trade barriers or a new round of sanctions against Russia could disrupt the Group's business activities or impact the Group's customers, suppliers or other parties with whom it does business, though amid fairly high crude oil prices the influence of these actions could be smoothed out.

We consider the additional imposition of targeted personal sanctions to be most probable. They alone will hardly create systemic risks and financial stability risks. Such measures could return certain private capital to Russia and put some pressure on the Russian ruble amid relatively high oil prices.

Sanctions against the corporate sector (finance, defense, oil and gas industries) would create the most serious risks for Russia's economics and financial system. Tighter and broader restrictions concerning both the use of equipment and/or software and financial operations could lead to a heavy disturbance on the markets. The capacity to develop new fields could also be constrained by sanctions; in the longer term, as existing fields run out, the country may find it hard to maintain the current level of crude output and gas production.

In 2019, Ukraine and Russia widened the range of sanctions imposed on each other. In March 2019, Ukraine broadened sanctions against 294 Russian companies and 848 citizens. In response, in addition to individual sanctions against certain companies and Ukrainian citizens, Russia widened the list of goods restricted of import in Russia from Ukraine, including starch, fruit-sugar, certain medical equipment, heaters, central heating boilers and certain machine-building products.

In some instances, this could have an adverse, material effect on the company's financial position and prospects.

sales

The Group's business depends on the levels of capital investment and maintenance expenditures by the Group's customers, which in turn are affected by numerous factors, including the state of the Russian economy and that of other nations, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment and other support for the Group's customers and for state-sponsored infrastructure projects.

The Group's business depends on being awarded contracts and on the renewal and extension of existing contracts; moreover, the Group relies on a limited number of key customers and contracts and may incur losses due to unfavourable terms of contracts with certain large customers.

project execution risks

Since HMS' contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in large integrated projects). The Group seeks to mitigate these risks through its efforts to improve profitability and cost control, in part relying on volume growth and an increasing share of high-margin integrated solutions services.

contract execution risks

HMS Group performs a systematic work to manage legal risks through their identification, and prevention of reasons and conditions when they arise at the pre-contractual stage as well as at the stages of contracts execution and legal proceedings.

Risks formation in 2018 was stipulated by a number of reason both macroeconomic and contractual related to a number of projects executed by the company.

Main legal risks which arise at the stage of contracts execution, contracts signing:

- a. Risk of nonfulfillment of a contract by a client (in whole or in part);
- b. Risk of nonfulfillment of their liabilities by third parties (sub-tiers), responsible for delivery (production) of a product's components;
- c. Risk of "a mediator" insolvency (failure to generate a cash flow in a settlements' chain "client – producer")
- d. Risk of penalty claims for the breach of the contract;
- e. Default risk (including, as a result of sanctions and/or other enforcement actions from state services);
- f. Piracy risks

Management of legal risks is based on their quality (expert) assessment and directed to their identification, monitoring of risk factors, as well as their mitigation.

HMS Legal department uses the following basic strategy of risks management:

- Legal risks are verified at the stage of contracts' preliminary qualification and vetting as well as their further support;
- Regarding risks (a)–(c): contracts execution security to guarantee adequate sources of costs covering in the case of contracts nonfulfillment is maintained through:

- Usage of different kinds of collateral and non-material securities provided by a counterparty when entering into an agreement in the form of independent guarantees (banking, corporate) for advance payments/ contract performance, third-party guarantees, collateral and others;
- Withholding of an advance payment till the provision of a security; if it is not provided, then payment after delivery;
- Management of the contract commitments chain "client – producer", which assures the receipt of the payment at the time of cash flow passing

- Regarding (d) risks: control and organization of the work to fix legally important facts and circumstances through putting together evidential documentation (letter, acts, protocols, etc.), identified factors of contractual nonfulfillment (a customer's fault), with subsequent claims settlement by signing amendments to the contract;
- Regarding (e) risks: monitoring of changes and control of deals compliance with the current legislation of the Russian Federation;

/// risk management and internal control

- Regards (f) risks: processing of patent search, due diligence, and record-keeping of intellectual activity results.

In case when risks occur at the trial level, standard legal procedures and collected documentation, which proves the counter nonfulfillment by the client, perspectivevely deliver success of the trial (complete or partial rejection of the suit, or significant lowering of penal sanctions)

human capital

The ability to achieve the Group's strategic goals highly depends on our most important asset — our people. We develop and remunerate our employees using leading HR practices. In line with Group's growth strategy, we aim to attract talented employees from the market and continuously improve our recruitment methods.

The success of the Group's businesses depends heavily on the continued service of its key senior managers. These individuals possess industry-specific skills in the areas of sales and marketing, engineering and manufacturing that are critical to the growth and operation of the Group's businesses. While the Group has entered into employment contracts with its senior managers, the retention of their services cannot be guaranteed. The Group is not insured against damages that may be incurred in the case of loss or dismissal of its key specialists or managers. Moreover, the Group may be unable to attract and retain qualified personnel to succeed such managers. If the Group suffers an extended interruption in its services due to the loss of one or more such managers, its business, financial condition, results of operations, prospects may be adversely and materially affected.

Loss of key R&D employees (talents with high potential and unique R&D knowledge) can reduce the organisation's productivity. Moreover the replacements can cost the Company long time. The Group uses proactive approach to avoid unwanted resignations. The Group increasing its focus on approaching and retaining the right talents, using a tailored mix of financial and non-financial incentives.

mergers & acquisitions

During the whole period of its operation, the Group has completed a number of acquisitions targeting the key players in the markets of industrial pumps, compressors, modular oil & gas equipment and EPC-contracts.

Taking into account the economic slow-down and high uncertainties, insufficient demand in many segments that makes it difficult to evaluate potential synergies from M&A, the Group does not consider any material acquisitions in the nearest future, so this risk as immaterial.

fraud and corruption risks

Fraud and corruption are pervasive and inherent risks of all business operations. There is always some potential for fraud and other dishonest activity at all levels of a business, from that of a factory worker to senior management. Efficient operations and optimal use of resources depends on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

Tightening of anti-corruption control over government-owned corporations (Gazprom: the Ashurkovs' case, arrests on corruption charge of a number of executives of daughter enterprises of Rosneft and Gazprom) can affect a pattern of interaction of HMS Group with its largest Russian customers in mutual trust and confidence.

Tightening of anti-corruption control over state authorities (arrests and cases against ministers, governors and other state officials), often accompanied by media publications with political complexion, can affect mutual trust and confidence between business and state authorities as well.

HMS Group promotes ethical behaviour among its employees and maintains dedicated violation reporting channels to raise concerns within the Group through an ethics hotline available 24/7. The Group's internal audit and/or security department perform investigations into alleged fraud and misconduct. If necessary, the results of such investigations are provided to the CEO, the Board, the management and the Audit Committee, as necessary.

As the Group operates in a number of jurisdictions around the world, the Board and senior management also put a strong emphasis on corporate compliance with applicable regulation, including anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

The Group has implemented procedures to ensure that all employees are aware of the requirements of the Group's anti-corruption policies, with a particular focus on those roles most exposed to the risk of breach.

legislation and regulations

Laws and regulations affecting businesses in Russia 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. Recent Russian government initiatives which are currently under consideration are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating assets located in Russia, HMS Group recognises that these developments may have significant implications for its business and development plans. HMS Group continues to monitor these developments.

information technologies

There are several significant risks in IT that can affect the company, including cyber security and incident response risk, IT resiliency and continuity risk, data management risk, technology operations risk, etc. HMS Group believes that today the main risks for the company are the following – the risk of data loss, the risk of a computer virus epidemic or a large-scale (purposeless) hacking, and the risk of a special virus attack intended to pilfer information undetected.

HMS Group has developed a company-wide information security (IS) strategy and a road-map based on the audit results. The action plan was in 2018-2019, including the creation of an Information Security department.

Moreover, the company has planned other long-term measures which will mitigate the risk of information security breaches: development of an Information Security Policy, perimeter protection, segmentation of the network, TDS/IPS, two-factor authentication, etc.

In 2019, in accordance with the developed strategy, HMS Group completed the implementation of a series of technical and administrative measures to further mitigate the above mentioned risks, i.e.:

- The brand new Information Security department has been established.
- A number of hardware and software solutions against malicious code, alongside with elaborated monitoring tools has been deployed, namely:
 - perimeter firewall and threat emulation appliances, endpoint software anti-virus agent from Checkpoint;
 - threat emulation and intrusion detection appliances from Group IB;
 - security information and event management solution from IBM.

- Further hardened regulations for the privileged user accounts have been developed and implemented.

foreign exchange risk

The Group has no material foreign exchange mismatch. The company operates primarily in Russia, with the majority of its revenue generated in Russian rubles. Operating costs are also mainly Russian ruble denominated and 98 percent of debt is also in Russian rubles.

financial risk

HMS Group doesn't use financial instruments for hedging or other risk management, so the company is not exposed to such kind of risks, including price and liquidity risks.

credit and liquidity risks

In 2019, the company continued work with its debt portfolio. As a result, HMS smoothed its repayment schedule with the major repayments of Rub 6.0 billion falling in 2021. At 2019-end, HMS Group had Rub 3.5 billion repayments falling in 2020, where Rub 3 billion was in the form of corporate bonds. In 4Q 2019, HMS Group attracted Rub 3 billion bank credit from VTB Bank that was deposited for bonds redemption in February 2020.

At the end of 2019, the Group accumulated Rub 10.0 billion of available cash. Considering all the above factors, HMS considers its exposure to credit and liquidity risks as immaterial.

HMS global depository receipts

shareholding

As of December 31, 2019, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of Euro 1,171,634.27 divided into 117,163,427 ordinary shares with par value of Euro 0.01 per share, and these shares are not traded.

In February 2011, the company signed a depository agreement with The Bank of New York Mellon (BNY Mellon), under which the issue of Global Depository receipts (GDRs) for HMS Group shares was initiated. The total number of GDRs issued in exchange for shares of HMS Group amounted to 48,004,000 GDRs or approximately 41% of the Company's issued share capital.

Since February 8, 2016, the ratio of the company's GDRs program was changed:

Old ratio: 1 GDR equals 1 Ordinary share
New ratio: 1 GDR equals 5 Ordinary shares

For every 5 GDRs held, holders received 1 "new" GDR in return. The issued number of ordinary shares and their nominal value remained unchanged. After the ratio change, there were 9,600,800 depository receipts outstanding in the GDR program.

According to the terms of the amended deposit agreement with BNY Mellon, the annual depository fee decreased to US\$ 0.01 per "new" GDR.

In March, 2019, the major shareholder of HMS Group, H.M.S. Technologies Limited ("HMST") registered at Cyprus, transferred its entire shareholding in the Company to JSC HMS Holding ("HMS Holding"), registered at Russia, the subsidiary undertaking of HMST, via the following transactions:

- a. HMST transferred 67,159,421 ordinary shares in the Company (comprising 57.32% of the Company's issued share capital) to HMS Holding in the form of the shareholder's asset contribution for nil consideration;
- b. HMST transferred 2,924,207 global depository receipts issued under the Company's depository receipts program ("GDRs") (representing 14,621,035 shares in the Company and comprising 12.28% of the Company's issued share capital) to HMS Holding in exchange for additionally issued shares in HMS Holding.

As a result of this restructuring:

- a. HMS Holding became a direct holder of 69,159,421 ordinary shares in the Company and 2,924,207 GDRs comprising in aggregate 71.51% of the Company's issued share capital; and
- b. HMST remains the sole voting shareholder of HMS Holding retaining control over the majority shareholding in the Company, and consequently none of the transactions made as a part of the restructuring triggers an obligation of the Company, HMST or HMS Holding to make any mandatory offer to the GDR holders.

This restructuring of the core shareholders' shareholding in the Company did not lead to any change in corporate governance or corporate control of the Company. All applicable regulatory approvals have been obtained in connection with this restructuring.

Then in December, 2019, the new major shareholder of HMS Group, JSC HMS Holding completed the process of cancellation (disposal by HMS Holding) of 2,924,207 global depository receipts issued under the Company's depository receipts program representing 14,621,035 shares in the Company and withdrawal of (acquisition by HMS Holding of) the Underlying Shares from the depository (the Bank of New York Mellon) in the name of HMS Holding (the "Conversion").

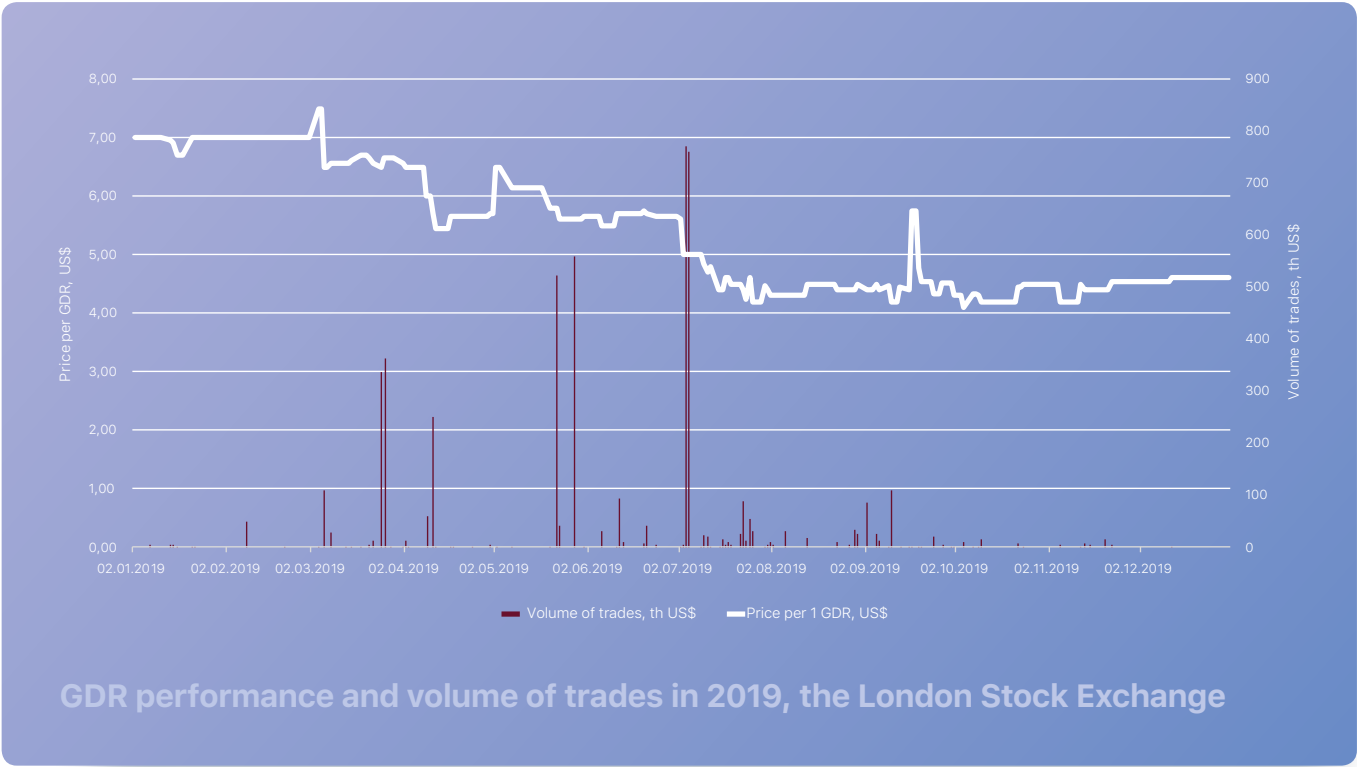
long term incentive plan

As a result of the Conversion, HMS Holding retains full control over the majority shareholding in the Company being a direct holder of 71.51% of the Company's issued share capital, and, consequently, the Conversion neither triggers an obligation of the Company or HMS Holding to make any mandatory offer to the GDR holders, nor lead to any change in corporate governance of the Company.

The issued number of ordinary shares and their nominal value remained unchanged. Currently **there are 6,676,592 depository receipts outstanding in the GDR program.**

credit ratings

| Fitch Ratings | Expert RA |
|----------------------------|------------------------------|
| B+ / Stable | ruA / Negative |
| 22 Feb 2017 / 30 July 2019 | 11 July 2017 / 5 August 2019 |



/// HMS global depository receipts

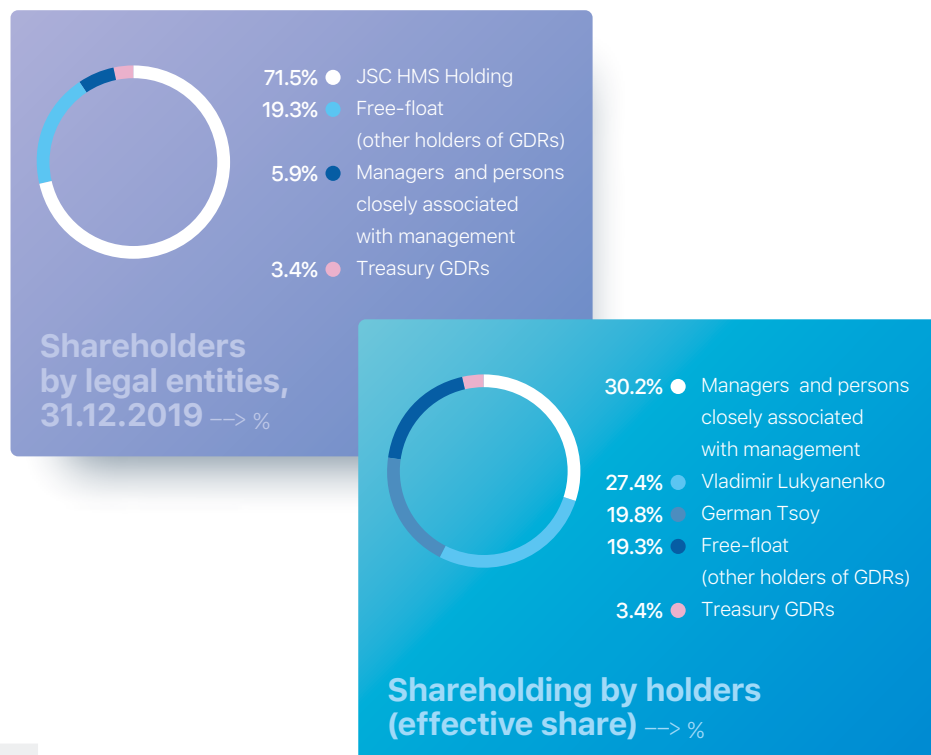
/// price of HMS Group's GDRs

| | Min, US\$ | Max, US\$ | GDR price at the end of the period, US\$ | Market capitalization at the end of the period, US\$ mn |
|-------------|-------------|-------------|--|---|
| 2011 | 19.90 | 41.21 | 22.05 | 516.69 |
| 2012 | 19.50 | 29.90 | 21.10 | 494.43 |
| 2013 | 10.50 | 21.15 | 12.50 | 292.91 |
| 2014 | 1.30 | 12.50 | 1.30 | 30.46 |
| 2015 | 1.30 | 4.50 | 2.76 | 64.67 |
| 2016 | 2.05 | 8.01 | 7.46 | 174.81 |
| 2017 | 7.46 | 9.80 | 9.80 | 229.64 |
| 2018 | 6.60 | 11.30 | 7.00 | 164.03 |
| 2019 | 4.10 | 7.50 | 4.60 | 107.79 |
| 1Q 2019 | 6.50 | 7.50 | | 155.83 |
| 2Q 2019 | 5.45 | 6.55 | | 132.39 |
| 3Q 2019 | 4.20 | 5.75 | | 105.92 |
| 4Q 2019 | 4.10 | 4.60 | | 107.79 |

management purchases

Within 2019 year, Directors/PDMRs of HMS Group acquired the company's 15,475 GDRs on the open market, using their own funds.

The Company' shares are now held by JSC HMS Holding, though HMS Technologies remains the ultimate controlling parent as the sole shareholder of JSC HMS Holding.



dividends

In 2016, the HMS Board of Directors approved an updated Dividend Policy reflecting the Group's strategy to maximize shareholder returns. As a general rule, the company targets to pay our total dividends for a given reporting period in the region of 50% of the "Profit attributable to Shareholders of the Company" for the year, as set out in its IFRS Consolidated Financial Statements, subject to capital constraints such as Debt and Liquidity position and forecast. HMS also plans to pay out dividends basically twice a year (interim and final). Dividends are announced per 1 ordinary share.

For the period ended in 2018, **HMS Group paid Rub 9.81 total dividends per 1 ordinary share (Rub 49.05 per 1 GDR).**

buyback program

HMS Group started its buyback program in 2012. The company planned to invest in repurchase of GDRs up to \$ 25 million. The main objectives of the program's implementation were an intention to maximize shareholder value as well as a reduction of the effect of external shocks on GDR's price.

Buyback period is 1 year, and the renewal of the program should be approved by the Annual General Meeting of Shareholders.

In 2015, the company approved new conditions of the program: the maximum number of GDRs, which could be repurchased, was increased to 5% of the subscribed capital of HMS Group, including previously acquired and held in the form of treasury shares.

/// history of dividend payments

| Period | Dividend per share, Rub | Dividend per GDR, Rub | Amount announced, Rub mn | Record Date | Payment Date |
|----------------------|-------------------------|-----------------------|--------------------------|-------------|--------------|
| 2013 FY | 3.41 | 3.41 | 399.5 | 10 Jun 2014 | 27 Jun 2014 |
| 2015 9m (interim) | 3.25 | 3.25 | 380.8 | 14 Dec 2015 | 30 Dec 2015 |
| 2015 FY (final) | 5.12 | 25.60 | 599.9 | 03 Jun 2016 | 21 Jun 2016 |
| 2016 9m (interim) | 3.41 | 17.05 | 399.5 | 12 Jan 2017 | 26 Jan 2017 |
| 2016 FY (final) | 5.12 | 25.60 | 600.0 | 09 Jun 2017 | 27 Jun 2017 |
| 2017 9m (interim) | 5.12 | 25.60 | 600.0 | 12 Jan 2018 | 26 Jan 2018 |
| 2017 FY (final) | 6.83 | 34.15 | 800.2 | 15 Jun 2018 | 03 July 2018 |
| 2017 FY total | 11.95 | 59.75 | 1,400.2 | | |
| 2018 9m (interim) | 3.84 | 19.20 | 450.0 | 11 Jan 2019 | 25 Jan 2019 |
| 2018 FY (final) | 5.97 | 29.85 | 699.5 | 14 Jun 2019 | 01 Jul 2019 |
| 2018 FY total | 9.81 | 49.05 | 1,149.5 | | |

In 2016, the company increased the maximum number of GDRs, which could be repurchased, to 6% of the subscribed capital of HMS Group. As of today, HMS has repurchased 1,204,282 GDRs since the start of the program.

The Buyback program will end as soon as the total amount of acquired securities has reached the maximum amount specified (1,405,961 GDRs) or, if earlier, in June 2020.

/// HMS Group Plc GDRs

| | |
|------------------------------|---------------------------------------|
| Ticker | HMSG |
| CUSIP | RegS: 40425X407 144A: 40425X308 |
| LEI | 254900DDFETNLASV8M53 |
| Exchange | London Stock Exchange |
| ISIN | RegS: US40425X4079 144A: US40425X3089 |
| Ratio, GDR : ordinary shares | 1:5 |
| Local exchange | Not traded |
| Underlying ISIN | CY0104230913 |
| Underlying CFI | ESVUFR |
| Depository bank | BNY Melon |

information for shareholders and disclaimer

| | |
|----------------------------|--|
| GENERAL INFORMATION | |
| Company Name | HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC |
| Company Type | Public |
| Fiscal Year-End | December 31 |
| Disclosure | The London Stock Exchange |
| Managing Director (CEO) | Artem Molchanov |
| First Deputy CEO (CFO) | Kirill Molchanov |
| Ticker | HMSG |
| CUSIP | RegS: 40425X407 144A: 40425X308 |
| LEI | 254900DDFETNLASV8M53 |
| Exchange | London Stock Exchange |
| | 132.39 |
| ISIN | RegS: US40425X4079 144A: US40425X3089 |
| Ratio, GDR:ordinary shares | 1:5 |
| Local exchange | Not traded |
| Underlying ISIN | CY0104230913 |
| Underlying CFI | ESVUFR |
| Depository bank | BNY Melon |

GDRs of HMS Hydraulic Machines & Systems Group Plc are traded on the London Stock Exchange under ticker HMSG.

The Company’ shares are now held by JSC HMS Holding, though HMS Technologies remains the ultimate controlling parent as the sole shareholder of JSC HMS Holding.

global depository receipts shareholders’ contacts:

Contacts for inquiries regarding:

- advise of a change of name and/or address
- report lost/stolen GDR share certificates or the non-receipt of a dividend check
- request an election form for the scrip dividend program
- request forms to transfer GDRs
- report the death of a registered holder of GDR shares
- request a duplicate account statement
- have dividends electronically deposited to your bank account
- consolidate similar account registrations
- request general information about your shareholder account, etc.

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA
Tel: +1 888 737 2377 (USA only)
Tel: +1 201 680 6825 (International)
Email: shrelations@bnymellon.com
Website: www.bnymellon.com

General Shareholder enquiries and Investor Relations contacts

HMS Group
Investor Relations
7 Chayanova str.
125047 Moscow, Russia
Tel: +7 495 730 6601
Fax: +7 495 730 6602
Email: ir@hms.ru

disclaimer

This document contains forward-looking statements that reflect management’s current views with respect to future events.

Such statements are subject to risks and uncertainties that are beyond HMS Group’s ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. HMS Group does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

This annual report does not constitute an invitation to invest in HMS Group GDRs. Any decisions you make in reliance on this information are solely your responsibility. The information is given as of the dates specified, and we undertake no obligation to update it save as required by applicable law. HMS Group accepts no responsibility for any information on other websites that may be accessed from the company’s website by hyperlinks.

appendices

vocabulary, calculations and formulas

///units of measurement

| | |
|-----------|--|
| red. | |
| bcm | Billion cubic meters |
| bcma | Billion cubic meters per annum |
| bn | Billion |
| cub.m. | Cubic meter |
| cmpa | Cubic meter per annum |
| km | kilometer |
| kW | Kilowatt |
| M | Meter |
| m3 | Cubic meter |
| mn | Million |
| MPa | Megapascal, a unit of pressure measurement |
| Mt | Millions of tonnes |
| MW | Megawatt |
| Nm3/Hour | Normal cubic metre per hour |
| Rub/RUB | Russian ruble |
| Scm3/hour | Standard cubic meters per hour |
| t | Ton / tonne |
| tcm | Trillion cubic meters |
| US\$ | US Dollar |

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

EBIT is calculated as Gross profit minus Distribution & transportation expenses minus General & administrative expenses minus Other operating expenses

Total debt is calculated as Long-term borrowings plus Short-term borrowings

Net debt is calculated as Total debt minus Cash & cash equivalents at the end of the period

ROCE is calculated as EBIT LTM divided by Average Capital Employed (Total debt + Total equity)

ROE is calculated as Total equity period average divided by Profit for the period

Operating profit adj. & Profit for the year adj. are deferred as adjusted by impairment of PPE, investment property and goodwill

Working capital is calculated as Inventories plus Trade and other receivables, excluding Short-term loans issued, Bank deposits and Promissory notes receivable, plus Current income tax receivable minus Trade and other payables minus Short-term provisions for liabilities and charges minus Current income tax payable minus Other taxes payable

Capex = Organic capex = Purchase of PPE + Purchase of intangible assets

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS

///abbreviations & contractions

| | |
|----------------|---|
| red. | |
| API | American Petroleum Institute |
| Bank of Russia | Central Bank of the Russian Federation, cbr.ru |
| BIM | Building Information Modelling |
| BM | Binary mixture |
| CAGR | Compound annual growth rate, is the mean annual growth rate of an investment over a specified period of time longer than one year |
| CIS, the | Commonwealth of Independent States |
| Chg | Change |
| GDP | Gross Domestic Product |
| GDR | Global depositary receipt |
| GTNG | Giprotyumenneftegaz |
| ERP | Enterprise Restructuring Project |
| EU | European Union |
| EUR | Euro |
| KKM | Kazankompressormash |
| KMPO | Kazan Motor-Building Production Association (KMPO JSC) |
| LNG | Liquefied natural gas |
| LSE | London Stock Exchange |
| NEM | Nasosenergomash |
| OGEP | Oil and gas engineering and projects business segment |
| OPEC | Organization of the Petroleum Exporting Countries |
| R&D | Research and development |
| yoy | Year-on-year |



HMS Hydraulic Machines & Systems Group plc

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

31 December 2019

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Board of Directors

Mr. Nikolai N. Yamburenko

Chairman of the Board of Directors

Non-executive Director

Member of the Strategy and Investments Committee

Member of the Remuneration Committee

Member of the Audit 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 Remuneration Committee

Chairman 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. Vyacheslav G. Tsoy

Non-executive Director

Mr. Andreas S. Petrou

Non-executive Director

Board support

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

Company Secretary

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

Registered office

Alkaiou, 5,
PELEKANOS BUILDING 16,
2nd floor, Flat/Office 201,
'Egkomi, 2404,
Nicosia, Cyprus

The Board of Directors presents its consolidated management report together with the audited consolidated financial statements for the year ended 31 December 2019. 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 44.7 billion (5% yoy) based on growth in the pumps and the oil & gas equipment. In terms of contracts type, the recurring business was the contributor to this growth.

Order intake declined by 7% yoy to RR 52.2 billion, compared with Rub 55.9 billion for 2018, mainly due to a decrease in the compressors business segment because less large contracts were signed in the reported period.

Group performance. Revenue decreased to RR 51.4 billion, down by 2%, compared with RR 52.6 billion for 2018, due to weak results of the oil & gas equipment business segment.

Adjusted EBITDA was down by 27% yoy to RR 4.8 billion mainly because of the oil & gas equipment projects and partly because of the compressors segments.

Revenue from recurring business increased by 8% yoy, and revenue from large projects declined by 18% yoy. Adjusted EBITDA from recurring business increased 42% yoy, and from large projects contracted by 55% yoy. Adjusted EBITDA margin was down to 9.4%, compared with 12.6% for 2018.

Profit for 2019 declined to RR 151 million, compared with RR 1.9 billion for 2018, down by 92% yoy.

Financial review. Working capital was RR 8.9 billion, down by 2% yoy, compared with RR 9.1 billion for 2018. As a share of revenue, working capital stood unchanged at 17%.

Capital expenditures were RR 1.6 billion, down by 33% yoy, compared with RR 2.3 billion last year, as the result of the implemented austerity measures.

Free cash flow turned positive, compared with RR (139) million for 2018, mainly due to a decrease in working capital.

Total debt increased to RR 23.4 billion, up by 25% yoy, compared with RR 19.5 billion for 2018. Net debt was RR 14.4 billion, up by 9% yoy, compared with RR 13.1 billion for 2018. Net debt to EBITDA LTM ratio increased to 2.98x compared with 1.99x last year.

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 34 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 set up smelting of high-alloy nickel cast iron. Production of wetted part casting from this kind of cast iron will allow improve operating properties of pumps and increase their performance life in aggressive environment.

Also, the Group developed the technology of production of pump body castings, where ceramic running system with siphon ceramic foam filtering of liquid melt input was used. This technology will be used in production of pumps for nuclear power plants, which will have the safety class 2.

The oil & gas equipment and projects segment continues promoting and commercialization 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.

In 2019, the Group continues research and development upon an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex mounted on a cross-country chassis. The new Mobile Metrology Instrument will allow oil & gas companies to calibrate online metering units, without interruption of hydrocarbons' extraction, thus lowering costs of extraction.

Also, HMS Neftemash JSC, a subsidiary of the Group, continues the project "Rodless oil extraction mechanism with pilot testing". The company modernized and put the finishing touches to the mechanism of the hydromechanical drive for sucker rod pumping units.

In the compressors segment, under the import-substitution program, Kazankompressormash OJSC, a subsidiary of the Group, developed a number of compressor units for Novatek.

The Group designed and manufactured a centrifugal compressor system with a capacity of up to 1 million ton per annum for Yamal-LNG. The complete boil-off gas compressor system is intended to compress a boil-off gas flow and supply into feed gas, which is to be liquefied. The system is designed under the "Arctic Cascade" technology patented by NOVATEK, and it helps to reduce the capital costs and develop the engineering base for LNG projects in Russia through the domestic equipment application.

Results

The Group's results for the year ended 31 December 2019 are set out on page 16 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.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2019.

At the Annual General Meeting in June 2019, the Company's shareholders approved the 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 675,897 thousand. This dividend was paid in July 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.

Share capital

At 31 December 2019, 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 23 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 disappplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and 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 2019 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. Vladimir V. Lukyanenko, Kirill V. Molchanov and Yuri N. Skrynnik 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 2019 and 31 December 2018 are shown below:

| Director | 31 December 2019 | 31 December 2018 |
|------------------------|------------------|------------------|
| Vladimir V. Lukyanenko | 27.4% | 27.4% |
| Artem V. Molchanov | 6.8% | 6.6% |
| Yury N. Skrynnik | 3.6% | 3.5% |
| Kirill V. Molchanov | 2.5% | 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 38 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 Nikolay N. Yamburenko. 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. 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 Vladimir V. Lukyanenko 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 2019 amounted to RR 38,552 thousand (2018: RR 39,846 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 100,444 thousand for the year ended 31 December 2019 (2018: RR 164,993 thousand). See also Note 33.

Branches

The Company did not operate through any branches during the year ended 31 December 2019.

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 24). Under this program, a wholly-owned subsidiary of the Group from time to time purchases GDRs of the Company from the market.

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 thousand.

In May 2019, 414,718 GDRs of the Company representing 1.83% of its issued share capital with the total cost of RR 167,804 thousand were transferred to the participants under the Long-term Incentive Program (Note 23, 24).

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.

At 31 December 2019, the Company, via a wholly-owned subsidiary, is holding 789,564 (31 December 2018: 1,142,987) of its own GDRs with the total cost of RR 319,475 thousand (31 December 2018: RR 461,630 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 2020, 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
23 April 2020



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 15 to 64) 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 2019 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
Director
23 April 2020



Kirill V. Molchanov
Director
23 April 2020

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 15 to 64 and comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and 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 2019, and of 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

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 |
|---|---|
| <i>Revenue and profit recognition on construction contracts</i> | |
| 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, which 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. During 2019 the Group recognised revenue from construction contracts in the amount of RR 21,563,310 thousand, being 42% of the total Group's revenue. | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> obtaining an understanding of key controls around the processes of budgeting and accounting for construction contracts, as well as assessment of whether the accounting policies, methods of accounting and amounts recognised in the consolidated financial statements were in line with IFRS 15. |

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)

Why the matter was determined to be a key audit matter

Revenue and profit recognition on construction contracts

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.

How the matter was addressed in the audit

We performed detailed procedures in respect of individually significant contracts, including:

- discussions with the individual project managers and directors on status of the projects;
- 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.

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)

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|--|
| <i>Impairment assessment of goodwill</i> | |
| <p>The Group has a material goodwill balance of RR 3,370,275 thousand at 31 December 2019.</p> <p>In prior periods, the Group had recognised goodwill impairment charges. Given challenging economic conditions in the world in general, and in the Russian Federation in particular, there is a risk of further impairment of goodwill.</p> <p>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.</p> <p>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.</p> | <p>In this area our audit procedures included the following:</p> <ul style="list-style-type: none"> 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 2019 and comparing the forecast performance to the Board approved long-term plans; assessing forecasted revenues for the year ending 31 December 2020 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; challenging how management had assessed the impact of events arising after the reporting date, such as decline in the oil prices in the global markets and spread of the coronavirus disease, on the impairment test of goodwill at the reporting date with the reference to the reasonable and supportable information available to management at that date; 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. <p>The above procedures were completed in a satisfactory manner.</p> |

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)

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|--|---|
| <p><i>Accounting for acquisition of a group of companies</i></p> <p>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.</p> <p>We consider accounting for this transaction to be a key audit matter because it requires a significant degree of judgement and involves estimations which are uncertain in nature relating to:</p> <ul style="list-style-type: none"> 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. <p>Refer to the Note 10 "Business combinations" of the accompanying consolidated financial statements for further details.</p> | <p>We analysed assumptions and management judgments applied in respect of the accounting for the acquisition.</p> <p>Our procedures amongst others included the following:</p> <ul style="list-style-type: none"> inquiries of the Group's management and analysis of the supporting documentation to obtain understanding of the key details of the transaction; challenging management's assessment of this transaction as a business combination in accordance with IFRS 3 "Business combinations"; challenging management's assumptions and judgements in respect of the purchase price allocation and the fair values of the net identifiable assets acquired; with the assistance of our internal experts, analyzing the valuation reports prepared by the independent appraiser and reconciling the fair value of assets acquired and liabilities assumed to those reports; assessing whether the disclosure in the consolidated financial statements in respect of this acquisition is in compliance with IFRS requirements, assessing the adequacy of the Group's disclosures against requirements of relevant accounting standards. <p>The above procedures were completed in a satisfactory manner.</p> |

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 the Directors' responsibility statement in pages 2 to 7, 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.

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 scepticism 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.
- 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.

We communicate with those charged with governance 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.

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 also provide 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 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 6 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 16 April 2020 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, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- 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.

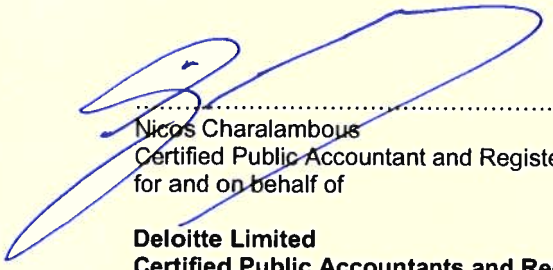
Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Other Matter

This report, including the opinion, has been prepared for and only for the Group'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.



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

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

Limassol, 23 April 2020

| | Note | 31 December 2019 | 31 December 2018* |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets: | | | |
| Property, plant and equipment | 7 | 15,532,576 | 15,492,896 |
| Other intangible assets | 8 | 2,001,646 | 1,936,359 |
| Goodwill | 9 | 3,370,275 | 3,092,257 |
| Right-of-use assets | 12 | 174,614 | - |
| Investments in associates | 11 | 94,489 | 93,265 |
| Deferred income tax assets | 25 | 631,428 | 424,004 |
| Other long-term assets | | 42,316 | 26,004 |
| Investment property | 16 | 186,632 | 196,480 |
| Total non-current assets | | 22,033,976 | 21,261,265 |
| Current assets: | | | |
| Inventories | 14 | 7,859,051 | 9,088,680 |
| Trade and other receivables and other financial assets | 15 | 18,051,909 | 12,267,843 |
| Contract assets | | 8,058,877 | 4,611,700 |
| Current income tax receivable | | 227,917 | 257,409 |
| Cash and cash equivalents | 13 | 9,952,118 | 6,295,159 |
| Total current assets | | 44,149,872 | 32,520,791 |
| TOTAL ASSETS | | 66,183,848 | 53,782,056 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 23 | 48,329 | 48,329 |
| Share premium | 23 | 3,523,535 | 3,523,535 |
| Treasury shares | 23 | (319,475) | (461,630) |
| Other reserves | | 62,716 | 122,730 |
| Currency translation reserve | | (44,878) | 123,918 |
| Retained earnings | | 7,029,094 | 7,847,636 |
| Equity attributable to the shareholders of the Company | | 10,299,321 | 11,204,518 |
| Non-controlling interests | | 3,569,953 | 3,386,155 |
| TOTAL EQUITY | | 13,869,274 | 14,590,673 |
| LIABILITIES | | | |
| Non-current liabilities: | | | |
| Long-term borrowings | 17 | 20,582,061 | 18,198,084 |
| Deferred income tax liability | 25 | 1,620,211 | 1,630,143 |
| Retirement benefit obligations | 18 | 597,238 | 468,324 |
| Provisions for liabilities and charges | 22 | 154,809 | 168,687 |
| Lease liabilities | 12 | 139,272 | - |
| Other long-term payables | 21 | 240,172 | 432,915 |
| Total non-current liabilities | | 23,333,763 | 20,898,153 |
| Current liabilities: | | | |
| Trade and other payables | 19 | 20,658,429 | 13,224,940 |
| Contract liabilities | | 2,248,029 | 1,843,380 |
| Short-term borrowings | 17 | 3,578,390 | 1,162,133 |
| Provisions for liabilities and charges | 22 | 550,050 | 739,314 |
| Retirement benefit obligations | 18 | 76,904 | 67,497 |
| Lease liabilities | 12 | 21,329 | - |
| Current income tax payable | | 218,974 | 57,684 |
| Other taxes payable | 20 | 1,628,706 | 1,198,282 |
| Total current liabilities | | 28,980,811 | 18,293,230 |
| TOTAL LIABILITIES | | 52,314,574 | 39,191,383 |
| TOTAL EQUITY AND LIABILITIES | | 66,183,848 | 53,782,056 |

* These amounts reflect adjustments made in connection with the completion of purchase price allocation of CIPS LLC (Note 10)

Approved for issue and signed on behalf of the Board of Directors on 23 April 2020.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019
(in thousands of Russian Roubles, unless otherwise stated)



| | Note | 2019 | 2018 |
|---|------|------------------|-------------------|
| Revenue | 35 | 51,412,961 | 52,618,880 |
| Cost of sales | 27 | (41,803,705) | (40,617,376) |
| Gross profit | | 9,609,256 | 12,001,504 |
| Distribution and transportation expenses | 28 | (1,961,331) | (1,915,880) |
| General and administrative expenses | 29 | (5,395,083) | (5,635,585) |
| Other operating expenses, net | 30 | (195,595) | (250,135) |
| Operating profit | | 2,057,247 | 4,199,904 |
| Finance income | 31 | 172,302 | 182,188 |
| Finance costs | 32 | (1,784,607) | (1,610,545) |
| Share of results of associates | 11 | (632) | (570) |
| Profit before income tax | | 444,310 | 2,770,977 |
| Income tax expense | 25 | (293,680) | (825,028) |
| Profit for the year | | 150,630 | 1,945,949 |
| Profit/(loss) attributable to: | | | |
| Shareholders of the Company | | (93,932) | 1,688,473 |
| Non-controlling interests | | 244,562 | 257,476 |
| Profit for the year | | 150,630 | 1,945,949 |
| Other comprehensive (loss)/income: | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Remeasurement of post-employment benefit obligations | | (64,673) | 101,017 |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Currency translation differences | | (141,369) | 830,112 |
| Currency translation differences of associates | 11 | 1,856 | 9,006 |
| Other comprehensive (loss)/income for the year | | (204,186) | 940,135 |
| Total comprehensive (loss)/income for the year | | (53,556) | 2,886,084 |
| Total comprehensive (loss)/income attributable to: | | | |
| Shareholders of the Company | | (300,891) | 2,537,407 |
| Non-controlling interests | | 247,335 | 348,677 |
| Total comprehensive (loss)/income for the year | | (53,556) | 2,886,084 |
| Basic and diluted (loss)/earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share) | 23 | (0.84) | 15.10 |

| | Note | 2019 | 2018 |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 444,310 | 2,770,977 |
| Adjustments for: | | | |
| Depreciation and amortisation | 27-30 | 2,295,572 | 1,842,607 |
| Gain from disposal of property, plant and equipment and intangible assets | 30 | (50,312) | (20,457) |
| Finance income | 31 | (172,302) | (182,188) |
| Finance costs | 32 | 1,784,607 | 1,610,545 |
| Change in retirement benefits obligations | 18 | 95,974 | 55,878 |
| Change in warranty provision | 27 | 6,392 | 102,966 |
| Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets | 29 | 116,303 | 59,546 |
| Change in provision for obsolete inventories | 27 | 118,515 | 98,617 |
| Change in provision for legal claims | 30 | (32,866) | (19,398) |
| Share-based compensation | 24 | 118,544 | 155,989 |
| Foreign exchange loss/(gain), net | 30 | 80,332 | (13,352) |
| Gain on remeasurement of contingent consideration liability | 30 | (58,890) | - |
| Amortisation of government grants | 27 | (32,411) | (30,806) |
| Change in provision for tax risks, other than income tax | 29 | - | (12,366) |
| Share of results of associates | 11 | 632 | 570 |
| Operating cash flows before working capital changes | | 4,714,400 | 6,419,128 |
| Decrease/(increase) in inventories | | 1,142,258 | (1,067,279) |
| (Increase)/decrease in trade and other receivables | | (5,825,144) | 977,282 |
| (Increase)/decrease in contract assets | | (3,493,520) | 763,188 |
| Decrease/(increase) in current income tax receivable | | 29,492 | (78,843) |
| Increase/(decrease) in accounts payable and accrued liabilities | | 6,830,995 | (722,970) |
| Increase/(decrease) in contract liabilities | | 404,649 | (1,595,015) |
| Increase/(decrease) in taxes payable | | 354,446 | (136,304) |
| Cash from operations | | 4,157,576 | 4,559,187 |
| Income tax paid | | (366,040) | (1,162,267) |
| Interest paid | | (1,793,240) | (1,618,021) |
| Interest received | | 164,692 | 177,390 |
| Net cash from operating activities | | 2,162,988 | 1,956,289 |
| Cash flows from investing activities | | | |
| Repayment of loans advanced | | 10,378 | 74,914 |
| Loans advanced | | (30,588) | (53,445) |
| Proceeds and expenses from sale of property, plant and equipment and intangible assets, net | | 120,539 | 51,266 |
| Interest received | | 175 | 890 |
| Purchase of property, plant and equipment, net of VAT | | (996,241) | (1,956,140) |
| Acquisition of intangible assets, net of VAT | | (574,322) | (378,521) |
| Acquisitions of subsidiaries, net of cash acquired | 10 | (670,141) | 165,257 |
| Net cash used in investing activities | | (2,140,200) | (2,095,779) |
| Cash flows from financing activities | | | |
| Repayments of borrowings | | (9,488,918) | (11,976,504) |
| Proceeds from borrowings | | 14,364,549 | 15,223,755 |
| Proceeds from government grant | | 40,000 | 60,000 |
| Repayment of the lease liabilities principal | | (27,234) | (16,580) |
| Buy back of issued shares | 23 | (25,649) | (56,636) |
| Acquisition of non-controlling interest in subsidiaries | 23 | - | (53,736) |
| Dividends related to Long-term Incentive Program | | (42,964) | (48,816) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (60,950) | (48,319) |
| Dividends paid to the shareholders of the Company | 23 | (1,103,859) | (1,336,860) |
| Net cash from financing activities | | 3,654,975 | 1,746,304 |
| Net increase in cash and cash equivalents | | 3,677,763 | 1,606,814 |
| Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency | | (20,804) | 67,744 |
| Cash and cash equivalents at the beginning of the year | | 6,295,159 | 4,620,601 |
| Cash and cash equivalents at the end of the year | | 9,952,118 | 6,295,159 |

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Changes in Equity for the year ended 31 December 2019
(in thousands of Russian Roubles, unless otherwise stated)



| | Note | Equity attributable to the shareholders of the Company | | | | | | Non-controlling interests | Total equity |
|--|-------|--|------------------|------------------|-----------------|---|-------------------|---------------------------|--------------------|
| | | Share capital | Share premium | Treasury shares | Other reserves | Cumulative currency translation reserve | Retained earnings | | |
| | | | | | | | | | |
| Balance at 31 December 2017 | | 48,329 | 3,523,535 | (404,994) | 122,730 | (652,109) | 7,073,645 | 9,711,136 | 12,857,086 |
| Profit for the year | | - | - | - | - | - | 1,688,473 | 1,688,473 | 1,945,949 |
| Other comprehensive income | | | | | | | | | |
| Remeasurement of post-employment benefit obligations | 18 | - | - | - | - | - | 72,907 | 28,110 | 101,017 |
| Currency translation differences | | - | - | - | - | 767,021 | - | 63,091 | 830,112 |
| Currency translation differences of associates | 11 | - | - | - | - | 9,006 | - | - | 9,006 |
| Total comprehensive income for the year | | - | - | - | - | 776,027 | 1,761,380 | 348,677 | 2,886,084 |
| Buy back of issued shares | 23 | - | - | (56,636) | - | - | - | - | (56,636) |
| Share-based compensation | 24 | - | - | - | - | - | 107,173 | - | 107,173 |
| Dividends declared by the Group's subsidiaries | | - | - | - | - | - | - | (52,861) | (52,861) |
| Dividends declared to the shareholders of the Company | 23 | - | - | - | - | - | (1,191,413) | - | (1,191,413) |
| Business combination | 10 | - | - | - | - | - | - | 94,976 | 94,976 |
| Acquisition of non-controlling interest | 23 | - | - | - | - | - | 96,851 | (150,587) | (53,736) |
| Total transactions with owners, recognised directly in equity | | - | - | (56,636) | - | - | (987,389) | (108,472) | (1,152,497) |
| Balance at 31 December 2018 | | 48,329 | 3,523,535 | (461,630) | 122,730 | 123,918 | 7,847,636 | 3,386,155 | 14,590,673 |
| Profit/(loss) for the year | | - | - | - | - | - | (93,932) | 244,562 | 150,630 |
| Other comprehensive (loss)/income | | | | | | | | | |
| Remeasurement of post-employment benefit obligations | 18 | - | - | - | - | - | (38,163) | (26,510) | (64,673) |
| Currency translation differences | | - | - | - | - | (170,652) | - | 29,283 | (141,369) |
| Currency translation differences of associates | 11 | - | - | - | - | 1,856 | - | - | 1,856 |
| Total comprehensive (loss)/income for the year | | - | - | - | - | (168,796) | (132,095) | 247,335 | (53,556) |
| Buy back of issued shares | 23 | - | - | (25,649) | - | - | - | - | (25,649) |
| Share-based compensation | 24 | - | - | - | - | - | 97,240 | - | 97,240 |
| Transfer of GDRs under Long-term Incentive Program | 23,24 | - | - | 167,804 | (60,014) | - | (107,790) | - | - |
| Dividends declared by the Group's subsidiaries | | - | - | - | - | - | - | (63,537) | (63,537) |
| Dividends declared to the shareholders of the Company | 23 | - | - | - | - | - | (675,897) | - | (675,897) |
| Total transactions with owners, recognised directly in equity | | - | - | 142,155 | (60,014) | - | (686,447) | (63,537) | (667,843) |
| Balance at 31 December 2019 | | 48,329 | 3,523,535 | (319,475) | 62,716 | (44,878) | 7,029,094 | 3,569,953 | 13,869,274 |

The accompanying notes on pages 19 to 64 are an integral part of these consolidated financial statements.

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 2019, the average number of employees of the Group was 14,026 (2018: 14,527).

At 31 December 2019 and 2018, 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. 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 Russia 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 Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia 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. In March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

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

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In addition to that, starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group’s business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

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 2019, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth by 3.2% (2018: 3.4%), modest annual inflation of 4.1% (2018: 9.8%), and strengthening of national currency by around 5.0% to USD and 9.9% 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, NASOENERGOMASH Sumy JSC, is located in Sumy, Ukraine, and specialises in pumps manufacturing for oil and gas, thermal and nuclear power, water supply and utilities. Pumps produced by NASOENERGOMASH Sumy JSC are sold in Russia and other countries. For the year ended 31 December 2019, the revenue of NASOENERGOMASH Sumy JSC approximated 9% of consolidated revenue of the Group, one third of this amount being sales to Russian customers (for the year ended 31 December 2018: 7% 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 NASOENERGOMASH 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 NASOENERGOMASH 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 2019 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.

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.

3 Summary of Significant Accounting Policies (continued)

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 indemnification 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.

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 Hryvna ("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.

3 Summary of Significant Accounting Policies (continued)

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 2019 and 2018, the principal rates of exchange used for translating foreign currency balances were:

| | 31 December 2019 | 31 December 2018 | Average rates for the year ended 31 December: | |
|------------|------------------|------------------|---|---------|
| | | | 2019 | 2018 |
| 1 USD = RR | 61.9057 | 69.4706 | 64.6184 | 62.9264 |
| 1 EUR = RR | 69.3410 | 79.4605 | 72.3187 | 74.1330 |
| 1 UAH = RR | 2.6121 | 2.5071 | 2.5129 | 2.3140 |
| 1 BYN = RR | 29.4257 | 32.0732 | 30.9394 | 30.8216 |

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.

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.

3 Summary of Significant Accounting Policies (continued)

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 16 "Leases". IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessor and lessee. IFRS 16 superseded the previous lease guidance including IAS 17 "Leases" and the related interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinction of operating leases (off balance sheet) and finance leases (on balance sheet) is 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.

In accordance with the transition provisions in IFRS 16, the Group has elected the simplified transition method for the purpose of adopting IFRS 16, without restatement of comparatives. The Group recognises the right-of-use assets at the date of initial adoption for leases previously classified as finance leases under IAS 17 "Leases" for which assets were previously recorded within Property, plant and equipment and Other intangible assets for the year ended 31 December 2018.

At transition to IFRS 16, the Group has applied the following recognition exemptions:

- not to apply requirements of the standard to leases for which the lease term ends within 12 months of the date of initial application and account for those leases in the same way as short-term leases;
- the accounting for operating leases of low-value assets as at 1 January 2019 as leases in which the underlying asset has a low value.

The adoption of IFRS 16 since 1 January 2019 did not have a significant impact on the Group's financial position or the financial performance as operating leases which do not meet one or more of these exemptions are not material. Right-of-use assets and liabilities recognised under adoption of IFRS 16 were measured on a present value basis using the interest rates implicit in the lease agreements (for former finance lease liabilities).

3 Summary of Significant Accounting Policies (continued)

The following table summarises reclassifications of the items of the consolidated statement of financial position made at 1 January 2019, resulting from the adoption of IFRS 16:

| Items of the consolidated statement of financial position | As previously reported at 31 December 2018* | Effect of adoption of IFRS 16 | At 1 January 2019 |
|---|---|-------------------------------|-------------------|
| Property, plant and equipment (Note 7), including | 15,492,896 | (109,571) | 15,383,325 |
| Cost | 24,572,648 | (121,768) | 24,450,880 |
| Accumulated depreciation | (9,079,752) | 12,197 | (9,067,555) |
| Other intangible assets (Note 8), including | 1,936,359 | (8,547) | 1,927,812 |
| Cost | 2,760,732 | (10,403) | 2,750,329 |
| Accumulated amortization | (824,373) | 1,856 | (822,517) |
| Right-of-use assets (Note 12) | - | 118,118 | 118,118 |
| Other long-term payables (Note 21) | 432,915 | (82,853) | 350,062 |
| Non-current lease liabilities (Note 12) | - | 82,853 | 82,853 |
| Trade and other payables (Note 19) | 13,224,940 | (15,107) | 13,209,833 |
| Current lease liabilities (Note 12) | - | 15,107 | 15,107 |

* - these amounts reflect adjustments made in connection with the completion of purchase price allocation of CIPS LLC (Note 10)

All reclassifications made to the items of the consolidated statement of financial position at 1 January 2019, resulting from the adoption of IFRS 16, were related to finance lease agreements.

Leases - accounting policies before 31 December 2018 (IAS 17). *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.

Leases – accounting policies after 1 January 2019 (IFRS 16). *Right-of-use assets and lease liabilities.* Right-of-use assets and lease liabilities are recognised if the Group has the right to control the use of the leased asset for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as operating expense on a straight-line basis over the term of the lease.

At the commencement date, assets and liabilities arising from a lease are initially measured on a present value basis using the interest rate implicit in the lease, or if that rate cannot be readily determined, incremental borrowing rate.

After the commencement date of the lease, the Group measures the right-of-use asset using the accounting model at cost less accumulated depreciation and accumulated impairment losses adjusted for the revaluation of the lease liability. The Group measures lease liability at cost by increasing the carrying amount by interest accrued and reducing the carrying amount by the lease payments made taking into account revaluation or modification of lease agreements. The interest on the lease liability is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

According to the terms of the lease contracts the right-of-use assets are leased for the followings periods:

| | Years |
|---------------------|-------|
| Land | 2-10 |
| Buildings | 10 |
| Plant and equipment | 3-16 |
| Other | 2-8 |

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.

3 Summary of Significant Accounting Policies (continued)

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 37.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

The Group always recognises 12-month ECL for cash and cash equivalents. The low credit risk exemption has been applied to cash and cash equivalents as these are held with banks with investment grade ratings (BBB or above) and are short-term in nature. The carrying amount of cash and cash equivalents 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'.

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 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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

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, whether 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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

Upon the transfer of the vested shares (GDRs) to the Participants, the difference between weighted average cost of treasury shares (GDRs) disposed of and the fair value of the respective award is included in other reserves.

3 Summary of Significant Accounting Policies (continued)

Contract asset and liability. 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.

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:

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

(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 2019, the Group recognised revenue from such contracts in amount of RR 21,563,310 (2018: RR 21,290,257) (Note 26).

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 34.

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

At 31 December 2019, 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 2019 and for the year then ended.

(d) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 34.

5 New Standards, Amendments and Interpretations

The following standards and amendments to the standards were adopted by the Group from 1 January 2019:

- *IFRS 16, Leases;*
- *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;
- *Amendments to IFRS 9, Prepayment Features with Negative Compensation;*
- *Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;*
- *IFRIC 23, Uncertainty over Income Tax Treatments;*
- *Amendments to IAS 19, Plan Amendment, Curtailment or Settlement.*

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.

5 New Standards, Amendments and Interpretations (continued)

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 2020 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 |
|---|---|
| <i>Amendments to IFRS 3, Definition of a Business.</i> Changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. | 1 January 2020* |
| <i>Amendments to IAS 1 and IAS 8, Definition of material.</i> Clarifies the definition of "material" and align the definition used in the Conceptual Framework and the standards. | 1 January 2020 |
| <i>Amendment to IFRS 7, IFRS 9 and IAS 39, Interest rate benchmark reform</i> | 1 January 2020 |
| <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> | 1 January 2020 |
| <i>IFRS 17, Insurance contracts.</i> | 1 January 2021* |
| <i>Amendments to IAS 1 on classification of liabilities as current or non-current</i> | 1 January 2022* |

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.

6 Subsidiaries

At 31 December 2019 and 2018, 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 2019 and 31 December 2018 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, % | |
|---|---|--------------------------------------|--|--------|
| | | | 2019 | 2018 |
| Segment “Industrial pumps” | | | | |
| HMS Livhydomash JSC | Manufacture of pumps | Russia | 100.00 | 100.00 |
| Livnynasos JSC | Manufacture of pumps | Russia | 100.00 | 100.00 |
| NASOENERGOMASH Sumy JSC | Manufacture of pumps | Ukraine | 90.61 | 90.61 |
| 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 |
| Nizhnevartovskremsservis 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 | Engineering services | Russia | 85.70 | 85.70 |
| Vodokanalproekt JSC | Engineering services | Russia | 94.29 | 94.29 |
| EPF “SIBNA” Inc. JSC | Manufacture of oil and gas equipment | Russia | 94.29 | 94.29 |
| Segment “Compressors” | | | | |
| Kazankompressormash OJSC | Manufacture of compressors | Russia | 89.86 | 89.86 |
| CIPS LLC | Project engineering | Russia | 89.86 | 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 |

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 2019 | | | | | | |
| Segment "Industrial pumps" | | | | | | |
| NASOENERGOMASH Sumy JSC | Ukraine | 9.39 | 9.39 | 7,873 | 242,097 | 1 |
| Plant Promburvod OJSC | Belorussia | 48.62 | 48.62 | 4,370 | 134,797 | 319 |
| Bobruisk Machine Building Plant OJSC | Belorussia | 43.05 | 43.05 | (106,544) | (299,026) | - |
| Dimitrovgradkhimmash JSC | Russia | 49.00 | 49.00 | 214,828 | 1,517,030 | 44,505 |
| Segment "Oil and gas equipment and projects" | | | | | | |
| Giprotyumenneftegaz PJSC | Russia | 54.66 | 48.99 | 70,368 | 1,306,743 | 16,125 |
| Segment "Compressors" | | | | | | |
| Kazankompressormash OJSC | Russia | 10.14 | 5.73 | 4,036 | 449,136 | - |
| CIPS LLC | Russia | 10.14 | - | 52,857 | 208,204 | - |
| Other subsidiaries with insignificant non-controlling interests | - | - | - | (3,226) | 10,972 | - |
| Year ended 31 December 2018 | | | | | | |
| Segment "Industrial pumps" | | | | | | |
| NASOENERGOMASH 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" | | | | | | |
| Kazankompressormash 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 | - |

At 31 December 2019 and 2018, the summarised financial information about financial position of these subsidiaries, presented 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 2019 | | | | |
| Segment "Industrial pumps" | | | | |
| NASOENERGOMASH Sumy JSC | 3,900,234 | 1,666,311 | (2,384,796) | (604,450) |
| Plant Promburvod OJSC | 180,013 | 141,104 | (33,395) | (10,456) |
| Bobruisk Machine Building Plant OJSC | 228,368 | 346,026 | (227,103) | (1,041,919) |
| Dimitrovgradkhimmash JSC | 2,517,378 | 1,152,129 | (385,009) | (188,517) |
| Segment "Oil and gas equipment and projects" | | | | |
| Giprotyumenneftegaz PJSC | 2,571,884 | 817,260 | (779,913) | (218,597) |
| Segment "Compressors" | | | | |
| Kazankompressormash OJSC | 11,534,519 | 5,722,012 | (9,740,614) | (3,085,277) |
| CIPS LLC | 6,022,314 | 1,208,507 | (4,808,616) | (368,316) |
| Balance at 31 December 2018 | | | | |
| Segment "Industrial pumps" | | | | |
| NASOENERGOMASH 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" | | | | |
| Kazankompressormash 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) |

6 Subsidiaries (continued)

The summarised financial information about transactions and cash flows for the years ended 31 December 2019 and 2018 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 2019 | | | | | | |
| Segment "Industrial pumps" | | | | | | |
| NASOENERGOMASH Sumy JSC | 4,569,851 | 83,814 | 269,067 | 6,536 | (168,992) | 6,056 |
| Plant Promburvod OJSC | 402,478 | 8,989 | (15,724) | (8,818) | (8,416) | 2,166 |
| Bobruisk Machine Building Plant OJSC | 753,026 | (247,498) | (194,108) | 77,101 | (14,387) | (58,506) |
| Dimitrovgradkhimmash JSC | 3,025,941 | 438,116 | 401,475 | (56,989) | (74,335) | (84,946) |
| Segment "Oil and gas equipment and projects" | | | | | | |
| Giprotyumenneftegaz PJSC | 2,239,250 | 128,541 | 113,692 | 184,268 | (46,177) | (31,935) |
| Segment "Compressors" | | | | | | |
| Kazankompressormash OJSC | 12,604,916 | 40,036 | 44,017 | 1,078,522 | (785,822) | 850,291 |
| CIPS LLC | 5,092,468 | 521,568 | 521,568 | 163,491 | (607,970) | - |
| Year ended 31 December 2018 | | | | | | |
| Segment "Industrial pumps" | | | | | | |
| NASOENERGOMASH 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" | | | | | | |
| Kazankompressormash OJSC | 10,016,328 | 369,411 | 372,662 | 1,194,138 | (1,393,439) | 1,099,172 |
| CIPS LLC | 4,503,174 | 595,523 | 595,521 | (351,927) | (96,974) | - |

* 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.

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 2018 | 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 |
| Effect of initial application of IFRS 16 (Note 3) | - | - | (115,973) | (1,180) | (4,615) | - | (121,768) |
| Balance at 1 January 2019 | 1,475,203 | 10,323,031 | 9,700,033 | 335,167 | 1,336,437 | 1,281,009 | 24,450,880 |
| Additions | 590 | 72,796 | 584,170 | 19,651 | 164,761 | 266,638 | 1,108,606 |
| Transfers | 32 | 108,008 | 853,393 | - | 10,229 | (971,662) | - |
| Acquisitions through business combinations (Note 10) | 76,850 | 309,568 | 348,041 | 1,536 | 15,207 | 3,315 | 754,517 |
| Disposals | (5,239) | (17,977) | (137,851) | (15,362) | (46,216) | (3,680) | (226,325) |
| Translation to presentation currency | (3,707) | (40,095) | (46,416) | (603) | (28,076) | 2,071 | (116,826) |
| Balance at 31 December 2019 | 1,543,729 | 10,755,331 | 11,301,370 | 340,389 | 1,452,342 | 577,691 | 25,970,852 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at 1 January 2018 | (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) |
| Effect of initial application of IFRS 16 (Note 3) | - | - | 10,287 | 1,180 | 730 | - | 12,197 |
| Balance at 1 January 2019 | (7,993) | (2,885,256) | (5,055,831) | (219,244) | (889,480) | (9,751) | (9,067,555) |
| Eliminated on disposals | - | 15,561 | 124,074 | 15,289 | 43,264 | - | 198,188 |
| Depreciation expense | - | (396,339) | (1,024,467) | (31,393) | (179,515) | - | (1,631,714) |
| Translation to presentation currency | - | 11,292 | 32,803 | 674 | 18,036 | - | 62,805 |
| Balance at 31 December 2019 | (7,993) | (3,254,742) | (5,923,421) | (234,674) | (1,007,695) | (9,751) | (10,438,276) |
| Carrying amount | | | | | | | |
| Carrying amount at 1 January 2018 | 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 |
| Effect of initial application of IFRS 16 (Note 3) | - | - | (105,686) | - | (3,885) | - | (109,571) |
| Carrying amount at 1 January 2019 | 1,467,210 | 7,437,775 | 4,644,202 | 115,923 | 446,957 | 1,271,258 | 15,383,325 |
| Carrying amount at 31 December 2019 | 1,535,736 | 7,500,589 | 5,377,949 | 105,715 | 444,647 | 567,940 | 15,532,576 |

At 31 December 2019, RR 187,496 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2018: RR 237,952), including RR 121,359 related to undrawn credit facilities (31 December 2018: RR 141,568) (Note 17).

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the year ended 31 December 2019 was RR 18,291 (2018: RR 15,572). The capitalisation rate calculated using Group weighted average interest rate was 9.0% (2018: the capitalisation rate using Group weighted average interest rate was 9.7%, except for borrowing costs related to the specific loan at interest rate of 5%).

Construction-in-progress includes advances for capital expenditures for a total of RR 99,684 at 31 December 2019 (31 December 2018: RR 562,623).

At 31 December 2019, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 148,145 (31 December 2018: RR 467,347).

At 31 December 2019 and for the years then ended, the Group concluded that no impairment charge was required (Note 4) (at 31 December 2018 and for the years then ended: no impairment charge).

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 2018 | 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 | 1,187,615 | - | - | - | 1,196,016 |
| 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 | 1,829,106 | 449,914 | 43,406 | 28,154 | 2,760,732 |
| Effect of initial application of IFRS 16 (Note 3) | - | - | (10,403) | - | - | (10,403) |
| Balance at 1 January 2019 | 410,152 | 1,829,106 | 439,511 | 43,406 | 28,154 | 2,750,329 |
| Additions | 499,809 | - | 199,193 | - | 17,720 | 716,722 |
| Acquisitions through business combinations (Note 10) | - | - | 524 | - | - | 524 |
| Disposals | (16,047) | (80,795) | (198,450) | - | (8,050) | (303,342) |
| Translation to presentation currency | 4,854 | (48,252) | 292 | - | 510 | (42,596) |
| Balance at 31 December 2019 | 898,768 | 1,700,059 | 441,070 | 43,406 | 38,334 | 3,121,637 |

Accumulated amortisation and impairment

| | | | | | | |
|---|------------------|------------------|------------------|------------------|-----------------|--------------------|
| Balance at 1 January 2018 | (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) |
| Effect of initial application of IFRS 16 (Note 3) | - | - | 1,856 | - | - | 1,856 |
| Balance at 1 January 2019 | (95,186) | (489,606) | (205,697) | (18,281) | (13,747) | (822,517) |
| Amortisation on disposals | 16,017 | 80,795 | 198,450 | - | 8,050 | 303,312 |
| Amortisation expense | (75,617) | (295,154) | (245,951) | (2,313) | (8,226) | (627,261) |
| Translation to presentation currency | (4,017) | 32,244 | (1,196) | - | (556) | 26,475 |
| Balance at 31 December 2019 | (158,803) | (671,721) | (254,394) | (20,594) | (14,479) | (1,119,991) |

Carrying amount

| | | | | | | |
|---|----------------|------------------|----------------|---------------|---------------|------------------|
| Carrying amount at 1 January 2018 | 263,658 | 219,061 | 132,137 | 36,394 | 12,366 | 663,616 |
| Carrying amount at 31 December 2018 | 314,966 | 1,339,500 | 242,361 | 25,125 | 14,407 | 1,936,359 |
| Effect of initial application of IFRS 16 (Note 3) | - | - | (8,547) | - | - | (8,547) |
| Carrying amount at 1 January 2019 | 314,966 | 1,339,500 | 233,814 | 25,125 | 14,407 | 1,927,812 |
| Carrying amount at 31 December 2019 | 739,965 | 1,028,338 | 186,676 | 22,812 | 23,855 | 2,001,646 |

9 Goodwill

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

| | 2019 | 2018 |
|---|------------------|------------------|
| Carrying amount at 1 January | 3,092,257 | 2,937,695 |
| Business combination (Note 10) | 425,668 | - |
| Effect of translation to presentation currency related to Apollo Goessnitz GmbH | (147,650) | 154,562 |
| Carrying amount at 31 December | 3,370,275 | 3,092,257 |

9 Goodwill (continued)

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 2019 | 31 December 2018 |
|--|------------------|------------------|
| Kazankompressormash OJSC | 1,239,809 | 1,239,809 |
| Apollo Goessnitz GmbH | 1,011,679 | 1,159,329 |
| Sibneftemash JSC | 511,784 | 511,784 |
| CGU TMCP (part of HMS Neftemash JSC) (Note 10) | 425,668 | - |
| EPF "SIBNA" Inc. JSC | 117,308 | 117,308 |
| Dimitrovgradkhimmash JSC | 64,027 | 64,027 |
| Total carrying amount of goodwill | 3,370,275 | 3,092,257 |

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 2019 | 31 December 2018 |
|---------------------------------------|------------------|------------------|
| <i>For Apollo Goessnitz GmbH CGU:</i> | | |
| Forecast period | 8 years | 8 years |
| Growth rate beyond forecast period | 2.1% | 2.5% |
| Pre-tax discount rate | 12.1% | 12.3% |
| <i>For other CGUs:</i> | | |
| Forecast period | 5-10 years | 5-10 years |
| Growth rate beyond forecast period | 4.0% | 4.0% |
| Pre-tax discount rate | 14.8% | 16.8% |

Based on the results of impairment tests, the Group did not recognise any impairment of goodwill at 31 December 2019 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, with the exception described below.

Value-in-use calculation for CGU TMCP is mostly sensitive to revenue growth rate, which was budgeted at the level of 10% (including inflation effect) for 2021-2029. With zero real growth of revenue throughout forecast period of 10 years, the impairment loss, related to the goodwill, would be RR 86,420.

10 Business Combinations

Acquisition of CIPS LLC. 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.

10 Business Combinations (continued)

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.

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis. The purchase price allocation was finalised at 31 December 2019 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

| | Provisional value at the date of acquisition | Final value at the date of acquisition |
|--|---|---|
| Property, plant and equipment (Note 7) | 5 | 5 |
| Other intangible assets (Note 8) | 1,158,438 | 1,196,016 |
| Inventories | 3 | 3 |
| Prepayments and advances to suppliers | 1,064,466 | 1,064,466 |
| Trade and other receivables and other financial assets | 50,163 | 50,163 |
| Current income tax receivable | 6 | 6 |
| Indemnification asset* | 188,052 | 188,052 |
| Cash and cash equivalents | 915,257 | 915,257 |
| Deferred income tax liability (Note 25) | (220,898) | (228,414) |
| Contract liabilities | (1,844,423) | (1,844,423) |
| Trade and other payables | (46,229) | (46,229) |
| Provisions for liabilities and charges (Note 22) | - | (30,062) |
| VAT payable | (139,922) | (139,922) |
| Withholding tax provision* | (188,052) | (188,052) |
| Fair value of net assets | 936,866 | 936,866 |
| Less: Non-controlling interest | (94,976) | (94,976) |
| Fair value of acquired interest in net assets | 841,890 | 841,890 |
| Purchase consideration paid in cash | 750,000 | 750,000 |
| Less: cash and cash equivalents acquired in a business combination | (915,257) | (915,257) |
| Inflow of cash and cash equivalents on acquisition | (165,257) | (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. At 31 December 2019, the amount of WHT liability and respective indemnification asset were estimated as RR 87,227.

Acquisition of TMCP JSC. On 9 February 2019, HMS Neftemash JSC, the Group's subsidiary, acquired 100% share in 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 primary reason for the acquisition was to enhance the production facilities of the oil and gas equipment and projects business segment.

After the acquisition, the assets and business activities of the acquired group have been merged with business of HMS Neftemash JSC.

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis. The purchase price allocation was finalised at 31 December 2019 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

10 Business Combinations (continued)

| | Provisional value at the date of acquisition | Final value at the date of acquisition |
|--|--|--|
| Property, plant and equipment (Note 7) | 754,517 | 754,517 |
| Right-of-use assets (Note 12) | 2,413 | 2,413 |
| Other intangible assets (Note 8) | 524 | 524 |
| Other long-term receivables | 720 | 220 |
| Inventories | 97,784 | 112,740 |
| Trade and other receivables and other financial assets | 428,270 | 217,453 |
| Cash and cash equivalents | 30,002 | 29,859 |
| Deferred income tax liability (Note 25) | (43,831) | (78,683) |
| Other non-current liabilities | (7,712) | (1,042) |
| Trade and other payables | (827,401) | (660,858) |
| Short-term provisions for liabilities and charges (Note 22) | (130,000) | (83,100) |
| Other taxes payable | (19,771) | (19,711) |
| Fair value of net assets | 285,515 | 274,332 |
| Goodwill (Note 9) | 414,485 | 425,668 |
| Total purchase consideration | 700,000 | 700,000 |
| Less: cash and cash equivalents acquired in a business combination | (30,002) | (29,859) |
| Outflow of cash and cash equivalents on acquisition | 669,998 | 670,141 |

11 Investments in Associates

The Group's investments in associates are as follows:

| | 2019 | 2018 |
|--|---------------|---------------|
| Carrying amount at 1 January | 93,265 | 84,829 |
| Share of after tax results of associates | (632) | (570) |
| Effect of translation to presentation currency | 1,856 | 9,006 |
| Carrying amount at 31 December | 94,489 | 93,265 |

At 31 December 2019 and 2018, 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 2019 and for the year then ended | At 31 December 2018 and for the year then ended |
|-------------------------------|--|--|
| Total non-current assets | 111,190 | 109,983 |
| Total current assets | 9,298 | 7,933 |
| Total non-current liabilities | (5,430) | (6,029) |
| Total current liabilities | (7,315) | (6,692) |
| Revenue | 81,979 | 72,416 |
| Loss after tax | (1,325) | (1,195) |
| Other comprehensive gain | 2,548 | 17,689 |

12 Right-of-use Assets and Lease Liabilities

The Group has right to control the use of land, buildings, plant and equipment and other assets for a long-term period in exchange for consideration under lease agreements from third and related parties (Note 3).

12 Right-of-use Assets and Lease Liabilities (continued)

For the year ended 31 December 2019, following the reclassification of finance leases from Property, plant and equipment and Other intangibles, the movement of right-of-use assets was as follows:

| | Land | Buildings | Plant and equipment | Other | Total |
|--------------------------------------|---------------|---------------|---------------------|---------------|----------------|
| Cost | | | | | |
| Balance at 1 January 2019 | - | - | 115,973 | 16,198 | 132,171 |
| Additions | 13,936 | 62,113 | 28,234 | - | 104,283 |
| Business combination (Note 10) | - | - | - | 2,413 | 2,413 |
| Termination of lease agreements | - | - | (13,020) | - | (13,020) |
| Translation to presentation currency | - | - | (10,968) | (2,063) | (13,031) |
| Balance at 31 December 2019 | 13,936 | 62,113 | 120,219 | 16,548 | 212,816 |

Accumulated depreciation and impairment

| | | | | | |
|---|----------------|----------------|-----------------|----------------|-----------------|
| Balance at 1 January 2019 | - | - | (10,287) | (3,766) | (14,053) |
| Eliminated on termination of lease agreements | - | - | 1,851 | - | 1,851 |
| Depreciation expense | (4,104) | (5,453) | (12,081) | (5,112) | (26,750) |
| Translation to presentation currency | (162) | (215) | 439 | 688 | 750 |
| Balance at 31 December 2019 | (4,266) | (5,668) | (20,078) | (8,190) | (38,202) |

Carrying amount

| | | | | | |
|--|--------------|---------------|----------------|---------------|----------------|
| Carrying amount at 1 January 2019 | - | - | 105,686 | 12,432 | 118,118 |
| Carrying amount at 31 December 2019 | 9,670 | 56,445 | 100,141 | 8,358 | 174,614 |

At 31 December 2019 and 1 January 2019, lease liabilities were as follows:

| | 31 December 2019 | 1 January 2019 |
|--------------------------------|------------------|----------------|
| Current lease liabilities | 21,329 | 15,107 |
| Non-current lease liabilities | 139,272 | 82,853 |
| Total lease liabilities | 160,601 | 97,960 |

At 31 December 2019, lease liabilities were measured on a present value basis using the interest rates implicit in the lease agreements, except to certain lease agreements for which the weighted average incremental borrowing rate was used.

For the year ended 31 December 2019, lease expenses for short-term leases and leases of low-value assets in amount of RR 174,565 (Notes 27, 28, 29) were recognised in the consolidated statement of profit or loss and other comprehensive income and were not included in the measurement of lease liabilities.

For the year ended 31 December 2019, total cash outflows for leases contracts recognised as right-of-use assets amounted to RR 44,220, of which RR 16,986 was included in interest paid.

13 Cash and Cash Equivalents

| | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
| Cash on hand | 2,495 | 2,633 |
| RR denominated balances with banks | 2,410,595 | 1,463,088 |
| Foreign currency denominated balances with banks | 919,575 | 245,341 |
| RR denominated bank deposits | 6,564,999 | 4,462,921 |
| Foreign currency denominated bank deposits | 49,935 | 115,473 |
| Other cash equivalents | 4,519 | 5,703 |
| Total cash and cash equivalents | 9,952,118 | 6,295,159 |

At 31 December 2019, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposit of RR 49,935 (31 December 2018: RR 115,473).

14 Inventories

| | 31 December 2019 | 31 December 2018 |
|-------------------------------------|------------------|------------------|
| Raw materials and supplies | 3,731,761 | 4,372,438 |
| Work in progress | 2,698,975 | 2,925,187 |
| Finished goods and goods for resale | 1,428,315 | 1,791,055 |
| Total inventories | 7,859,051 | 9,088,680 |

Inventories are presented net of provision for obsolescence in amount of RR 753,778 at 31 December 2019 (31 December 2018: RR 655,091).

At 31 December 2019, inventories of RR 460,853 were pledged as collateral for certain borrowings (31 December 2018: RR 982,161) (Note 17). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 27.

15 Trade and Other Receivables and Other Financial Assets

| | 31 December 2019 | 31 December 2018 |
|--|-------------------|-------------------|
| Trade receivables | 16,060,380 | 9,815,554 |
| Less: ECL allowance for trade receivables | (344,383) | (276,504) |
| Short-term loans issued | 31,524 | 30,983 |
| Bank deposits | 15,582 | 31,308 |
| Other receivables | 327,253 | 333,567 |
| Less: ECL allowance for impairment of other receivables | (57,578) | (53,380) |
| Financial assets, net | 16,032,778 | 9,881,528 |
| Prepayments and advances to suppliers and subcontractors | 1,745,061 | 2,037,773 |
| Less: provision for impairment of advances to suppliers and subcontractors | (34,500) | (30,417) |
| VAT receivable | 277,179 | 361,251 |
| Other taxes receivable | 31,391 | 17,708 |
| Non-financial assets, net | 2,019,131 | 2,386,315 |
| Total trade and other receivables and other financial assets | 18,051,909 | 12,267,843 |

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 2019, the closing balance of bank deposits comprised USD-denominated deposit of RR 10,522, EUR-denominated deposit of RR 4,854, UAH-denominated deposits of RR 206. At 31 December 2018, the closing balance of bank deposits comprised USD-denominated deposit of RR 25,646, EUR-denominated deposit of RR 5,562 and RUB-denominated deposits of RR 100.

At 31 December 2019, trade receivables arising from certain sales contracts in the amount of RR 862,766 (31 December 2018: RR 857,856) were pledged as collateral for certain borrowings (Note 17).

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 2018 | 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 |
| ECL allowance and provision for impairment of receivables | 93,647 | 6,892 | 7,174 |
| Unused amounts reversed | (16,199) | (560) | (667) |
| Receivables written off during the year as uncollectible | (9,734) | (453) | (2,460) |
| Effect of translation to presentation currency | 184 | 123 | 36 |
| Foreign currency translation differences | (19) | (1,804) | - |
| At 31 December 2019 | 344,383 | 57,578 | 34,500 |

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

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 29). 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 36.

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 2019 | 31 December 2018 |
|------------------------------|-------------------|------------------|
| RR | 13,719,467 | 8,482,291 |
| UAH | 1,133,587 | 357,309 |
| EUR | 896,999 | 609,404 |
| KZT | 114,584 | 12,416 |
| USD | 112,578 | 382,382 |
| TMT | 33,240 | - |
| BYN | 22,323 | 37,726 |
| Financial assets, net | 16,032,778 | 9,881,528 |

16 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 Sibkomplektnontazhnaladka 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 2019 and 2018, the Group did not identify any impairment of investment property.

17 Borrowings

| | Interest rate | Denomi- nated in | 31 December 2019 | 31 December 2018 |
|---|-----------------|---------------------|-------------------|-------------------|
| Long-term unsecured loans and bonds: | | | | |
| Unsecured bank loans | 7.82% - 9.05% | RR | 20,235,358 | 15,042,968 |
| Bonds | 10.75% | RR | 2,999,526 | 2,996,195 |
| | EURIBOR+3.00% - | | | |
| Unsecured bank loans | EURIBOR+3.45% | EUR | 346,703 | 158,921 |
| Unsecured non-bank loans | 5.00% | RR | 222,222 | 444,444 |
| | | | 23,803,809 | 18,642,528 |
| Less: current portion of long-term borrowings | | | (3,221,748) | (444,444) |
| Total long-term borrowings | | | 20,582,061 | 18,198,084 |
| Short-term unsecured loans: | | | | |
| Unsecured bank loans | 8.10% | RR | - | 10,000 |
| | | | - | 10,000 |
| Short-term secured bank loans: | | | | |
| Secured loans | 2.60% - 5.20% | EUR | 214,125 | 507,117 |
| Secured loans | 13.50% | RR | 6,709 | 48,930 |
| Secured loans | 11.50% - 11.75% | BYN | 4,973 | 22,868 |
| | | | 225,807 | 578,915 |
| Current portion of long-term borrowings | | | 3,221,748 | 444,444 |
| Interest payable | | | 130,835 | 128,774 |
| Total short-term borrowings | | | 3,578,390 | 1,162,133 |

17 Borrowings (continued)

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

| | 31 December 2019 | 31 December 2018 |
|-------------------------|-------------------|-------------------|
| RR | 23,594,233 | 18,671,079 |
| EUR | 560,921 | 666,077 |
| BYN | 5,297 | 23,061 |
| Total borrowings | 24,160,451 | 19,360,217 |

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. HMS Group JSC, HMS Neftemash JSC, HMS Livhydomash JSC and Sibneftemash JSC issued guarantees in respect of these bonds. In February 2020, the bonds were fully redeemed by the Group.

Assets pledged. At 31 December 2019, the Group pledged property, plant and equipment and inventories in total amount of RR 66,137 and RR 460,853 (31 December 2018: RR 96,384 and RR 982,161), respectively.

At 31 December 2019 and 2018, the Group also pledged deposits and its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2019, the Group recognised deposits and trade receivables under these sales contracts in amount of RR 4,854 and RR 862,766 (31 December 2018: RR 5,562 and RR 857,856), respectively.

Breach of loan covenants. At 31 December 2019 and 2018, certain financial covenants related to operational performance of the large investment project, financed by the unsecured non-bank loan, were breached (Notes 34, 36). At 31 December 2018, the long-term part of the unsecured non-bank loan in amount of RR 222,222 was presented within the current portion of long-term borrowings due to the breach of these covenants. At 31 December 2019, in accordance to its maturity, this loan was presented within the current portion of long-term borrowings. The creditor had not requested early repayment of the loan as of the date when these consolidated financial statements were authorised for issuance.

18 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 2019 and 2018:

| | Russia and Belorussia | | Ukraine | |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
| Discount rate | 6.5% | 8.8% | 11.1% | 11.8% |
| Inflation | 4.0% | 4.2% | 5.5% | 6.5% |
| Expected annual increase in salaries | 5.0% | 5.2% | 7.5% | 8.5% |
| Mortality tables | Russian Federation, 2014 | Russian Federation, 2010 | Russian Federation, 2014 | Russian Federation, 2010 |

The following amounts were recognised in profit or loss:

| | 2019 | 2018 |
|---|---------------|---------------|
| Service cost | 34,667 | 9,287 |
| Current service cost | 27,178 | 34,738 |
| Past service cost and gain from curtailment of plans* | 7,489 | (25,451) |
| Interest expense | 51,223 | 49,536 |
| Net actuarial loss/(gain) on other long-term employment benefit obligations | 10,084 | (2,945) |
| Net periodic benefit expense | 95,974 | 55,878 |

18 Retirement Benefit Obligations (continued)

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 2018 | 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 and gain from curtailment of plans* | (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) |
| <i>actuarial gain from changes in assumptions**</i> | <i>(129,572)</i> | <i>-</i> | <i>(129,572)</i> |
| <i>experience loss/(gain)</i> | <i>28,555</i> | <i>(2,945)</i> | <i>25,610</i> |
| Present value of defined benefit obligations at 31 December 2018 | 497,490 | 38,331 | 535,821 |
| Current service cost | 26,655 | 523 | 27,178 |
| Interest expense | 50,383 | 840 | 51,223 |
| Past service cost and gain from curtailment of plans | (8,039) | 15,528 | 7,489 |
| Benefits paid | (32,765) | (1,811) | (34,576) |
| Effect of translation to presentation currency | 12,250 | - | 12,250 |
| Remeasurements, including: | 64,673 | 10,084 | 74,757 |
| <i>actuarial loss from changes in demographic assumptions</i> | <i>8,308</i> | <i>139</i> | <i>8,447</i> |
| <i>actuarial loss from changes in financial assumptions***</i> | <i>50,041</i> | <i>3,138</i> | <i>53,179</i> |
| <i>experience loss</i> | <i>6,324</i> | <i>6,807</i> | <i>13,131</i> |
| Present value of defined benefit obligations at 31 December 2019 | 610,647 | 63,495 | 674,142 |

* In 2018, the Group has assessed the effect 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.

*** Actuarial loss from changes in financial assumptions is mainly attributable to the changes in discount rates used (assumptions used for the actuarial assessment at 31 December 2019 and 2018 are disclosed in this note above).

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 2019 | 31 December 2018 |
|--|------------------|------------------|
| Short-term | 76,904 | 67,497 |
| Long-term | 597,238 | 468,324 |
| Present value of defined benefit obligations at the end of the year | 674,142 | 535,821 |

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

| | | 31 December 2019 | |
|--------------------------------------|-------------------------|--|---------------------------|
| | | Impact on defined benefit obligation: Increase/(decrease) | |
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1.0% | (61,944) | 71,758 |
| Inflation | 1.0% | 40,907 | (34,458) |
| Expected annual increase in salaries | 1.0% | 23,681 | (20,601) |

| | | 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) |

18 Retirement Benefit Obligations (continued)

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 2019 and 2018.

The contributions under voluntary defined benefit pension programs in 2020 are expected to be approximately RR 63,484.

19 Trade and Other Payables

| | 31 December 2019 | 31 December 2018 |
|--|-------------------|-------------------|
| Trade payables | 16,147,555 | 7,855,334 |
| Other payables | 239,144 | 615,286 |
| Contingent consideration liability (Note 37) | 33,000 | - |
| Financial trade and other payables | 16,419,699 | 8,470,620 |
| Advances from customers | 3,282,487 | 3,545,062 |
| Wages and salaries payable | 956,243 | 1,209,258 |
| Other non-financial payables | 4,238,730 | 4,754,320 |
| Total trade and other payables | 20,658,429 | 13,224,940 |

20 Other Taxes Payable

| | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| VAT | 1,221,300 | 598,780 |
| Social funds contribution | 187,984 | 259,978 |
| Personal income tax | 91,420 | 107,650 |
| Withholding tax provision, related to acquisition of subsidiary (Note 10) | 87,227 | 188,052 |
| Property tax | 21,207 | 26,810 |
| Land tax | 11,479 | 11,394 |
| Transport tax | 3,770 | 3,699 |
| Other taxes | 4,319 | 1,919 |
| Total other taxes payable | 1,628,706 | 1,198,282 |

21 Other Long-term Payables

| | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| Deferred income related to Government grant 1 | 74,380 | 93,387 |
| Deferred income related to Government grant 2 | 110,601 | 140,390 |
| Deferred income related to Government grant 3 | 40,000 | - |
| Other deferred income | 2,328 | 3,058 |
| Long-term deferred income | 227,309 | 236,835 |
| Contingent consideration liability (Note 10) | - | 91,890 |
| Lease liability (Note 3) | - | 82,853 |
| Other liabilities | 12,863 | 21,337 |
| Total other long-term payables | 240,172 | 432,915 |

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 2019, under this project, the long-term liability in amount of RR 74,380 (31 December 2018: RR 93,387) and other short-term payables in amount of RR 14,876 (31 December 2018: RR 10,376) 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 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

21 Other Long-term Payables (continued)

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 received funds in amount of RR 170,000 from the Federal budget for realisation of this project; additionally, own funds were invested by the Group in amount of RR 200,204. During 2018, the Group obtained grants in amount of RR 60,000 and also invested its own funds in amount of RR 60,000 to the project. At 31 December 2019, under this project, the long-term liability in amount of RR 110,601 (31 December 2018: RR 140,390) and other short-term payables in amount of RR 25,603 (31 December 2018: RR 12,610) were recognised as deferred income. The grant is subject to certain conditions set for the period till 2023. 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 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

Government grant 3. During the year ended 31 December 2019, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 75,000 for executing a project relating to the development of intelligent mobile secondary reference metrology complex, which will allow to reduce costs of hydrocarbons' extraction. The project is being implemented together with Tyumen State University. Under the grant, during 2019-2020, Neftemash JSC is entitled to receive funds in amount of RR 75,000 from the Federal budget for realisation of this project; additionally, not less than RR 75,000 should be invested by the Group. During 2019, the Group obtained grants in amount of RR 40,000 and also invested its own funds in amount of RR 61,749 to the project. At 31 December 2019, under this project, the long-term liability in amount of RR 40,000 was recognised as deferred income. The grant is subject to certain conditions set for the period till 2023 inclusive, including amounts of own investments and volume of production produced by the results of development. At 31 December 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

22 Provisions for Liabilities and Charges

| | Warranty provision | Provision for legal claims | Provision for tax risks |
|--|--------------------|----------------------------|-------------------------|
| At 1 January 2018 | 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 | - |
| Business combinations (Note 10) | 30,062 | - | - |
| At 31 December 2018 | 466,128 | 441,873 | - |
| Additional provisions | 464,378 | 68,260 | - |
| Unused amounts reversed | (101,691) | (101,126) | - |
| Provision used during the period | (366,229) | (246,951) | - |
| Effect of translation to presentation currency | (789) | (2,094) | - |
| Business combinations (Note 10) | - | 83,100 | - |
| At 31 December 2019 | 461,797 | 243,062 | - |

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 2019, the closing balance of the warranty provision comprised a short-term portion of RR 306,988 and a long-term portion of RR 154,809 (31 December 2018: RR 297,441 and RR 168,687, 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. 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 25) and penalties in amount of RR 12,366 from the Russian tax authorities.

23 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 2018 | 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) |
| Movements during 2019 | - | - | - | - | 142,155 |
| At 31 December 2019 | 117,163,427 | 0.01 | 48,329 | 3,523,535 | (319,475) |

At 31 December 2019 and 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.

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

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.

In May 2019, 414,718 GDRs of the Company representing 1.83% of its issued share capital with the total cost of RR 167,804 were transferred to the participants under the Long-term Incentive Program (Note 24).

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.

At 31 December 2019, the Company, via a wholly-owned subsidiary, is holding 789,564 (31 December 2018: 1,142,987) of its own GDRs with the total cost of RR 319,475 (31 December 2018: RR 461,630). The voting and dividend rights of these GDRs are suspended.

Dividends. No interim dividends were declared by the Board of Directors during the year ended 31 December 2019.

At the Annual General Meeting in June 2019, the Company's shareholders approved the 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 675,897. This dividend was paid in July 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.

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 2019 and 2018, loss and earnings per share are calculated as follows:

| | 2019 | 2018 |
|---|---------------|--------------|
| (Loss)/profit for the year attributable to ordinary shareholders | (93,932) | 1,688,473 |
| Weighted average number of ordinary shares outstanding (thousands) | 112,437 | 111,786 |
| Basic and diluted (loss)/earnings per ordinary share (expressed in RR per share) | (0.84) | 15.10 |

24 Share-based Payments

LTIP 2016-2018. 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 is to 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. Award 2016 was fully vested at 31 December 2018 and was transferred to the participants in May 2019 (Note 23).

The grant date of the second award is 8 December 2016, and the service period of the second award started on 1 January 2017. Award 2017 was fully vested at 31 December 2019 and will be transferred to the participants during the 2-nd quarter of 2020.

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 2019 and 2018 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 |

For the year ended 31 December 2019, the Group recognised share-based compensation expense of RR 136,258 (2018: RR 179,298) 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 118,544 (2018: RR 155,989) and the respective personal income tax effect of RR 17,714 (2018: RR 23,309). The Group also recognised related social security contributions expense of RR 20,847 (2018: RR 27,433).

For the year ended 31 December 2019, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 21,304 (2018: RR 48,816) 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 97,240 (2018: RR 107,173).

LTIP 2019-2021. In December 2018, the Board of Directors of the Company approved a new Long-term Incentive Program (the "New Program") for the Group's key executives. Under the conditions of the New Program, GDRs of the Company will be granted to the participants based on the Group's profit attributable to shareholders of the Company in the years 2019 to 2021. The list of participants of each tranche as well as share of each participant in the total package is to be approved by the Group's Board of Directors. The transfer of GDRs to the participants will happen over 2022-2024, if participants are still employed by the Group. GDRs for this New Program will come from GDRs owned and bought by the Company.

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

The Group accounts for this New Program as an equity-settled share-based payment transaction under IFRS 2, Share-based Payments, starting from 16 September 2019, being the grant date for the first award of the Program. The service period of the first award started on 1 January 2019.

24 Share-based Payments (continued)

The grant date of the second award of the New Program is 6 December 2019, and the service period of the second award will start on 1 January 2020. The grant date for the third award of the New Program did not occur as of 31 December 2019.

As the Group obtained a loss attributable to shareholders of the Company for the year ended 31 December 2019, the Group did not recognise any share-based compensation expense in respect of the New Program in the reporting period.

25 Income Taxes

Income tax expense for the year ended 31 December 2019 and 2018 included:

| | 2019 | 2018 |
|---|----------------|----------------|
| Current tax | 585,528 | 1,071,914 |
| <i>In respect of the current period</i> | 574,487 | 1,132,388 |
| <i>In respect of prior years*</i> | 11,041 | (60,474) |
| Deferred tax | (291,848) | (246,886) |
| Total income tax expense | 293,680 | 825,028 |

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

| | 2019 | 2018 |
|--|------------------|------------------|
| Profit before income tax | 444,310 | 2,770,977 |
| Income tax expense calculated at 20% (2018: 20%) | (88,862) | (554,195) |
| <i>Tax effect of items which are not deductible or assessable for taxation purposes:</i> | | |
| Remeasurement of contingent consideration liability | 11,778 | - |
| Dividend withholding tax provision | 30,000 | (6,381) |
| Tax losses for which no deferred income tax asset was recognised | (70,567) | (85,281) |
| Effect of the difference in tax rates in countries other than the Russian Federation | (37,073) | (8,437) |
| Effect of tax on intragroup dividends received | (34,361) | (69,023) |
| Share-based compensation expense | (31,346) | (11,795) |
| Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes | (28,549) | (28,297) |
| Current tax in respect of prior years* | (11,041) | 60,474 |
| Other non-deductible expenses not subject to tax | (33,659) | (122,093) |
| Total income tax expense | (293,680) | (825,028) |

* 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 22). The current tax in respect of prior years recognised in the year ended 31 December 2019 is mainly attributable to the uncertain income tax position of RR 14,971 accrued in accordance with the decision of the tax authority, which was received by the Group's subsidiary as a result of field tax inspection for prior periods.

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), 29.65% (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.

25 Income Taxes (continued)

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

| | 1 January 2019 | Credited/ (charged) to profit or loss | Translation to presentation currency | Business combination (Note 10) | 31 December 2019 |
|--|--------------------|---|--|--------------------------------------|--------------------|
| Deferred tax liabilities | | | | | |
| Property, plant and equipment | (1,197,973) | 106,855 | 3,490 | (104,377) | (1,192,005) |
| Intangible assets | (351,660) | 5,545 | 5,017 | (105) | (341,203) |
| Right-of-use assets | (9,141) | (12,927) | 347 | (483) | (22,204) |
| Trade and other receivables, other financial assets and contract assets | (51,489) | (456,786) | (5,809) | 946 | (513,138) |
| Short-term borrowings | - | (95) | - | - | (95) |
| Trade and other payables | (580,128) | 429,123 | 1,938 | (411) | (149,478) |
| Other long-term payables | (14,430) | 14,430 | - | - | - |
| Long-term borrowings | (761) | 761 | - | - | - |
| Withholding tax provision | (35,000) | 30,000 | - | - | (5,000) |
| | (2,240,582) | 116,906 | 4,983 | (104,430) | (2,223,123) |
| Deferred tax assets | | | | | |
| Inventories | 578,103 | (54,715) | (12) | 1,013 | 524,389 |
| Cash and cash equivalents | 13 | - | - | - | 13 |
| Other long-term assets | 27,703 | (9,106) | 320 | - | 18,917 |
| Share of results of associates | 12,410 | (244) | - | - | 12,166 |
| Other long-term payables | - | 4,441 | - | - | 4,441 |
| Long-term provisions for liabilities and charges | 54,975 | 790 | 1,535 | - | 57,300 |
| Loss carried forward | 135,582 | 283,332 | (2,237) | 13,861 | 430,538 |
| Other taxes payable | 22,237 | (14,373) | - | - | 7,864 |
| Lease liabilities | 4,963 | 80 | (583) | 253 | 4,713 |
| Short-term provisions for liabilities and charges | 198,457 | (35,263) | 185 | 10,620 | 173,999 |
| | 1,034,443 | 174,942 | (792) | 25,747 | 1,234,340 |
| Total net deferred tax liability | (1,206,139) | 291,848 | 4,191 | (78,683) | (988,783) |

| | 1 January 2018 | Credited/ (charged) to profit or loss | Translation to presentation currency | Business combination (Note 10) | 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) | (237,523) | (351,660) |
| 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) | (237,489) | (2,240,582) |
| 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 liabilities | 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 | (228,414) | (1,206,139) |

At 31 December 2019, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 14,405,721 (31 December 2018: RR 14,103,078) 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.

In accordance with tax legislation of Russian Federation taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2021 tax losses carried forward cannot exceed 50 percent of taxable profits. 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 42,046 (2018: RR 17,955) and recognised deferred tax asset in the amount of RR 323,141 on the loss incurred by its certain subsidiaries in 2019 (2018: RR 82,140).

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.

26 Revenue

Disaggregation of the Group's revenue for the years ended 31 December 2019 and 2018, which is consistent with the revenue by segment disclosure, is disclosed in Note 35.

During 2019, the Group recognised revenue over time in amount of RR 21,563,310 (2018: RR 21,290,257), the remaining revenue was recognised at a point of time (Note 4, 35).

Contract assets increased in 2019, primarily as a result of changes in the measure of progress and the excess of contract expenditure over customer advance payments. In 2018, both contract assets and liabilities decreased, 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 2019, which is related to performance obligations that were satisfied in the prior periods.

The Group's revenue recognised for the year ended 31 December 2019 includes RR 1,242,323 that was included in the opening contract liabilities.

27 Cost of Sales

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Materials and components | 27,956,728 | 27,627,867 |
| Labour costs | 5,493,707 | 5,707,244 |
| Construction, design and engineering and other services of subcontractors | 2,467,447 | 2,102,210 |
| Depreciation and amortisation | 1,954,252 | 1,566,534 |
| Social taxes | 1,566,608 | 1,568,974 |
| Utilities | 456,235 | 521,454 |
| Change in work in progress and finished goods | 360,113 | (69,803) |
| Change in provision for obsolete inventories | 118,515 | 98,617 |
| Change in retirement benefits obligations | 74,307 | 43,304 |
| Lease expense | 63,559 | 106,810 |
| Change in warranty provision | 6,392 | 102,966 |
| Amortisation of government grants | (32,411) | (30,806) |
| Other expenses | 1,318,253 | 1,272,005 |
| Total cost of sales | 41,803,705 | 40,617,376 |

28 Distribution and Transportation Expenses

| | 2019 | 2018 |
|---|------------------|------------------|
| Transportation expenses | 648,228 | 516,691 |
| Labour costs | 565,588 | 604,064 |
| Social taxes | 137,198 | 134,008 |
| Insurance | 117,904 | 192,871 |
| Advertising | 111,508 | 114,383 |
| Lease expense | 62,750 | 61,366 |
| Agency services | 45,431 | 34,793 |
| Material expenses | 45,366 | 46,856 |
| Entertaining costs and business trip expenses | 45,136 | 38,312 |
| Products certification | 30,245 | 35,549 |
| Depreciation and amortisation | 25,779 | 23,705 |
| Telecommunication services | 17,386 | 16,277 |
| Customs duties | 5,735 | 5,322 |
| Change in retirement benefits obligations | 1,749 | 1,021 |
| Other expenses | 101,328 | 90,662 |
| Total distribution and transportation expenses | 1,961,331 | 1,915,880 |

29 General and Administrative Expenses

| | 2019 | 2018 |
|--|------------------|------------------|
| Labour costs | 2,779,157 | 3,068,980 |
| Social taxes | 595,798 | 627,810 |
| Bank services | 369,330 | 272,297 |
| Depreciation and amortisation | 305,573 | 243,885 |
| Taxes and duties | 215,182 | 241,701 |
| Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets | 116,303 | 59,546 |
| Property, plant and equipment repair and maintenance | 112,875 | 106,272 |
| Insurance | 99,021 | 138,923 |
| Entertaining costs and business trip expenses | 97,462 | 109,456 |
| Consulting and other professional fees | 91,780 | 147,751 |
| Stationary and office maintenance | 72,064 | 77,140 |
| Security | 59,075 | 72,592 |
| Lease expense | 48,256 | 49,406 |
| Auditors' remuneration | 38,611 | 40,866 |
| Telecommunications services | 31,045 | 31,545 |
| Change in retirement benefits obligations | 19,918 | 11,553 |
| Training and recruitment | 14,976 | 23,664 |
| Change in provision for tax risks, other than income tax | - | (12,366) |
| Other expenses | 328,657 | 324,564 |
| Total general and administrative expenses | 5,395,083 | 5,635,585 |

The auditors' remuneration stated above includes fees for the audit of the Group's consolidated financial statements in amount of RR 20,324 (2018: RR 22,817), fees for statutory audit services of the Group parent and subsidiaries in amount of RR 10,078 (2018: RR 9,124) and fees for other assurance services in amount of RR 8,209 (2018: RR 8,925) 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 198 (2018: RR 244) 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 3,314 for the year ended 31 December 2019 (2018: RR 2,564).

30 Other Operating Expenses, net

| | 2019 | 2018 |
|---|----------------|----------------|
| Charity, social expenditures | 134,976 | 141,869 |
| Foreign exchange loss/(gain), net | 80,332 | (13,352) |
| Fines and late payment interest under contracts | 43,481 | 50,510 |
| Loss on purchase/sale of foreign currency, net | 30,290 | 29,844 |
| Depreciation of social assets | 9,968 | 8,483 |
| Gain on remeasurement of contingent consideration liability (Note 37) | (58,890) | - |
| Gain from disposal of property, plant and equipment and intangible assets | (50,312) | (20,457) |
| Change in provision for legal claims | (32,866) | (19,398) |
| Other expenses, net | 38,616 | 72,636 |
| Total other operating expenses, net | 195,595 | 250,135 |

31 Finance Income

| | 2019 | 2018 |
|---|----------------|----------------|
| Interest income | 189,597 | 180,425 |
| Foreign exchange (loss)/gain from deposits, net | (17,295) | 1,763 |
| Total finance income | 172,302 | 182,188 |

32 Finance Costs

| | 2019 | 2018 |
|--|------------------|------------------|
| Interest expense | 1,764,173 | 1,598,420 |
| Interest expense on lease liabilities | 17,072 | 2,878 |
| Foreign exchange loss from borrowings, net | 3,362 | 3,831 |
| Fees for early repayment of loans | - | 5,416 |
| Total finance costs | 1,784,607 | 1,610,545 |

33 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.

Joint venture category of related parties includes a trading company registered in Kazakhstan. For the year ended 31 December 2019 and 2018 its financial result was not material for the application of equity accounting.

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 2019 | | | 31 December 2018 | | |
|-------------------------------|------------------|---------------|---------|------------------|---------------|---------|
| | Associates | Joint Venture | Other | Associates | Joint Venture | Other |
| Loans issued | - | - | 6,713 | - | - | - |
| Accounts receivable | 544 | 114,802 | 330,795 | 2,343 | 8,120 | - |
| Accounts payable | 4,554 | 880 | 763,235 | 2,320 | - | 162,184 |
| Current lease liabilities | 4,675 | - | - | - | - | - |
| Non-current lease liabilities | 86,206 | - | - | - | - | - |

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 | 2019 | | | 2018 | | |
|---|------------|---------------|-----------|------------|---------------|-------|
| | Associates | Joint Venture | Other | Associates | Joint Venture | Other |
| Sales of goods and finished products | - | 252,685 | 30,704 | 10,257 | 27,867 | - |
| Purchase of materials and components | - | (23,508) | (130,792) | (3) | (997) | - |
| Development costs expensed | (28,407) | - | - | (4,754) | - | - |
| Purchase of intangible assets | (22,244) | - | - | (33,936) | - | - |
| Purchase of services | (12,053) | - | (1,517) | (29,412) | - | - |
| Interest expenses on lease liabilities | (12,885) | - | - | - | - | - |
| Other income/(expenses) | 1,849 | (333) | (510) | 905 | (2,430) | 310 |
| Lease expense | (238) | - | - | (1,092) | - | - |
| Purchase of property, plant and equipment | - | - | - | (179) | - | - |

Key management compensation

Key management compensation amounted to RR 491,629 for the year ended 31 December 2019 (2018: RR 662,146) 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 355,371 (2018: RR 482,847) as well as share-based compensation of RR 136,258 (2018: RR 179,299). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 38,552 (2018: RR 39,846) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 100,444 for the year ended 31 December 2019 (2018: RR 164,993), including share-based compensation of RR 24,772 (2018: RR 32,596).

For the year ended 31 December 2019, dividends of RR 43,018 were accrued and paid by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (2018: RR 48,106).

34 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 2019, management concluded that possible risk related with various claims and legal proceedings amounted to RR 125,983 (31 December 2018: RR 222,528). All probable legal risks are provided for (Note 22).

34 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 2019, the Group accrued uncertain income tax positions as a component of income tax payable of RR 14,971 (31 December 2018: nil).

(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 2019, commitments for purchase of the services amounted to RR 31,933 (31 December 2018: RR 30,649).

At 31 December 2019, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 148,145 (31 December 2018: RR 467,347).

34 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. The grant is subject to certain conditions set for the period till 2020 inclusive. 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 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement. Also refer to Note 21.

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. The grant is subject to certain conditions set for the period till 2023 inclusive. 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 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement. Also refer to Note 21.

During the year ended 31 December 2019, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 75,000 for development of intelligent mobile secondary reference metrology complex. The grant is subject to certain conditions set for the period till 2023 inclusive, including amounts of own investments and volume of production produced by the results of development. At 31 December 2019, management believes that the Group will be able to comply with the conditions stipulated by the agreement. Also refer to Note 21.

(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 2019 and 2018, 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 222,222 (31 December 2018: RR 444,444) (Notes 17, 36).

35 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 2019 | 31 December 2018 |
|---|--------------------------------------|--------------------------------------|
| 1 | HMS Livhydomash JSC | HMS Livhydomash JSC |
| 2 | Livnynasos JSC | Livnynasos JSC |
| 3 | NASOENERGOMASH Sumy JSC | NASOENERGOMASH 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 |

35 Segment Information (continued)

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 | Giprotyumenneftegaz PJSC | Giprotyumenneftegaz PJSC |
| 5 | Institute Rostovskiy Vodokanalproekt JSC | Institute Rostovskiy Vodokanalproekt JSC |

The **third** operating segment “**Compressors**” includes:

| | | |
|---|---|---|
| 1 | Kazankompressormash OJSC | Kazankompressormash OJSC |
| 2 | NIITurbokompressor named after V.B.Shnepp JSC | NIITurbokompressor named after V.B.Shnepp JSC |
| 3 | CIPS LLC | 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 2019 is as follows:

| Disclosures by segments | Industrial pumps | Oil and gas equipment and projects | Compressors | Construction | All other segments | Intersegment transactions | Total |
|-------------------------|------------------|------------------------------------|-------------|--------------|--------------------|---------------------------|------------|
| External revenue | 19,380,099 | 12,772,278 | 17,858,944 | 1,392,740 | 8,900 | - | 51,412,961 |
| Intersegment revenue | 390,251 | 388,086 | 24,616 | 1,149 | 1,748,024 | - | 2,552,126 |
| Adjusted EBITDA | 2,599,145 | 430,075 | 1,545,781 | (29,025) | 241,924 | 36,110 | 4,824,010 |

35 Segment Information (continued)

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 |

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

| 2019 | | | | | | | |
|---|------------------|------------------------------------|------------------|-----------------|--------------------|---------------------------|------------------|
| | Industrial pumps | Oil and gas equipment and projects | Compressors | Construction | All other segments | Intersegment transactions | Total |
| Adjusted EBITDA | 2,599,145 | 430,075 | 1,545,781 | (29,025) | 241,924 | 36,110 | 4,824,010 |
| Depreciation and amortisation | (1,070,415) | (474,373) | (648,466) | (37,316) | (65,002) | - | (2,295,572) |
| Non-monetary items ⁽¹⁾ | (219,442) | 48,244 | (119,534) | 13,632 | (8,008) | - | (285,108) |
| Amortisation of government grants (Note 27) | - | 32,411 | - | - | - | - | 32,411 |
| Other operating (expenses)/income, net ⁽²⁾ | (255,774) | (15,790) | 50,743 | 8,878 | 5,351 | (11,902) | (218,494) |
| Operating profit/(loss), IFRS | 1,053,514 | 20,567 | 828,524 | (43,831) | 174,265 | 24,208 | 2,057,247 |
| Finance income | | | | | | | 172,302 |
| Finance costs | | | | | | | (1,784,607) |
| Share of results of associates | | | | | | | (632) |
| Profit before income tax, IFRS | | | | | | | 444,310 |

⁽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 30, excluding depreciation of social assets and provision for legal claims.

| 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 27) | - | 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 associates | | | | | | | (570) |
| Profit before income tax, IFRS | | | | | | | 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 30, excluding depreciation of social assets and provision for legal claims.

| 2019 | | | | | | |
|------------------------------------|------------------|------------------------------------|-------------|-----------|--------------------|------------|
| Revenue by major customers | Industrial pumps | Oil and gas equipment and projects | Compressors | EPC | All other segments | Total |
| Total revenue, | 19,380,099 | 12,772,278 | 17,858,944 | 1,392,740 | 8,900 | 51,412,961 |
| Including | | | | | | |
| Gazprom komplektatsiya LLC | 70 | 380,670 | 5,035,918 | - | - | 5,416,658 |
| Others (each<10% of total revenue) | 19,380,029 | 12,391,608 | 12,823,026 | 1,392,740 | 8,900 | 45,996,303 |

35 Segment Information (continued)

| | 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 |
| <i>Including</i> | | | | | | |
| 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 |

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 2019 | Consolidated revenue for 2018 | Non-current assets at 31 December 2019 ⁽¹⁾ | Non-current assets at 31 December 2018 ⁽¹⁾ |
|--|-------------------------------|-------------------------------|---|---|
| Total revenue/ non-current assets | 51,412,961 | 52,618,880 | 21,265,743 | 20,717,992 |
| <i>Including</i> | | | | |
| Russia | 44,612,575 | 48,095,538 | 17,760,336 | 16,902,119 |
| Ukraine | 2,202,874 | 784,564 | 1,528,077 | 1,466,513 |
| Kazakhstan | 954,625 | 486,186 | - | - |
| Germany | 672,061 | 585,087 | 1,612,265 | 1,933,060 |
| Iraq | 524,517 | 482,007 | - | - |
| India | 507,154 | 595,476 | - | - |
| Iran | 439,187 | 151,676 | - | - |
| Belarus | 330,395 | 347,988 | 365,065 | 416,300 |
| Norway | 268,412 | 46,830 | - | - |
| Latvia | 4,271 | 102,878 | - | - |
| Others | 896,890 | 940,650 | - | - |

⁽¹⁾ Non-current assets include goodwill, other intangible assets, property, plant and equipment, right-of-use assets 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.

36 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.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018. 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 2019 | | | 31 December 2018 | | |
|-----|---------------------------|--------------------------------|--------------|---------------------------|--------------------------------|--------------|
| | Monetary financial assets | Monetary financial liabilities | Net position | Monetary financial assets | Monetary financial liabilities | Net position |
| USD | 1,082,023 | (894,218) | 187,805 | 1,481,834 | (1,317,402) | 164,432 |
| EUR | 1,376,300 | (1,893,910) | (517,610) | 370,678 | (773,852) | (403,174) |
| RR | 374,195 | (1,150,862) | (776,667) | 413,697 | (840,069) | (426,372) |

36 Financial Risk Management (continued)

At 31 December 2019, if RR had strengthened/weakened by 20% against the US dollar with all other variables held constant, profit for the year would have been RR 30,049 lower/higher (31 December 2018: profit for the year would have been RR 26,309 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and contract assets.

At 31 December 2019, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, profit for the year would have been RR 82,818 higher/lower (31 December 2018: profit for the year would have been RR 64,508 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 2019, if respective functional currencies of such subsidiaries had strengthened/weakened by 20% against the RR with all other variables held constant, profit for the year would have been RR 124,267 higher/lower (31 December 2018: profit for the year would have been RR 68,220 higher/lower), mainly as a result of foreign exchange gains/losses on translation of RR denominated 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 17). The Group does not have significant interest-bearing assets.

At 31 December 2019, 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 189,973 lower/higher (31 December 2018: RR 139,803 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 2019 | 31 December 2018 |
|--|-------------------|-------------------|
| Trade and other receivables | | |
| - Trade receivables | 15,715,997 | 9,539,050 |
| - Other financial receivables | 358,772 | 365,654 |
| Contract assets | 8,058,877 | 4,611,700 |
| Cash and cash equivalents (Note 13) | | |
| - Bank balances | 9,949,623 | 6,292,526 |
| - Cash on hand | 2,495 | 2,633 |
| Total on-balance sheet exposure | 34,085,764 | 20,811,563 |
| Total maximum exposure to credit risk | 34,085,764 | 20,811,563 |

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.

36 Financial Risk Management (continued)

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

| Agency | Rating | 31 December 2019 | 31 December 2018 |
|--------------------------|--------------|------------------|------------------|
| Moody's ⁽¹⁾ | Ba1 – B2 | 7,825,942 | 4,596,763 |
| Expert RA ⁽⁴⁾ | B – BBB+ | 1,011,856 | 79,346 |
| Fitch ⁽³⁾ | BBB- – B- | 560,136 | 776,805 |
| S&P's ⁽²⁾ | BBB+ – B- | 211,432 | 60,567 |
| S&P's ⁽²⁾ | AA- – A | 116,016 | 83,936 |
| Expert RA ⁽⁴⁾ | A+ – AA | 35,006 | 475,857 |
| Fitch ⁽³⁾ | AA- – A | 11,993 | 9,314 |
| Moody's ⁽¹⁾ | less than B3 | - | 57,668 |
| Other ⁽⁵⁾ | - | 177,242 | 152,270 |
| Total | | 9,949,623 | 6,292,526 |

⁽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⁾ At 31 December 2019, other item includes cash which was placed in Russian Treasury departments in amount of RR 170,482 (31 December 2018: 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 analysis of credit quality of trade and other accounts receivable is as follows:

| | 31 December 2019 | | 31 December 2018 | |
|-------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Trade receivables | Other financial receivables | Trade receivables | Other financial receivables |
| Gross carrying amount: | 16,060,380 | 416,350 | 9,815,554 | 419,034 |
| - not overdue | 14,122,612 | 326,917 | 7,909,434 | 322,486 |
| - past due less than 60 days | 735,951 | 11,007 | 746,673 | 15,455 |
| - past due 61 to 180 days | 404,497 | 3,031 | 307,972 | 13,612 |
| - past due 181 to 365 days | 191,506 | 3,073 | 360,815 | 4,178 |
| - past due over 365 days | 605,814 | 72,322 | 490,660 | 63,303 |
| ECL allowance: | (344,383) | (57,578) | (276,504) | (53,380) |
| - not overdue | (24,425) | (4,134) | (8,216) | (200) |
| - past due less than 60 days | - | (291) | (755) | (2,446) |
| - past due 61 to 180 days | (246) | - | (5,244) | - |
| - past due 181 to 365 days | (18,457) | (1,593) | (846) | (1,198) |
| - past due over 365 days | (301,255) | (51,560) | (261,443) | (49,536) |
| Total | 15,715,997 | 358,772 | 9,539,050 | 365,654 |

At 31 December 2019, ECL allowance was accrued in relation to the contract assets in amount of RR 26,561 (31 December 2018: nil). At 31 December 2019, the carrying amount of the contract assets less ECL allowance is RR 8,058,877 (31 December 2018: RR 4,611,700).

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 2019 is RR 16,074,769 (31 December 2018: RR 9,904,704).

Credit risk concentration

| Date | Number of counterparties with aggregated receivables balances above RR 50,000 | Aggregate amount of receivables balances | % of the amount of trade and other receivables |
|---------------------|---|--|--|
| At 31 December 2019 | 54 | 13,447,765 | 84% |
| At 31 December 2018 | 48 | 7,632,326 | 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.

36 Financial Risk Management (continued)

At 31 December 2019, there is one group of customers (forming a single group) with a receivables' balance exceeding 10% of the Group's monetary assets as of that date (31 December 2018: two groups of customers (each forming a single group) with a receivables' balance exceeding 10% of the Group's 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 2019 and 2018:

| Statement of financial position item | Carrying amount at 31 December 2019 | Cash flows under the contract | | | |
|--------------------------------------|-------------------------------------|-------------------------------|-----------------------|-----------------------|--------------|
| | | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Bonds ⁽¹⁾ | 3,117,034 | 3,365,776 | - | - | - |
| Bank loans ⁽¹⁾ | 20,821,195 | 2,087,842 | 7,192,137 | 15,502,209 | - |
| Non-bank loan ⁽²⁾ | 222,222 | 222,222 | - | - | - |
| Trade accounts payable | 16,147,555 | 16,147,555 | - | - | - |
| Lease liabilities ⁽¹⁾ | 160,601 | 40,727 | 31,130 | 84,380 | 89,280 |
| Contingent consideration liability | 33,000 | 33,000 | - | - | - |
| Other financial payables | 239,144 | 239,144 | - | - | - |

| Statement of financial position item | Carrying amount at 31 December 2018 | Cash flows under the contract | | | |
|--------------------------------------|-------------------------------------|-------------------------------|-----------------------|-----------------------|--------------|
| | | 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 | - | - | - |
| Contingent consideration liability | 91,890 | - | 91,890 | - | - |
| Other financial payables | 615,286 | 615,286 | - | - | - |

⁽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 and lease liabilities.

⁽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 2019 and 2018 (Notes 17, 34).

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.

At 31 December 2019, the Group had unutilised uncommitted credit lines in amount of RR 4,000,547 (31 December 2018: RR 13,449,069).

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.

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 2019 | 31 December 2018 |
|---------------------|------------------|------------------|
| Liquidity ratio | 1.52 | 1.78 |
| Current assets | 44,149,872 | 32,520,791 |
| Current liabilities | 28,980,811 | 18,293,230 |

36 Financial Risk Management (continued)

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 and lease liabilities 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 2019 and 2018, 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 2019 | 31 December 2018 |
|--|-------------------|-------------------|
| Long-term borrowings | 20,582,061 | 18,198,084 |
| Short-term borrowings | 3,578,390 | 1,162,133 |
| Lease liabilities | 160,601 | 97,960 |
| Total debt | 24,321,052 | 19,458,177 |
| Cash and cash equivalents | (9,952,118) | (6,295,159) |
| Net debt | 14,368,934 | 13,163,018 |
| Equity attributable to the shareholders of the Company | 10,299,321 | 11,204,518 |
| Non-controlling interests | 3,569,953 | 3,386,155 |
| Total capital | 13,869,274 | 14,590,673 |
| Gearing ratio | 104% | 90% |

37 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.

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.

37 Fair Value of Financial Instruments (continued)

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 2019, the fair value of bonds was RR 1,074 higher than their carrying amounts (31 December 2018: the fair value of bonds was RR 60,805 higher than their carrying amounts). The fair value of borrowings was based on Level 2 inputs. At 31 December 2019, the fair value of borrowings was RR 180,836 higher than their carrying amounts (31 December 2018: the fair value of borrowings was RR 15,810 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, 19) and included in Trade and other payables line of the consolidated statement of financial position at 31 December 2019 (31 December 2018: this liability was disclosed as other long-term payables (Note 21)) is carried at fair value, which is determined based on unobservable inputs (Level 3 of the fair value hierarchy). At the date of the respective business combination and at 31 December 2018, the fair value of this contingent consideration liability was RR 91,890. At 31 December 2019, the fair value of the contingent consideration liability was reduced to RR 33,000 in accordance with the final assesment of additional payment which the Group is required to make under the contingent consideration arrangement. This amount was paid to the seller in April 2020. The gain on remeasurement in amount of RR 58,890 was recognised in other operating expenses, net (Note 30).

Reconciliation of liabilities arising from financing activities. The movements in the Group's liabilities arising from financing activities are as follows:

| | Borrowings | Dividends declared to the shareholders of the Company | Dividends declared by the Group's subsidiaries | 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 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 32) | 1,598,420 | - | - | - | 1,598,420 |
| Borrowing costs capitalised (Note 7) | 15,572 | - | - | - | 15,572 |
| Fees for early repayment of loans (Note 32) | 5,416 | - | - | - | 5,416 |
| Currency translation differences | 62,688 | - | 127 | 3,580 | 66,395 |
| Foreign exchange loss from borrowings, net (Note 32) | 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 |
| Interest expenses on lease liabilities | - | - | - | 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 |
| Cash flows: | | | | | |
| Proceeds from borrowings, net | 4,875,631 | - | - | - | 4,875,631 |
| Repayment of interest | (1,776,254) | - | - | (16,986) | (1,793,240) |
| Dividends paid to the shareholders of the Company | - | (1,103,859) | - | - | (1,103,859) |
| Dividends paid to non-controlling shareholders of subsidiaries | - | - | (60,950) | - | (60,950) |
| Lease payments | - | - | - | (27,234) | (27,234) |
| Non-cash changes: | | | | | |
| Interest expense (Note 32) | 1,764,173 | - | - | - | 1,764,173 |
| Borrowing costs capitalised (Note 7) | 18,291 | - | - | - | 18,291 |
| Currency translation differences | (83,946) | - | 4 | (11,819) | (95,761) |
| Foreign exchange loss from borrowings, net (Note 32) | 3,362 | - | - | - | 3,362 |
| Dividends declared to the shareholders of the Company | - | 675,897 | - | - | 675,897 |
| Dividends declared to non-controlling shareholders of subsidiaries | - | - | 63,537 | - | 63,537 |
| Non-cash additions | - | - | - | 101,608 | 101,608 |
| Interest expenses on lease liabilities | - | - | - | 17,072 | 17,072 |
| Other | (1,023) | - | (7,229) | - | (8,252) |
| Closing amount as at 31 December 2019 | 24,160,451 | - | 5,103 | 160,601 | 24,326,155 |

38 Subsequent Events

Bonds. In February 2020, the bonds were fully redeemed by the Group in amount of RR 2,999,526. The redemption was financed by credit funds.

COVID-19 and fall in oil prices. Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

In addition to that, in March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

Management considers the outbreak of COVID-19 coronavirus infection and the reduction in oil prices to be non-adjusting events after the reporting period.

The Group developed a stress scenario of the possible impact of the current operating environment on the Group's business, including the analysis of possible deviations in execution of large contracts, included in the Group's budget for 2020, as well as assessment of probability of reduction in revenues on recurring business, the analysis of factual liquidity and debt position of the Group at the date of issuance of these consolidated financial statements, its future expected cash inflows and outflows and the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.



HMS Hydraulic Machines & Systems Group plc

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

31 December 2019

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Board of Directors

Mr. Nikolai N. Yamburenko

Chairman of the Board of Directors

Non-executive Director

Member of the Strategy and Investments Committee

Member of the Remuneration Committee

Member of the Audit 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 Remuneration Committee

Chairman 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. Vyacheslav G. Tsoy

Non-executive Director

Mr. Andreas S. Petrou

Non-executive Director

Board support

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

Company Secretary

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

Registered office

Alkaiou, 5
PELEKANOS BUILDING 16
2nd floor, Flat/Office 201
'Egkomi, 2404
Nicosia, Cyprus

The Board of Directors presents its management report together with the audited parent company financial statements for the year ended 31 December 2019. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activity of the Company is the holding of investments.

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

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

The profit of the Company for the year ended 31 December 2019 was RR 506,574 thousand (2018: RR 1,196,267 thousand) arising mainly as a result of dividend income in amount of RR 620,104 thousand (2018: RR 1,350,006 thousand). At 31 December 2019, the total assets of the Company were RR 4,273,222 thousand (31 December 2018: RR 4,864,213 thousand) and net assets were RR 4,261,506 thousand (31 December 2018: RR 4,430,829 thousand). The financial position and financial performance of the Company as presented in the financial statements are considered satisfactory.

Principal risks and uncertainties

The Company's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 14 to the financial statements.

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

Future developments

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

Results

The Company's results for the year ended 31 December 2019 are set out on page 13 of the parent company financial statements.

Dividends

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

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

No interim dividends were declared by the Board of Directors during the year ended 31 December 2019.

At the Annual General Meeting in June 2019, the Company's shareholders approved the 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 675,897 thousand. This dividend was paid in July 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.

Share capital

At 31 December 2019, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01 each, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 9.

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

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

The role of the Board of Directors

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

Members of the Board of Directors

The members of the Board of Directors at 31 December 2019 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. Vladimir V. Lukyanenko, Kirill V. Molchanov and Yury N. Skrynnik 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 2019 and 31 December 2018 are shown below:

| Director | 31 December 2019 | 31 December 2018 |
|------------------------|------------------|------------------|
| Vladimir V. Lukyanenko | 27.4% | 27.4% |
| Artem V. Molchanov | 6.8% | 6.6% |
| Yury N. Skrynnik | 3.6% | 3.5% |
| Kirill V. Molchanov | 2.5% | 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 16 to the financial statements.

The Board Committees

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

Audit Committee. The audit committee comprises 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 Nikolay N. Yamburenko. 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. 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 Vladimir V. Lukyanenko 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 Company's and 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. HMS 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 2019 amounted to RR 38,552 thousand (2018: RR 39,846 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 100,444 thousand for the year ended 31 December 2019 (2018: RR 164,993 thousand).

Branches

The Company did not operate through any branches during the year ended 31 December 2019.

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. Under this program, a wholly-owned subsidiary of the Group from time to time purchases GDRs of the Company from the market.

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 thousand.

In May 2019, 414,718 GDRs of the Company representing 1.83% of its issued share capital with the total cost of RR 167,804 thousand were transferred to the participants under the Long-term Incentive Program.

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.

At 31 December 2019, the Company, via a wholly-owned subsidiary, is holding 789,564 (31 December 2018: 1,142,987) of its own GDRs with the total cost of RR 319,475 thousand (31 December 2018: RR 461,630 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 financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2020, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
23 April 2020



Directors' Responsibility Statement

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

Each of the Directors confirms to the best of his or her knowledge that the financial statements (presented on pages 12 to 25) give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Plc at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board



Artem V. Molchanov
Director
23 April 2020

Kirill V. Molchanov
Director
23 April 2020

Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of parent company HMS Hydraulic Machines & Systems Group plc (the "Company"), which are presented in pages 12 to 25 and comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of parent company HMS Hydraulic Machines & Systems Group Plc as at 31 December 2019, and of its financial performance and its 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 Financial Statements" section of our report. We remained independent of the Company throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

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 financial statements of the current period. These matters were addressed in the context of our audit of the 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

Impairment assessment of investments in subsidiaries

The carrying amount of investments in subsidiaries at 31 December 2019 amounted to RR 4,181,740 thousand.

As required by applicable accounting standards, the Company performs an analysis in order to determine whether there are any indicators of impairment in respect of the Company's investments in subsidiaries at each reporting date. Because of the judgement involved in the assessment the impairment of the investments in subsidiaries is determined to be a key audit matter.

The details on the accounting for investments in subsidiaries are included in Notes 4 and 8 to the accompanying financial statements.

In relation to the Company's analysis for the identification of indicators of impairment of investments in subsidiaries, we obtained understanding of key controls over the impairment review process and we have challenged the assessment made by the Company in order to determine whether there were any indicators of impairment.

We specifically focus on the analysis that was prepared by the Company in order to determine whether there were any indicators of impairment in respect of the Company's investments in subsidiaries because of the judgement involved in that assessment.

We also assessed the adequacy of the disclosures made by the Company in its financial statements in relation to the investments in subsidiaries and their impairment review process.

The above procedures were completed in a satisfactory manner.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and the Directors' responsibility statement in pages 2 to 6, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 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 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.

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

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

- 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 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 those charged with governance, we determine those matters that were of most significance in the audit of the 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 Company 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 6 years.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 16 April 2020 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 Company and which have not been disclosed in the financial statements or the 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 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 financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the 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 management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the financial statements.
- 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 Company 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.

Independent Auditor's Report (continued)

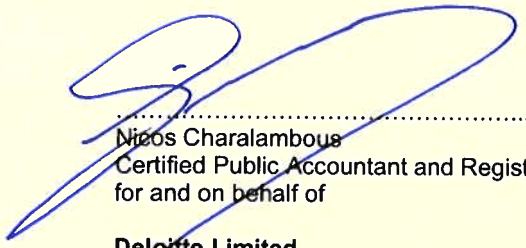
To the Members of HMS Hydraulic Machines & Systems Group Plc

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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

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



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

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

Limassol, 23 April 2020

| | Note | 31 December 2019 | 31 December 2018 |
|-------------------------------------|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets: | | | |
| Investments in subsidiaries | 8 | 4,181,740 | 4,181,740 |
| Total non-current assets | | 4,181,740 | 4,181,740 |
| Current assets: | | | |
| Other receivables | 7 | 80,324 | 664,971 |
| Cash and cash equivalents | 6 | 11,158 | 17,502 |
| Total current assets | | 91,482 | 682,473 |
| TOTAL ASSETS | | 4,273,222 | 4,864,213 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 9 | 48,329 | 48,329 |
| Share premium | 9 | 3,563,424 | 3,563,424 |
| Retained earnings | | 649,753 | 819,076 |
| TOTAL EQUITY | | 4,261,506 | 4,430,829 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Dividends payable | 9 | - | 427,962 |
| Other payables | | 11,716 | 5,422 |
| Total current liabilities | | 11,716 | 433,384 |
| TOTAL LIABILITIES | | 11,716 | 433,384 |
| TOTAL EQUITY AND LIABILITIES | | 4,273,222 | 4,864,213 |

Approved for issue and signed on behalf of the Board of Directors on 23 April 2020.



Artem V. Molchanov
Director



Kirill V. Molchanov
Director

| | Note | 2019 | 2018 |
|--|-------------|----------------|------------------|
| Revenue | 13 | 620,104 | 1,350,006 |
| General and administrative expenses | 11 | (82,955) | (102,652) |
| Other operating income, net | 12 | 430 | 16,413 |
| Operating profit | | 537,579 | 1,263,767 |
| Profit before income tax | | 537,579 | 1,263,767 |
| Income tax expense | 10 | (31,005) | (67,500) |
| Profit for the year and total comprehensive income for the year | | 506,574 | 1,196,267 |

| | Note | 2019 | 2018 |
|---|------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 537,579 | 1,263,767 |
| Adjustments for: | | | |
| Amortisation of financial guarantees | 13 | - | (18,651) |
| Foreign exchange (gain)/loss, net | 12 | (430) | 2,238 |
| Operating cash flows before working capital changes | | 537,149 | 1,247,354 |
| Decrease in other receivables | | 584,648 | 157,541 |
| Increase/(decrease) in accounts payable | | 6,957 | (4,578) |
| Cash generated from operations | | 1,128,754 | 1,400,317 |
| Tax paid | 10 | (31,005) | (67,500) |
| Net cash generated from operating activities | | 1,097,749 | 1,332,817 |
| Cash flows from financing activities | | | |
| Dividends paid to the shareholders | 9 | (1,103,859) | (1,336,860) |
| Net cash used in financing activities | | (1,103,859) | (1,336,860) |
| Net decrease in cash and cash equivalents | | (6,110) | (4,043) |
| Effect of exchange rate changes on cash and cash equivalents | | (234) | (714) |
| Cash and cash equivalents at the beginning of the year | | 17,502 | 22,259 |
| Cash and cash equivalents at the end of the year | 6 | 11,158 | 17,502 |

| | Note | Share capital | Share premium | Retained earnings | Total |
|---|------|---------------|------------------|--------------------|--------------------|
| Balance at 1 January 2018 | | 48,329 | 3,563,424 | 814,222 | 4,425,975 |
| Profit for the year and total comprehensive income for the year | | - | - | 1,196,267 | 1,196,267 |
| Dividends declared to the shareholders of the Company | 9 | - | - | (1,191,413) | (1,191,413) |
| Total transactions with owners of the Company, recognised directly in equity | | - | - | (1,191,413) | (1,191,413) |
| Balance at 31 December 2018 | | 48,329 | 3,563,424 | 819,076 | 4,430,829 |
| Profit for the year and total comprehensive income for the year | | - | - | 506,574 | 506,574 |
| Dividends declared to the shareholders of the Company | 9 | - | - | (675,897) | (675,897) |
| Total transactions with owners of the Company, recognised directly in equity | | - | - | (675,897) | (675,897) |
| Balance at 31 December 2019 | | 48,329 | 3,563,424 | 649,753 | 4,261,506 |

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

1 General Information

HMS Hydraulic Machines & Systems Group plc (the “Company”) was incorporated in Cyprus on 27 April 2010. The Company’s registered office is at 5 Alkaïou, 2404, Nicosia, Cyprus (before 22 March 2018, the Company’s registered office was at 13 Karaïskaki, 3032, Limassol, Cyprus).

Approval of the financial statements. These financial statements were authorised for issue by the Board of Directors of the Company on 23 April 2020.

Global depository receipts. Global depository receipts (GDRs) each representing five ordinary shares of the Company are listed on the London Stock Exchange International Main Market following the IPO in February 2011.

Principal activities. The principal activity of the Company is the holding of investments.

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

Consolidated financial statements. The Company also prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the requirements of Cyprus Companies Law, Cap. 113; these parent company financial statements should be read in conjunction with the consolidated financial statements.

At 31 December 2019 and 2018, 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 ultimate controlling parent of the Company, holding 71.51% of the Company’s shares, as a result of ownership structure change. The Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Company

Emerging markets such as Russia 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 Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia 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. In March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

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

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In addition to that, starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group’s business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

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.

2 Operating Environment of the Company (continued)

During 2019, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth by 3.2% (2018: 3.4%), modest annual inflation of 4.1% (2018: 9.8%), and strengthening of national currency by around 5.0% to USD and 9.9% 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.

One of the Group's subsidiaries, NASOENERGOMASH Sumy JSC, is located in Sumy, Ukraine, and specialises in pumps manufacturing for oil and gas, thermal and nuclear power, water supply and utilities. Pumps produced by NASOENERGOMASH Sumy JSC are sold in Russia and other countries. For the year ended 31 December 2019, the revenue of NASOENERGOMASH Sumy JSC approximated 9% of consolidated revenue of the Group, one third of this amount being sales to Russian customers (for the year ended 31 December 2018: 7% 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 NASOENERGOMASH 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 NASOENERGOMASH 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 financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2019 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of IFRS 14 Regulatory Deferral Accounts.

The Company has prepared these parent company financial statements for compliance with the requirements of Cyprus Companies Law, Cap. 113 and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with IFRS, as adopted by EU, and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group).

Users of these parent company financial statements should read them together with the Group's consolidated financial statements at and for the year ended 31 December 2019 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and of the Group.

Functional and presentation currency. Functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's functional currency and presentation currency is Russian Rouble ("RR").

Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

At 31 December 2019 and 2018, the principal rates of exchange used for translating foreign currency balances were:

| | 2019 | 2018 |
|------------|---------|---------|
| 1 USD = RR | 61.9057 | 69.4706 |
| 1 EUR = RR | 69.3410 | 79.4605 |

3 Summary of Significant Accounting Policies (continued)

Financial assets. According to IFRS 9 “Financial Instruments”, 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.

The classification depends on the Company’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 Company’s loans, other financial receivables, and cash and cash equivalents, are classified as at amortised cost. The Company 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.

Trade and other receivables. Other receivables 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 Company always recognises lifetime expected credit losses for other receivables. The expected credit losses on these financial assets are estimated using a provision Company’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 allowance account, and the amount of the loss is recognised in profit or loss within ‘general and administrative expenses’. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against ‘general and administrative expenses’ in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand and deposits held at call with banks. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. 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.

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

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

Financial guarantees. Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at the fair value on the date the guarantee was given. Financial guarantee liabilities are then amortised on a straight-line basis in the statement of profit or loss and other comprehensive income over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period. Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investments in subsidiaries in the financial statements of the Company.

3 Summary of Significant Accounting Policies (continued)

Income taxes. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Investments in subsidiaries. Subsidiaries are entities controlled by the Company. Control exists where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of the any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Such costs are initially presented within other reserves and subsequently reclassified as a deduction to share premium upon issuance of shares.

Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

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

Dividend income. Dividend income is recognized when the right to receive payment is established.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment of investments in subsidiaries. The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

5 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 2020 and which the Company has not early adopted (items marked with * have not been endorsed by the EU; the Company will only be able to apply new standards and interpretations when they are endorsed by the EU):

| Standards, amendments and interpretations | Effective for annual periods beginning on or after |
|---|---|
| <i>Amendments to IFRS 3, Definition of a Business.</i> Changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. | 1 January 2020* |
| <i>Amendments to IAS 1 and IAS 8, Definition of material.</i> Clarifies the definition of "material" and align the definition used in the Conceptual Framework and the standards. | 1 January 2020 |
| <i>Amendment to IFRS 7, IFRS 9 and IAS 39, Interest rate benchmark reform</i> | 1 January 2020 |
| <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> | 1 January 2020 |
| <i>IFRS 17, Insurance contracts.</i> | 1 January 2021* |
| <i>Amendments to IAS 1 on classification of liabilities as current or non-current</i> | 1 January 2022* |

Management believe that the standards, amendments and interpretations which are to be adopted from 1 January 2020 will have no significant impact on the Company's financial statements of future periods. The impact of adoption of other pronouncements listed above on the financial statements of future periods is currently assessed by management of the Company.

6 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

| | 31 December 2019 | 31 December 2018 |
|--|-------------------------|-------------------------|
| Cash at bank in RR | 11,124 | 16,765 |
| Cash at bank in USD | 31 | 44 |
| Cash at bank in EUR | 3 | 691 |
| Cash at bank in GBP | - | 2 |
| Total cash and cash equivalents | 11,158 | 17,502 |

7 Other Receivables and Other Financial Assets

| | 31 December 2019 | 31 December 2018 |
|---|-------------------------|-------------------------|
| Dividends receivable from related parties (Note 13) | 77,718 | 660,823 |
| Other receivables | 6,544 | 7,189 |
| Less: provision for impairment of other receivables | (5,275) | (5,920) |
| Financial assets within other receivables, net | 78,987 | 662,092 |
| Prepayments and advances to subcontractors | 1,337 | 1,937 |
| Prepayment of fees to directors (Note 13) | - | 942 |
| Non-financial assets within other receivables, net | 1,337 | 2,879 |
| Total other receivables and other financial assets | 80,324 | 664,971 |

8 Investments in Subsidiaries

Details of the investments in the subsidiaries are as follows:

| Name | Country of incorporation | Principal activities | %, interest held at 31 December 2019 | %, interest held at 31 December 2018 |
|----------------------|---------------------------------|-----------------------------|---|---|
| HMS Group JSC | Russia | Holding company | 100.00 | 100.00 |
| HMS Livhydomash JSC | Russia | Operating company | 16.61 | 16.61 |
| Livnynasos JSC | Russia | Operating company | 14.99 | 14.99 |
| HMS Neftemash JSC | Russia | Operating company | 7.01 | 7.01 |
| Hydomashservice CJSC | Russia | Operating company | 3.15 | 3.15 |
| HMS Capital | Cyprus | Holding company | 0.05 | 0.05 |

In 2018 and 2019, there were no changes in investments in subsidiaries.

At 31 December 2019, investments in subsidiaries include guarantees given to Hydromashservice CJSC in the amount of RR 573,826 (31 December 2018: RR 573,826).

8 Investments in Subsidiaries (continued)

No indicators of impairment were identified for any of the investments in subsidiaries, consequently, the Company did not perform impairment test for any of these subsidiaries.

9 Share Capital and Other Equity Items

Share capital and share premium.

Below are the details of share issues of the Company:

| Date of transaction | Quantity of shares issued | Par value, EUR | Share capital, RR thousand | Share premium, RR thousand |
|---------------------|---------------------------|----------------|----------------------------|----------------------------|
| At 1 January 2018 | 117,163,427 | 0.01 | 48,329 | 3,563,424 |
| During 2018 | - | - | - | - |
| At 31 December 2018 | 117,163,427 | 0.01 | 48,329 | 3,563,424 |
| During 2019 | - | - | - | - |
| At 31 December 2019 | 117,163,427 | 0.01 | 48,329 | 3,563,424 |

At 31 December 2019 and 31 December 2018, the Company's authorised share capital consisted of 120,705,882 ordinary shares with par value of EUR 0.01 each.

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.

In May 2019, 414,718 GDRs of the Company representing 1.83% of its issued share capital with the total cost of RR 167,804 were transferred to the participants under the Long-term Incentive Program.

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.

At 31 December 2019, the Company, via a wholly-owned subsidiary, is holding 789,564 (31 December 2018: 1,142,987) of its own GDRs with the total cost of RR 319,475 (31 December 2018: RR 461,630). The voting and dividend rights of these GDRs are suspended.

Dividends. No interim dividends were declared by the Board of Directors during the year ended 31 December 2019.

At the Annual General Meeting in June 2019, the Company's shareholders approved the 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 675,897. This dividend was paid in July 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.

10 Income Taxes

Income tax expense for the year ended 31 December 2019 and 2018 include:

| | 2019 | 2018 |
|---|---------------|---------------|
| Current tax | | |
| Corporation tax | - | - |
| Withholding tax on dividends receivable | 31,005 | 67,500 |
| Total income tax expense | 31,005 | 67,500 |

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

| | 2019 | 2018 |
|---|----------------|------------------|
| Profit before tax | 537,579 | 1,263,767 |
| Estimated tax charge at statutory rate of 12.5% (2018: 12.5%) | 67,197 | 157,971 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Tax effect of expenses not deductible for tax purposes | 2,121 | 4,334 |
| Tax effect of income not subject to tax | (77,512) | (168,751) |
| Foreign withholding tax | 31,005 | 67,500 |
| Deferred tax not recognised on tax loss carry forward | 8,194 | 6,446 |
| Income tax charge | 31,005 | 67,500 |

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

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

11 General and Administrative Expenses

| | 2019 | 2018 |
|---|---------------|----------------|
| Directors' remuneration | 38,552 | 39,846 |
| Legal, consulting and other professional services | 20,885 | 38,149 |
| Insurance | 9,785 | 9,452 |
| Entertaining costs and business trip expenses | 5,863 | 7,231 |
| Bank services | 3,782 | 3,857 |
| Auditors' remuneration – statutory auditor | 2,272 | 2,329 |
| Telecommunication services | 810 | 855 |
| Lease | 737 | 740 |
| Other expenses | 269 | 193 |
| Total general and administrative expenses | 82,955 | 102,652 |

Legal, consulting and other professional services stated above include fees of RR 129 (2018: RR 132) for tax consultancy services and RR 1,693 (2018: RR 1,679) for other assurance services charged by the Company's statutory auditor.

12 Other Operating Income, net

| | 2019 | 2018 |
|--|------------|---------------|
| Amortisation of financial guarantees (Note 13) | - | 18,651 |
| Foreign exchange gain/(loss), net | 430 | (2,238) |
| Total other operating income, net | 430 | 16,413 |

13 Balances and Transactions with Related Parties

At 31 December 2019, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2018: 71.51%), including shares in form of GDRs. At 31 December 2019 and 2018, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

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

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

The table below contains the disclosure by group of related parties with which HMS Hydraulic Machines & Systems Group Plc entered into significant transactions or has significant balances outstanding.

The Company's related party balances and transactions are disclosed below:

| Balances with related parties | 31 December 2019 | 31 December 2018 |
|---|-------------------------|-------------------------|
| Dividends receivable | | |
| HMS Neftemash JSC | 71,818 | 497,991 |
| HMS Livhydomash JSC | 5,900 | 20,330 |
| Hydromashservice JSC | - | 95,000 |
| Livnynasos JSC | - | 47,502 |
| Accounts receivable | | |
| Other receivables from H.M.S. Finance Limited | 1,269 | 1,269 |
| Prepayment of fees to directors | - | 942 |
| Accounts payable | | |
| Other short-term payables to H.M.S. Capital | (347) | (397) |
| Transactions with related parties | 2019 | 2018 |
| Dividend income from subsidiaries, including 5% income tax, withheld at source | | |
| HMS Neftemash JSC | 450,106 | 900,003 |
| Hydromashservice JSC | 100,000 | 350,000 |
| Livnynasos JSC | 69,998 | 100,003 |
| Total | 620,104 | 1,350,006 |
| Dividends received from subsidiaries, net of withholding tax | | |
| HMS Neftemash JSC | 853,773 | 788,499 |
| Hydromashservice JSC | 190,000 | 522,500 |
| Livnynasos JSC | 114,000 | 94,998 |
| HMS Livhydomash JSC | 14,431 | 20,330 |
| Total | 1,172,204 | 1,426,327 |

Guarantees in favour of subsidiaries. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations.

During the year ended 31 December 2018, the Company has acted as the guarantor for the obligation of its subsidiary for the unsecured non-convertible bonds issues and for the obligations of its subsidiary in accordance with the bank loan agreements. The guarantees were provided free of charge and were valid for one to three years or until all respective obligations are fully settled. During 2018 and 2019, there were no additional guarantees issued (Note 8). During the year ended 31 December 2018, the fair value of the guarantees is amortised through the statement of profit or loss and other comprehensive income in amount of RR 18,651 (Note 12).

During 2018 the obligations of the Company's subsidiary for which the Company issued guarantees were fully settled. The liabilities are measured at the higher of (a) the amount initially recognised less cumulative amortisation and (b) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Key management compensation. The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2019 amounted to RR 38,552 (2018: RR 39,846). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 100,444 for the year ended 31 December 2019 (2018: RR 164,993).

14 Financial Risk Management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

(a) Market risk

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

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018:

| | 31 December 2019 | | | 31 December 2018 | | |
|--------------|---------------------------------|--------------------------------------|-----------------|---------------------------------|--------------------------------------|-----------------|
| | Monetary financial assets | Monetary financial liabilities | Net position | Monetary financial assets | Monetary financial liabilities | Net position |
| USD | 31 | (8,298) | (8,267) | 44 | (1,733) | (1,689) |
| EUR | 3 | (3,180) | (3,177) | 691 | (3,651) | (2,960) |
| Total | 34 | (11,478) | (11,444) | 735 | (5,384) | (4,649) |

At 31 December 2019, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 1,653 higher/lower (31 December 2018: RR 338), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated other payables.

At 31 December 2019, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 635 higher/lower (31 December 2018: RR 592), mainly as a result of foreign exchange gains/losses on translation of euro denominated other payables.

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

(b) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's financial assets which consist of cash and cash equivalents and receivables. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

At 31 December 2019, the Company had RR 33 (31 December 2018: RR 731) of cash placed in a bank with Moody's rating of "B3" and RR 11,126 (31 December 2018: RR 16,771) of cash placed in a bank with S&P rating of "BBB+".

(c) Liquidity risk

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

At 31 December 2019 and 2018, the Company's financial liabilities are payable within one year.

Management of capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. At 31 December 2019 and 2018, capital consists of equity as shown at the Company's balance sheet.

15 Fair Value of Financial Instruments

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

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

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of liabilities carried at amortised cost approximate fair values. The fair value of borrowings were included in Level 2.

16 Subsequent Events

COVID-19 and fall in oil prices. Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

In addition to that, in March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

Management considers the outbreak of COVID-19 coronavirus infection and the reduction in oil prices to be non-adjusting events after the reporting period.

The Group developed a stress scenario of the possible impact of the current operating environment on the Group's business, including the analysis of possible deviations in execution of large contracts, included in the Group's budget for 2020, as well as assessment of probability of reduction in revenues on recurring business, the analysis of factual liquidity and debt position of the Group at the date of issuance of these consolidated financial statements, its future expected cash inflows and outflows and the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.