Annual Report
2020

Stand by to move forward

About HMS

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

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

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

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

See our Online Report ar2020.grouphms.com

RUB 46,476 mn

Revenue in 2020

▼10% YOY ▲3% CAGR 2016–2020

2020	46,476
2019	51,413
2018	52,619
2017	44,422
2016	41,582

RUB 4,947 mn

EBITDA in 2020

▲3% YOY ▼6% CAGR 2016–2020

2020	4,947
2019	4,824
2018	6,621
2017	6,839
2016	6,369

RUB 22,175 mn

Total Debt in 2020

▼9% YOY ▲9% CAGR 2016–2020

2020	22,175
2019	24,321
2018	19,458
2017	16,336
2016	15,884

RUB 11,814 mn

Net Debt in 2020

▼18% YOY ▼3% CAGR 2016–2020

2020	11,814
2019	14,369
2018	13,163
2017	11,422
2016	13,347

RUB 53,851 mn

Backlog in 2020

▲20% YOY ▲22% CAGR 2016–2020

2020	53,851
2019	44,693
2018	42,634
2017	44,155
2016	24,035

RUB 54,205 mn

Order Intake in 2020

▲4% YOY ▲7% CAGR 2016–2020

2020	54,205
2019	52,196
2018	55,891
2017	58,948
2016	40,624

RUB (8.50)

EPS in 2020

NA

2020	(8.50)
2019	(0.84)
2018	15.10
2017	16.32
2016	10.53

RUB 21.25*

Dividend per 1 GDR in 2020

▲25% YOY

2020	21.25
2019	17.05
2018	49.05
2017	59.75
2016	42.65

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* Subject to the approval at the AGM on June 24, 2021

Overview

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
R&D centres,
including one of the largest pump-testing facilities in Europe

~6,000
well-diversified client base

~13,000
employees

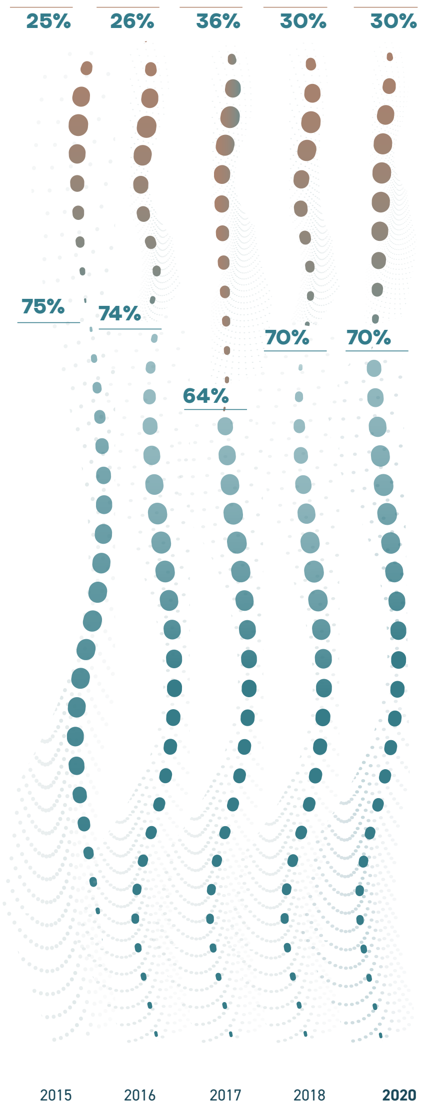
Who We Are

HMS Group is one of the **largest privately-owned machine-building companies** in Russia and the CIS.

The company is specialized 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 parent holding company is HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the Republic of Cyprus). It listed its securities in the form of Global Depositary Receipts at the London Stock Exchange on February 14, 2011.

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.



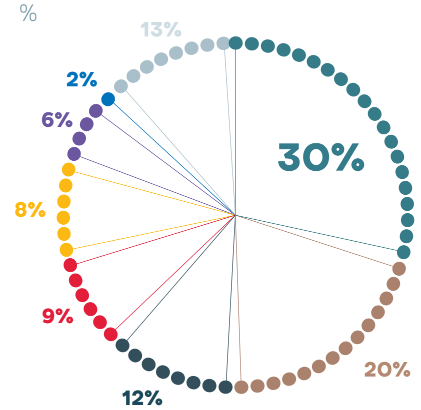
Revenue from recurring business
Revenue from large integrated projects

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 74% on average**.

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.

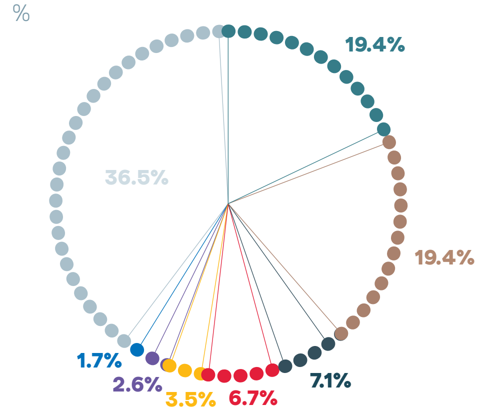
HMS is a dynamic engineering company with successful practice in the design, installation, construction and commissioning of complex oil and gas production and water facilities. It is a vertically integrated holding company with a modern corporate management system wherein the functions of the manufacturing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

Revenue structure by industries, %



Oil extraction	30%
Gas extraction	20%
Gas transportation	12%
Petrochemicals	9%
Water supply	8%
Power generation	6%
Oil transportation	2%
Others	13%

Revenue structure by client, %



Gazprom	19.4%
Gazprom neft	19.4%
Rosneft	7.1%
Novatek	6.7%
Rosatom	3.5%
Lukoil	2.6%
Surgutneftegaz	1.7%
Others	36.5%

Who We Are

Continued

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.

15%

EBITDA margin

43%

Contribution in consolidated revenue

59%

Contribution in EBITDA

CORE PRODUCTS AND SERVICES:

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

OIL AND 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.

2%

EBITDA margin

23%

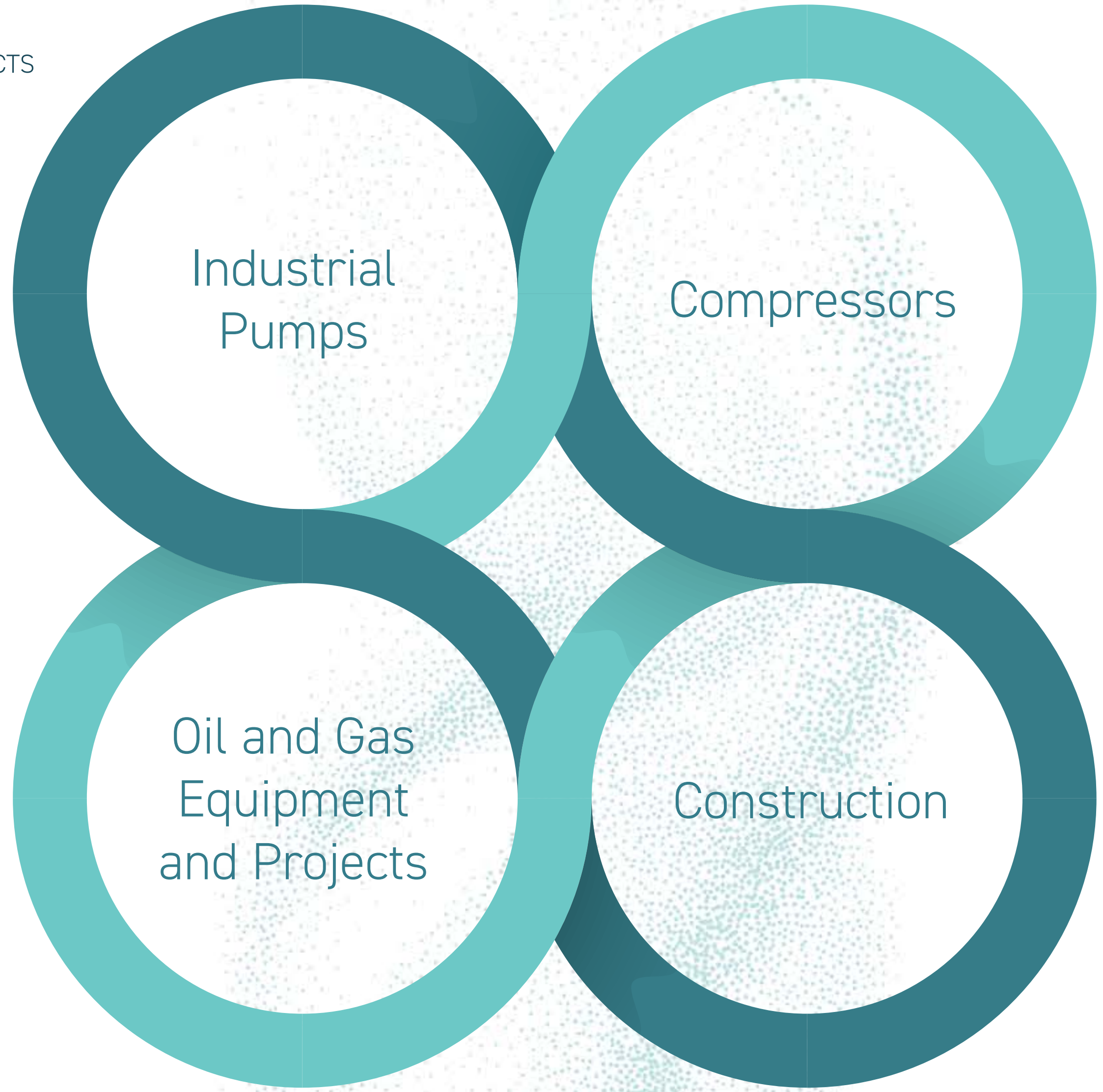
Contribution in consolidated revenue

5%

Contribution in EBITDA

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.

13%

EBITDA margin

32%

Contribution in consolidated revenue

39%

Contribution in EBITDA

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.

(9)%

EBITDA margin

2%

Contribution in consolidated revenue

(1)%

Contribution in EBITDA

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

I can state the fact, with a huge sense of relief, that we have passed 2020 almost without losses

In spring 2020, as soon as alarm news about the COVID-19 pandemic started to spread, HMS froze manufacturing operations for several weeks, whereby we analyzed and developed appropriate security measures. HMS procured individual protective equipment, sanitizers, organized temperature screening at entrance checkpoints of our production facilities and offices. Huge work on organization of trouble-free operations of the majority of our office personnel in the remote mode was carried out.

And I can state the fact, with a huge sense of relief, that we have passed this tough time almost without losses.

HMS Group ended the 2020 year with order intake at Rub 54.2 billion. Though revenue was down to Rub 46.5 billion, EBITDA grew to Rub 4.9 billion thanks to the optimization program implemented in the 2nd half of 2019.

Our EBITDA margin grew to 10.6% despite weak results of the oil & gas equipment business segment.

A development team, consisted of representatives of Gazprom and HMS Group, was rewarded with the Russian Federation Government Prize in Science and Engineering for development and implementation of a modular compressor unit, intended for boosting of gas pressure in gas-collecting systems of oil and gas condensate fields.

HMS Group successfully launched a new type of a compressor — a flash gas compressor — for the 4th stage of the Yamal LNG project (NOVATEK). That was the first solution of that kind, made in Russia, and made fully of equipment made in Russia.

We signed the large Rub 7.5 billion contract for the delivery of equipment for the helium concentrate membrane recovery unit. The contract was follow-up, owing to a successful realization of the first one, unique and the first of this kind in Russia project on development and manufacture of such a unit. The unit, developed and made by HMS, allows to extract helium concentrate — the strategically valuable element — directly from produced natural gas.

We also take part in a range of interesting projects, and plan to further advance our competences in realization of high-scale projects.

Yours faithfully,
Nikolay Yamburenko

CEO Statement

We see the growing opportunities on the market and believe that we have strength and skills to seize them

The 2020 was the extraordinary year, year of the pandemic. The worst pandemic in a century has cost over hundred thousand and millions lives. It continues to adjust behaviors and trends, which most probably will transform the post-COVID-19 world.

The COVID-19 pandemic has frozen economic activity for a while as countries imposed tight restrictions on movement to halt the spread of the virus. Trade restrictions and supply chain disruptions have affected execution of a number of contracts, postponed a launch of anticipated tenders and projects, etc. Quarantine restrictions were introduced, factories were put on lockdown for weeks, and the pandemic and efforts to halt it resulted in an unprecedented collapse in oil demand and a crash in oil prices.

In our view, the company have passed successfully this crisis, though 2020 was tough for HMS. We have faced impact of several factors which affected financial results of HMS Group. It included weak results of the oil & gas business segment due to a temporary decrease in demand on production in the oil extraction.

We believe that tried in 2019 and continued in 2020 the programs of business optimization and cost-cutting clearly demonstrated their effectiveness, because our EBITDA grew 3% YoY, in comparison with 2019.

Today, our backlog grew by 20% YoY, compared with 2019, due to both compressors and oil & gas equipment. A wave of deferred demand came back to the previous level after the most quarantine restrictions in summer 2020 were removed, though we haven't managed to compensate the first six months losses by the end of the year.

The successfully completed investment project to localize heavy pumps, including for petrochemicals and nuclear power, in 2020 continued to deliver growth of orders for the products produced. Also, we have developed and launched production of a new range of pump sizes. Currently, we work on a large more than Rub 2 billion follow-up contract to deliver pumps to a foreign nuclear power station to be signed in the nearest future.

We ended the 2020 year with an acceptable level of debt. Net debt-to-EBITDA LTM ratio was down to 2.4x, which is lower than bank and internally-set covenants.

In tough environment, HMS Group successfully placed two bond issues, refinanced and prolonged current credit lines that minimized 2021-year repayment and maintained a solid cash cushion.

We see the growing opportunities on the market and believe that we have strength and skills to seize them.

Yours faithfully,
Artem Molchanov

Investment Thesis

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

Mature Business Platform

- HMS Group has acquired main production and project capacities
- The company has "know-how" production documentation and certificates
- The company has established long-term relations with its clients
- HMS Group has decided to exit the construction segment and significantly reduced its exposure to construction

Targets

- Growth of export to the CIS and far abroad
- National project "Ecology of Russia": These are new markets, supported by state financing and with limited competition, where HMS has already experience and competences
- HMS expects further development in the field of LNG

Achievements in the past few years

- HMS has entered into a market of gas transportation units for Gazprom. There is growth of revenue from cooperation with Gazprom not only in the field of compressors but of gas transportation units
- The Group has two new large clients — strategic cooperation with Gazprom neft and NOVATEK
- Revenue grows from nuclear pumps and oil processing pumps
- Revenue from construction reduces
- HMS has entered into the LNG market (compressors, pumps, special equipment)
- The company has completed a pilot "green" project (BOSK)

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

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

3. Management focuses on maintaining a moderate debt position

- The target level of Net debt-to-EBITDA LTM ratio is 2.5 despite any extraordinary events and M&As. When the ratio exceeds the 2.5x level, imposition of step-by-step constrains on dividend size is started
- 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
- Conservative budgeting of debt level

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

5. Low capex needs and flexible dividend policy

- HMS Group is a fully invested business with modest maintenance capital expenditure needs at c. Rub 1-1.5 billion
- All major acquisitions have already been completed
- There are no strict dividend commitments, which allows us to minimize payments in a harsh market environment

Our History

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

Foundation and bearing on the largest base of installed equipment in Russia

1993—1998

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

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—2007

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

Growth of market share on traditional HMS' markets, entry into new markets

2007—2008

The investment industrial group Hydraulic Machines & Systems was established as an industrial holding (since 2008 — HMS Hydraulic Machines & Systems 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

2009—2013

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 Giprotyumenneftegaz, the leading project and design institute for oil and gas fields, as well as new production assets: Sibneftemash, Dimitrovgradhimmash, 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—2020

HMS Group increased its expertise in design and manufacturing of equipment for natural and associated gas extraction and treatment on the base of Giprotyumenneftegaz 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-Urengoyskoye 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), and other projects

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 as well as entry into the new markets, i.e. gas transportation units and LNG-equipment

Strategy

Vision

HMS Group is one of the leading Russian machine-building companies with focus on industrial pumps and compressors, modular technological units, and also a provider of integrated solutions for various industries, such as oil & gas, petrochemistry, energy generation, metals and mining, water and wastewater utilities.

We consider our customer benefits to be our highest priority: building long-term relations with clients has always been a key priority 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

Our objective is to **maintain our leadership** across all the Company's business segments: Industrial Pumps, Industrial Compressors, Oil & Gas Equipment and Projects.

On the one hand, we **expand traditional client base** by developing new products and more sophisticated solutions. High level of capital investments ensures improvement and modernization of our production sites. On the other hand, HMS Group successfully **broadens** its **client base** not only in **Russia and the CIS**, but also **in Europe, the Middle East and Asia**.
We also look into options to enter new market segments if we find them promising.

Business efficiency

HMS Group concentrates on profitability and further development in order to create value for shareholders. We implement systematic **approach to increase the efficiency** of our business, from standalone plants up to the entire Group.

Our technical expertise and proven experience in delivery of technological units allows us to participate in **high-margin large projects**. We intend to strengthen partnerships with industry leaders to take part in multiple large-scale projects across a number of industries.

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

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

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 strengthens 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 focus on the **culture of innovation 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-supported process of import substitution, which allows us to broaden our product portfolio and attract a large number of new 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.

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 2020, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions of our business activities.

Business Model

HMS Group's business consists of **three product-oriented business units**: Industrial Pumps, Compressors, Oil & Gas Equipment and Projects. All of them imply production of standard products (recurring operations), as well as delivery of complex solutions and technological units for our clients.

HMS' main customers are large and medium-sized industrial companies and infrastructure facilities. We also approach end customers that belong to small business 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, metals and mining industry, water and wastewater utilities.

HMS business comprises the **whole value chain: research & development, procurement and manufacturing, as well as after-sales service and delivery of spare parts** across all our business units. We can outsource certain components and technologies for HMS integrated solutions from specialized external suppliers as well.

Our main competence is research & development in a broad range of rotating equipment. We develop new products and offer state-of-the-art solutions to maintain our clients' benefits. We also have broad expertise in project design and EP/EPC projects for oil & gas sector, water and wastewater utilities. HMS' expertise in engineering allows 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 to optimize production lead-time and costs.

The Company continues its large-scale capital expenditures program to develop production capacities and retain the highest level of quality. The recent investments increased our manufacturing capabilities in centrifugal pumps and centrifugal compressors as well as oil & gas equipment, enabled us to produce high-quality steel casting up to 9 tons.

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

HMS Group aims to increase and strengthen its relations with leading Russian and international companies in oil & gas upstream and downstream, nuclear and conventional energy, metals and mining, water and wastewater utilities.

Markets & Macroeconomics

Macroeconomic Environment in 2020

In 2020 the world economy experienced an unprecedented shock caused by COVID-19 pandemics which led to numerous lockdowns, slow-down of consumer and business activity and as a result had a negative impact on the prices of natural resources: oil, natural gas, coal

The global GDP decreased by 3.3% in 2020, the largest decline since 2009 (−0.1%). The advanced economies became the main contributors to the decline: the US GDP decreased by 3.5%, the German one — by 4.9%, the French one — by 8.2% and the British one — by 9.9%. At the same time the Chinese GDP grew by 2.3%, still a significant slow-down compared to 5.8% in 2019.

As a result of unfavorable macroeconomic conditions, the Russian economy declined by 3.0% in 2020. The largest decline was observed in tourism (−55.4%), air transportation (−46.8%), food and lodging industry (−24.5%), production of vehicles (−16.3%). At the same time some sectors managed to demonstrate growth: manufacturing of drugs and pharmaceutical products increased by 22.2%, production of furniture grew by 8.0%, financial and insurance business — by 7.3%, **production of machinery and equipment (excluding transports) — by 6.1%.**

In the beginning of March 2020 OPEC+ agreement was suspended which resulted in a rapid decline of oil prices to the level of US$ 16 per barrel (Europe Brent Spot Price) by the end of March. The next agreement was signed only on in April. Oil prices reached the level of US$ 40 per barrel by the beginning of June, never growing higher than US$ 52 per barrel in December.

Following decrease of oil prices Russian ruble also showed negative dynamics: the exchange rate of Russian ruble to US dollar fell from Rub 66 at the beginning of March to 78 at the end of the month, Euro — from Rub 74 to 88. The average US$/Rub exchange rate amounted to 72 rubles in 2020, Euro/Rub — to Rub 83.

The current account surplus declined to the level of US$ 33.9 billion in 2020 (compared to US$ 64.8 billion in 2019). Total exports amounted to US$ 379.1 billion, while total imports reached US$ 304.7 billion. Exports of crude oil declined to US$ 72.4 billion (−41% compared to 2019), exports of natural gas declined to US$ 25.2 billion (−40% compared to 2020).

(3.0)%
The Russian GDP

6.1%
production of machinery and equipment growth

4.9%
consumer inflation in Russia

4.25%
CBR key rate

Rub 33.9 bn
Russia's account surplus

US$ 467.9 bn
Total external debt of Russia

By the end of 2020, consumer inflation in Russia (the Consumer Price Index) increased to the level of 4.9% (3% in the previous year). Industrial Producers Price Index reached 3.6% by the end of 2020. The average unemployment rate in 2020 reached 5.8% compared to 4.6% in 2019.

The Central Bank of Russia decreased the key rate 4 times in 2020 (from 6.25% at the beginning of the year to 4.25% in July) to support the economic activity on the back of halting production and trade in 2Q 2020, and to make the loans more available for both business and households.

Consequently, the total corporate debt (excluding international debt) reached Rub 46.7 trillion (+12% YoY) at the end of 2020, and loans to individuals grew up to the level of Rub 21.6 trillion (+13% YoY).

As the result of low key rate banks also lowered deposit rates, so households and businesses were stimulated to switch to financial instruments, such as corporate bonds and stocks, etc. Thereby the MOEX Russia index (counted in rubles) grew to 3,289 index points at the end of 2020 (+8% compared to the end of 2019). At the same time RTS Index (counted in US dollars) declined to 1,387 points (−10%) during 2020.

The Russian Budget showed a shortage of Rub 4.1 trillion, equal to 3.8% of the GDP. Budget revenue decreased by 7.3%, while spending grew by 25.3% compared to 2019. Total external debt of Russia (both government and corporate) decreased by 4.8%, to the level of US$ 467.9 billion).

Market trends

Oil and gas industry

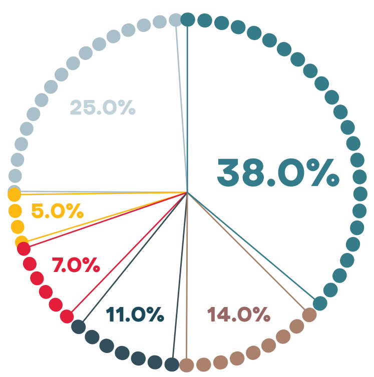
Upstream

Russian oil industry consists of several vertically integrated companies. Five of them account for 3/4 of the country's oil production and refining, and a number of smaller companies, typically comprising one or several oilfields. About half of produced oil is processed at the country's refineries, while the other half is exported.

The oil extraction declined from 561.2 to 512.7 million tons of product in 2020 (—8.6% YoY), as a result of lower demand for energy caused by COVID-19 and limitations set by the new OPEC+ agreement. Average Urals oil price decreased from US$ 64/barrel in 2019 to US$ 42/barrel in 2020.

During the year, the country's operating well stock decreased by 1.0% to 178,712 units (including 6,957 new wells). The total drilling volume declined by 1.7% to 28 million meters.

Top 5 oil producers in Russia in 2020



Rosneft	38.0%
Lukoil	14.0%
Surgutneftegaz	11.0%
Gazprom Neft	7.0%
Tatneft	5.0%
Others	25.0%

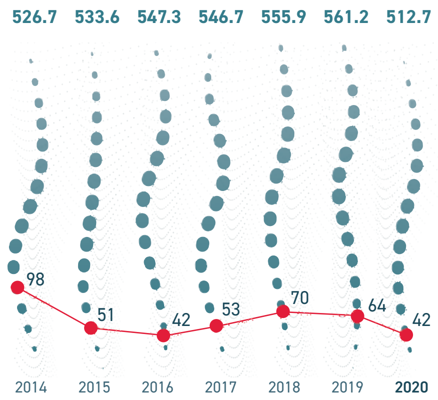
Several new oilfields were put into operation, such as Erginskiy license area and Severo-Danylovskoye oilfield (Rosneft), Komandirshorskaya group of fields (Lukoil), oil rims of Chayandinskoye field (Gazprom Neft). A number of large oilfields are expected to be launched in the next few years, including Lodochnoye and Severo-Komsomolskoye fields (Rosneft), and Grayfer field (Lukoil).

The major gas company in Russia, Gazprom, accounted for 65% of gas production in Russia in 2020. The second largest producer, NOVATEK, produced 11% of all natural gas volume.

Natural gas extraction in Russia reduced from 737.7 to 692.9 bcm (—6% YoY), the average export prices decreased to US$ 127/mcm, with the most significant decline to US$ 98/mcm observed in 2Q 2020.

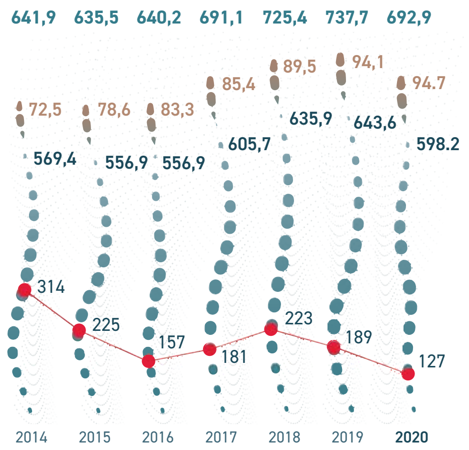
Gazprom has plans to launch a number of new large gas fields, including Kharasaveyskoye and Kovyktinskoye (currently in pilot production), while Rosneft plans to start works on Kharampur field (gas formations).

Crude oil production in Russia (including gas condensate) and Urals oil price dynamics



Crude oil Production in Russia, mln t
Oil price, USD/barrel (Urals)

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



Associated gas production in Russia, bcm
Natural gas production in Russia, bcm
Export gas price, USD/ tcm

512.7 mln t

Crude oil Production in Russia

▼9.2% YOY

Midstream

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

Transneft is the major operator of the Russian oil trunk pipeline system (50.8 thousand km), and oil-product trunk pipeline system (16.4 thousand km) with over than 500 of oil pump stations.

The total length of the Russian gas transportation system is over 170 thousand km, comprising over 250 gas compressor stations. The main operator of gas pipelines is Gazprom. In 2020, the company started construction of the Khovykta-Chayanda pipeline (a part of the Power of Siberia pipeline). The main prospective projects for the next years is the construction of the Power of Siberia-2 (from the Yamal Peninsula to China), Bovanenkovo-Ukhta-3 and Ukhta—Torzhok pipelines.

Downstream

The total number of large oil refineries in Russia is 35, and together with smaller refineries they processed 270 million tons of crude oil in 2020 (total capacity is over 315 million tons), a decrease by 5.4% compared to 2019. Rosneft, the leading Russian oil company, is the largest refinery operator with twelve major refineries. LUKOIL, with four major refineries, is the second-largest refineries operator, Gazprom Neft operates 2 refineries.

The production of all main petroleum products declined in 2020: gasoline — by 4.5% to 38.4 million tons, diesel oil — by 0.4% to 78.0 million tons, and fuel oil — by 11.1% to 40.8 million tons.

The depth of processing increased by 1% to the level of 84% in 2020.

A number of further projects on the modernisation of oil refineries, as well as new construction are planned on the horizon until 2025, including Slavneft advanced oil refining complex, Moscow refinery advanced oil refining complex (Gazprom Neft), further development of Taneco Refining and petrochemical plants complex (Tatneft).

Russian gas-processing industry is represented by 33 plants, which processed 77.8 bcm of natural gas and petroleum associated gas in 2020 (—3.9% YoY), including 7 largest plants which processed 3/4 of all gas volume. A new Amur GPP is currently under construction, it should be the largest GPP in the world with 42 bcm of gas per year design processing capacity.

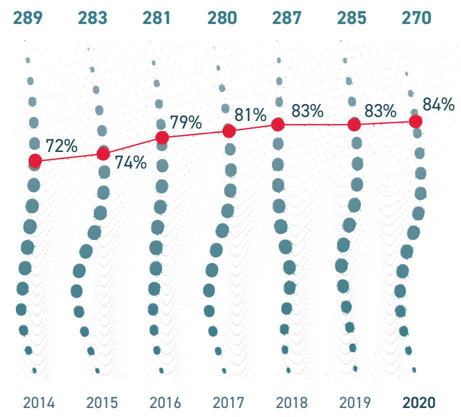
LNG production is one of the fast-growing segments in Russian energy market. The volume of LNG produced in Russia reached 30.5 million tons compared to 29.5 million tons processed in the previous year (+3.5%). The largest operating LNG plants are Sakhalin-2 (consortium led by Gazprom) and Yamal LNG (NOVATEK). Examples of prospective LNG plants include Arctic LNG-2 (NOVATEK, currently under construction) and the complex for processing ethane-containing gas and LNG production in Leningrad region (Gazprom and RusGazDobycha). A large number of small-scale LNG plants are expected to be built in the next years as well.

The main trend in the oil and gas markets is that the major companies tend to limit their investments in upstream, while the importance of downstream (including LNG and gas processing projects) grows.

84%

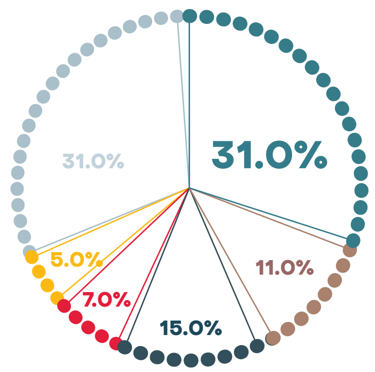
processing depth in Russia in 2020

Primary oil processing volume and processing depth in Russia



Primary oil processing in Russia, mln t
Processing depth, percent

Top-5 oil producers in Russia in 2020



Rosneft	31.0%
Gazprom Neft	11.0%
Lukoil	15.0%
Surgutneftegaz	7.0%
Slavneft	5.0%
Others	31.0%

Market trends

Continue

Power generation

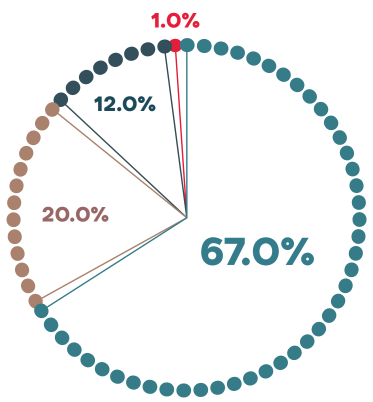
Total number of large power plants in Russia (with installed capacity higher than 5 MW each) is 880. The structure of the installed capacity of the United Power System remained practically unchanged in 2020: thermal power plants accounted for 67% of installed capacity, hydro power plants – 20%, and nuclear power plants – 12%.

251.0GW

Total capacity of power plants in 2020

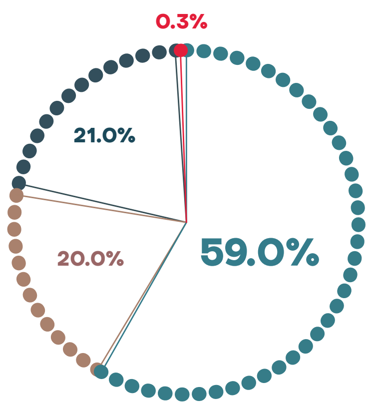
Total installed capacity and electricity output of the United Power System by types of power plants in 2020

Installed capacity



Installed capacity	
Thermal	67.0%
Hydro	20.0%
Nuclear	12.0%
Renewable	1.0%

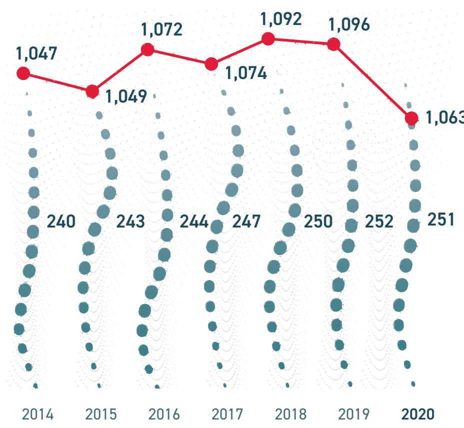
Electricity output



Electricity output	
Thermal	59.0%
Hydro	20.0%
Nuclear	21.0%
Renewable	0.3%

In 2020, Russia decreased its electricity output from 1,096 to 1,063 billion kWh (-3% YoY). Total installed capacity of Russian power system decreased by 1 GW, as 3.3 GW of inefficient and outdated equipment was decommissioned, and 1.9 GW of new capacity was put into operation in 2020, including Voronezh PP (220 MW), Primorskaya PP in Kaliningrad region (195 MW), and a solar power plant in Adygea region (150 MW).

Total installed capacity and electricity output in Russia



Total capacity of power plants, GW
Power generation in Russia, bn kWh

Total investments in the energy industry remained practically unchanged in 2020, at the level of Rub 801.6 billion.

The Russian United Power System Development Program (by the Ministry of Energy of Russia) implies that up to 15 GW of new capacity will be commissioned in 2020–2026. The largest projects include new units at Leningradskaya NPP (2,300 MW), Kurskaya NPP (1,200 MW), Zainskaya PP in Tatarstan (850 MW), and Udarnaya PP in Krasnodar region (500 MW).

The State Atomic Energy Corporation, ROSATOM, is running a number of new projects abroad as well, including Rooppur NPP (Bangladesh) and new units of Kudankulam NPP (India).

Metals and mining

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

Extraction of coal decreased from 442.8 million tons to 402.1 million tons in 2020 (—9.2%). Overall investments in coal extraction declined by 33.9% in 2020 (Rub 129.6 billion).

Extraction of iron ore increased from 97.5 to 100.0 tons (+2.6%), while steel production remained unchanged in 2020 (73.6 million tons), and cast iron production showed a slight increase from 51.2 million tons to 52.0 million tons (+1.5%). Investments in metal ores extraction increased by 1.6% (Rub 299.6 billion), and in metals production — by 8.5% (Rub 378.6 billion).

Russian metal and mining companies (EVRAZ, Severstal, Mechel, Metalloinvest, Rusal, Nornickel 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 high level of investments in the industry for the next years.

Water utilities

Year 2020 was marked by the continued growth of tariffs (for instance, tariffs for cold water supply increased by 3.9% in 2020, hot water supply — by 4.3%, and sewage — by 4.8%).

Total investments in water utilities and wastes utilization in Russia demonstrated a significant increase from Rub 174.0 billion to Rub 207.7 billion (+19.4%). Examples of large investment projects implemented during 2020 include construction of a water treatment plant at the Omsk refinery and reconstruction of a water treatment facility in Kazan.

In 2020, the implementation of the Ecology national project (consisting of 11 federal projects) that will ensure large modernization of water facilities all over the country continued. Almost all budget planned for 2020 (Rub 65 billion) was performed.

Rub**207.7**bn

Total investments in water utilities and wastes utilization in 2020

▲19.4% YOY

Performance in 2020

Operational Overview

Order intake grew to Rub 54.2 billion by 4% YoY, compared with Rub 52.2 billion in 2019. The compressors business segment was the main contributor to this growth. In terms of contracts type, recurring business was the driver of the growth (+11% YoY), that compensated less large orders signed in the reported period (−10% YoY).

Order intake, Rub bn	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Industrial pumps	17,773	22,792	-22%	4,429	5,329	-17%
Oil & gas equipment	13,568	11,887	14%	3,331	3,514	-5%
Compressors	22,617	17,363	30%	7,511	10,512	-29%
Construction	247	155	60%	32	5	521%
Total	**54,205**	**52,196**	**4%**	**15,304**	**19,359**	**-21%**

RUB**54.2**bln

Order intake in 2020

▲4% YOY

9 %

large contracts order intake growth in 2020

In 2020, the company signed a range of large contracts, mainly in the compressors business segment

Backlog, Rub mn	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Industrial pumps	18,227	19,572	−7%	18,227	19,749	−8%
Oil & Gas equipment and projects	9,318	7,426	25%	9,318	9,916	−6%
Compressors	24,765	16,067	54%	24,765	25,264	−2%
Construction	1,541	1,628	−5%	1,541	1,652	−7%
Total	**53,851**	**44,693**	**20%**	**53,851**	**56,580**	**−5%**

Backlog reached Rub 53.9 billion, up by 20% YoY, compared with Rub 44.7 billion last year, based on the compressors and the oil & gas equipment business segments. In terms of contracts type, recurring business grew by 32% YoY and large contracts was up 30% YoY, compared with 2019.

PUMPS

Order intake declined by 22% YoY to Rub 17.8 billion, compared with Rub 22.8 billion for 2019, due to less regular orders received and no large contracts signed. Backlog was down by 7% YoY to Rub 18.2 billion, compared with Rub 19.6 billion in 2019. Demand for pumps was impacted by the COVID-19 pandemic.

OIL & GAS EQUIPMENT

Order intake grew to Rub 13.6 billion, by 14% YoY, compared with Rub 11.9 billion in 2019, due to large contracts. Backlog was up by 25% YoY to Rub 9.3 billion, compared with Rub 7.4 billion for 2019, due to both large contracts and regular business.

COMPRESSORS

Order intake grew by 30% YoY to Rub 22.6 billion, compared with Rub 17.4 billion in 2019. Backlog increased to Rub 24.8 billion, compared with Rub 16.1 billion in 2019. Both recurring business and large contracts grew.

Financial Overview

Revenue was Rub 46.5 billion, down by 10% yoy, compared with Rub 51.4 billion for 2019, because of less revenue generated by the oil & gas equipment and the compressors business segments.

EBITDA, in contrast, was up to Rub 4.9 billion, by 3%, due to increased margins of pumps and compressors contracts. EBITDA margin grew to 10.6%, compared with 9.4% for 2019.

Consolidated revenue from recurring business declined by 9% yoy, and revenue from large projects was down by 11% yoy. EBITDA from recurring business declined by 12% yoy, and, in contrast, EBITDA from large contracts increased by 26% yoy.

Loss for the period was Rub 816 million, compared with profit for the period at Rub 151 million for 2019. Included in this loss is an impairment of goodwill of Rub 425 million, recognized on acquisition of TMCP in the beginning of 2019. The goodwill was impaired as a result of not meeting targeted synergies with HMS Neftemash in executing large contracts, due to the COVID-19 pandemic and general situation on the oil and gas market. Loss for the 2020 year adj[1]. was Rub 265 million.

Free cash inflow was Rub 3.0 billion, compared with Rub 23 million in 2019, despite lower revenue, due to the implemented cost-optimization program.

FY 2020 financial results

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	46,476	51,413	-10%	15,000	11,978	25%
EBITDA	4,947	4,824	3%	1,576	1,264	25%
EBITDA margin	*10.6%*	*9.4%*		*10.5%*	*10.6%*	
(Loss)/Profit for the period adj.	(265)	151	na	(41)	90	na
Impairment of goodwill (note 9)	*(426)*			*(426)*		
Impairment of previously recognised deferred tax assets (n.22)	*(126)*			*(126)*		
(Loss)/Profit for the period	(816)	151	na	(593)	90	na
Free cash inflow	2,958	23	na	2,074	2,397	-13%

Expenses and Operating Profit

Cost of sales was down by 11% yoy to Rub 37.1 billion, compared with Rub 41.8 billion for 2019, due to lower materials and components costs and labour expenses. Materials and components declined 15% yoy because of lower revenue. Labour costs were down by 2% yoy due to the cost-cutting program program.

Gross profit declined to Rub 9.4 billion, by 2% yoy, compared with Rub 9.6 billion for 2019.

SG&A expenses[3] declined by 2% yoy due to decrease in general & administrative expenses. Distribution & transportation expenses were up by 1% yoy, mainly due to higher transportation expenses and labour costs. General & administrative expenses declined to Rub 5.2 billion by 3% yoy, compared with 2019, mainly due decrease in labour costs and business trips expenses.

Operating profit was down to Rub 1.3 billion by 35% yoy, compared with Rub 2.1 billion in 2019.

Finance costs increased to Rub 1.9 billion by 8% yoy, compared with Rub 1.8 billion in 2019. The main reason was the 5% increase in interest expenses due to the higher level of average debt within 2020, compared with 2019.

Average interest rates decreased to 8.00% p.a., compared with 8.57% p.a. last year.

in millions of Rub	2020	2019	Change yoy	Share of 2020 revenue	Share of 2019 revenue
Cost of sales	**37,071**	**41,804**	**-11%**	**79.8%**	**81.3%**
Materials and components	23,760	27,957	-15%	51.1%	54.4%
Labour costs incl Social taxes	6,906	7,060	-2%	14.9%	13.7%
Depreciation and amortization	2,122	1,954	9%	4.6%	3.8%
Construction and design[2]	2,557	2,467	4%	5.5%	4.8%
Others	1,726	2,365	-27%	3.7%	4.6%

in millions of Rub	2020	2019	Change yoy	Share of 2020 revenue	Share of 2019 revenue
Gross profit	**9,405**	**9,609**	**-2%**	**20.2%**	**18.7%**
Distribution & transportation	1,986	1,961	1%	4.3%	3.8%
General & administrative	5,243	5,395	-3%	11.3%	10.5%
SG&A expenses	**7,228**	**7,356**	**-2%**	**15.6%**	**14.3%**
Other operating expenses	412	196	111%	0.9%	0.4%
Operating expenses ex. Cost of sales	*7,641*	*7,552*	*1%*	*16.4%*	*14.7%*
Operating profit	**1,338**	**2,057**	**-35%**	**2.9%**	**4.0%**
Finance costs	1,926	1,785	8%	4.1%	3.5%

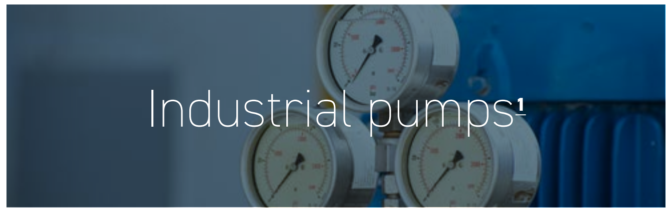
in millions of Rub	2020	2019	Change yoy
SG&A expenses	**7,228**	**7,356**	**-2%**
Finance costs	1,926	1,785	8%
Interest expenses	*1,848*	*1,764*	*5%*
Interest rate, average	8.00%	8.57%	
Interest rate Rub, average	8.12%	8.69%	

1 Loss for the period adj. — is the reported Loss for the period, excluding the effects of goodwill impairment and impairment of previously recognized deferred tax asset
2 Construction and design and engineering services of subcontractors
3 SG&A expenses — Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

Financial Overview

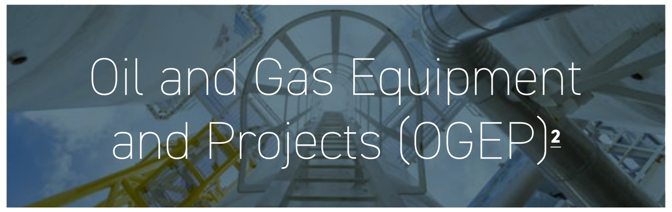
Continued

Business Segments Performance



Revenue grew to Rub 20.3 billion by 2% yoy, based on the recurring business. EBITDA was up to Rub 2.9 billion, by 13% yoy, compared with Rub 2.6 billion in 2019, due to a larger share of regular orders with higher profitability. EBITDA margin was 14.5%, compared with 13.1% in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	20,256	19,770	2%	6,311	5,657	12%
EBITDA	2,931	2,599	13%	1,116	797	40%
EBITDA margin	14.5%	13.1%		17.7%	14.1%	



Revenue declined to Rub 11.3 billion, by 14% yoy, compared with Rub 13.2 billion in 2019. EBITDA was down to Rub 241 million, compared with Rub 430 million in 2019. The main reasons were the COVID-19 pandemic and postponement of projects for 2021.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	11,284	13,160	-14%	2,890	3,241	-11%
EBITDA	241	430	-44%	(49)	47	-204%
EBITDA margin	2.1%	3.3%		-1.7%	1.4%	

Revenue was down by 16% yoy to Rub 14.9 billion, compared with Rub 17.9 billion, due to less revenue generated by recurring business.

EBITDA grew by 25% yoy to Rub 1.9 billion, compared with Rub 1.5 billion in 2019, due to higher margins generated by large contracts. EBITDA margin was up to 13.0%, compared with 8.6% in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	14,947	17,884	-16%	6,080	3,075	98%
EBITDA	1,939	1,546	25%	796	489	63%
EBITDA margin	13.0%	8.6%		13.1%	15.9%	

Revenue was down to Rub 718 million, compared with Rub 1.4 billion in 2019. EBITDA was Rub (63) million, compared with Rub (29) million last year.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	718	1,394	-49%	138	174	-21%
EBITDA	(63)	(29)	117%	(43)	(59)	-27%
EBITDA margin	-8.8%	-2.1%		-31.2%	-34.0%	

Working Capital and Capital Expenditures

Working Capital and Capital Expenditures

Working capital declined to Rub 6.8 billion, by 24% yoy, compared with Rub 8.8 billion in 2019. As a share of revenue, working capital declined to 14.5% which is a very low ratio. It was a result of tough anti-crisis measures initiated by the company.

Maintenance capex was down to Rub 1.4 billion, by 12% yoy, compared with Rub 1.6 billion in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Working capital	6,752	8,846	-24%	6,752	8,715	-23%
Working capital / Revenue LTM	14.5%	17.2%		14.5%	18.9%	
Capex	1,392	1,571	-11%	250	399	-37%
Acquisition	0	670		0	0	

Debt Position

Total debt declined by 9% yoy to Rub 22.2 billion, compared with Rub 24.3 billion in 2019. Net debt was down to Rub 11.8 billion, by 18% yoy, compared with Rub 14.4 billion in 2019.

Net debt to EBITDA LTM ratio decreased to 2.39x, compared

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Total debt	22,175	24,321	-9%	22,175	22,832	-3%
Net debt	11,814	14,369	-18%	11,814	13,897	-15%
Net debt / EBITDA LTM	2.39	2.98		2.39	2.89	

1 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.

2 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 th+e customer's site as a modular but fully integrated part of the customer's technological process.

Significant Events after the Reporting Date & Financial Management

Large Contracts

After the reporting date, in April 2021, the company announced the signature of a Rub 7.5 billion contract to design and manufacture oil & gas equipment for one of the largest gas fields in Russia. The contract is for manufacture, delivery and installation of membrane modules and elements, turbocompressor units for an interstage compressor station and gas transportation units for a gas booster station as part of a helium concentrate membrane recovery unit. This is a follow-up contract HMS Group has secured with this client. The first one was announced in 2017 in a Rub 10.2 billion contract, and that was the first project of that kind in Russia.

Buyback Program

After the reporting date, HMS Group repurchased 176,000 GDRs under its buyback program.

Dividends

The Board of Directors at the meeting on April 21, 2021, recommended payment of a final dividends in respect of FY 2020 in the amount of Rub 4.25 per one ordinary share (Rub 21.25 per one GDR). The dividends are subject to the approval at the AGM on June 24, 2021. Subject to such approval, the Dividends may be paid on July 1, 2021 to shareholders on the Company's register at close of business (UK time) on June 18, 2021 (the "Record Date").

MOEX listing

Also, the Board of Directors approved the listing of the Group's GDRs as a Foreign Issuer on the Moscow Exchange. The Company's GDRs will continue trading on the Main Market of the London Stock Exchange. Trading of HMS Group's GDRs on the Moscow Exchange is expected to commence in the second quarter of 2021, subject to approval by the Moscow Exchange.

3 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.

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

2020 Calendar of Events

January

- HMS Group implements an investment project on the foundry re-equipment at Kazankompressormash facility to create a modern foundry complex on its base. The new complex will enable the company to produce the castings of a wide range of alloys, including the steel ones of a large size.
- Apollo Goessnitz GmbH participated in the Egypt Petroleum Show in February 11–13, 2020 in the Egypt International Exhibition Center (Cairo). At the exhibition, Apollo Goessnitz presented solutions for oil & gas upstream and downstream applications.

March

- The centrifugal compressor package underwent integrated tests at TANECO's Oil Refining and Petrochemical Complex in Nizhnekamsk. The compressor package is based on a 3GC2-39/106-132 vertically split centrifugal compressor with a capacity of 153,500 Nm³/h and a discharge pressure of 132 bar. The equipment is intended for compression of hydrogen-bearing gas in heavy coker gas oil hydrotreatment process.

May

- HMS' Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2017 award year. Total amount of GDRs paid to the LTIP participants was 270,810, which is equal to 1.16 percent of HMS' share capital. For more details, visit link https://grouphms.com/press_center/press_releases/8817/.
- HMS signed Rub 1.4 billion contract to engineer and manufacture skids, vessels and a refrigerant compressor. The oil & gas equipment will be delivered in 2020–2021 and installed at the client's facility in southeast Siberia.
- HMS Group signed a framework contract to conduct design and exploration works at an oil & gas field, located in Russia. The estimated duration of works is 5 years and the maximum total amount of the contract may not exceed Rub 5.7 billion.
- HMS signed a contract to manufacture automated group metering units for Mangistaumunaigas (the Republic of Kazakhstan). Previously, such units had been supplied to the Kalamkas and Zhetybay fields developed by Mangistaumunaigas. Since the beginning of 2020, the Group has concluded contracts for supply of 31 automated group metering units for Kazakhstan oil companies.
- The company signed a contract to manufacture and delivery automated metering units (for groups of wells) to RITEKBeloyarskneft, a territorial production company, to be operated at the Sredny Nazym oil field. The metering units will be equipped with multi-stream switching manifolds with cases made of wear-resistant materials. It allows reducing corrosive and erosive wear of switching manifold parts, and, thus, extending the service life of the whole metering unit.

June

- HMS' Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2017 award year. Total amount of GDRs paid to the LTIP participants was 73,857, which is equal to 0.30 percent of HMS' share capital. For more details, visit link https://grouphms.com/press_center/press_releases/8822/.
- The company signed a contract to design and deliver automated group metering unit for Production Association "Belorusneft". It will be the first metering unit produced by HMS Neftemash, which will be designed considering the specific oil production conditions of the Belarusian oilfields and the Republic of Belarus regulatory requirements.
- HMS managers acquired 20,446 HMS Group's GDRS using their own funds.
- Two compressor packages were put into pilot operation under the project for development of the oil part of the Yaro-Yakhinskoye oil and gas condensate field (Arcticgas). 34GC2-138/7-117 GTU compressor packages with 125,640 Nm³/h capacity and 117 bar discharge pressure were designed to compress a mixture of APG and de-ethanization gas operating as part of a gas compression system (GCS).

  Low and high-pressure casings are mounted in parallel on a common skid together with a twin-shaft gearbox and are completed with a 16MW NK-16STD gas turbine engine manufactured by KMPO. Such arrangement made it possible to reduce the overall dimensions of the GCS, including its container, as well as to facilitate the installation and maintenance process of the compressor flow paths. The equipment was delivered to the customer as ready-to-operate modules.
- The implementation of this project was another successful example of a long-term strategic partnership between HMS Group and KMPO.

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/research/corporate-finance/fitch-affirms-jsc-hms-group-idr-at-b-outlook-stable-24-07-2020.
- Under the project "Bobruysk TPP-2 Repowering. Replacement of boiler feed pump No. 3 and installation of adjustable speed drive", HMS Group manufactured and delivered a motor pump unit. The unit is equipped with hydrodynamic coupling made by VOITH Turbo.

August

- HMS signed a Rub 4.5 billion contract to engineer and manufacture gas compression units. The equipment will be delivered and installed at a client's gas booster station in 2021.
- HMS Group signed a Rub 3.8 billion contract within a long-term framework agreement to manufacture mobile compressor units. The framework agreement was signed in 2019. The equipment will be delivered at the client's site by the end of 2021.
- HMS managers acquired 23,100 HMS Group's GDRs using their own funds.
- HMS Group repurchased 5,554 of its global depositary receipts. Since the start of the program, the Company has repurchased 1,209,836 GDRs in total representing 5.16 percent of its issued share capital.
- The complete gas compression system was put into commercial operation at Vostochno-Messoyakhskoye oil and gas condensate field. The gas compression system based on 53GC2-384/4-141 GTU high-performance compressor system with a parallel arrangement of casings was designed to compress associated petroleum gas as a part of the compressor station under construction at the field.

2020 Calendar of Events

Continued

September

- One of HMS managers acquired 99,208 HMS Group's GDRS using his own funds.
- HMS Group refinanced Rub 5.1 billion in 3Q 2020 and shifted debt repayments from 2021 to 2022–2023.
- HMS Group signed a Rub 1.9 billion contract to engineer and manufacture gas transportation units. The equipment will be delivered by the end of 2021.

  HMS Group manufactured and delivered two gas compression systems to operate as a part of the booster compressor station at Novoportovskoye oil and gas condensate field. The compressor systems are based on a single-section five-stage 6GC2-380/36-101 GTU centrifugal compressor with a vertically split casing, 319.38 m3/min capacity and 9.8 MPa discharge pressure. The systems are equipped with the dry gas seals, oil sleeve bearings, and a common lubrication system for motor and compressor, and were supplied in the hangar-type enclosures with 32 MW Siemens SGT-700 gas turbine drives and all utility systems.

October

- HMS Group manufactured and delivered a number of new-generation pumps, including oil pumps, booster pumps and condensate pumps, to the Azerbaijan thermal power station.

November

- HMS Group signed a Rub 3.2 billion contract to engineer and manufacture gas transportation units to be installed at a client's oil & gas condensate field, located in Russia. The equipment will be delivered by the end of 2021.

December

- HMS Group signed a Rub 1.3 billion contract to engineer and manufacture pumping stations. The equipment will be delivered in 2021.
- The company manufactured and delivered a number of high-efficiency pumps of NM 1250-260-2.1 (KZ) at the main pump stations "Pavlodar", "Ekibastuz", "Stepnoye" (Kaztransoil) under its modernization program.
- The Group's Executive Directors and PDMRs acquired an interest over the Company's Global depositary receipts following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2018 award year. The total amount of GDRs paid to the LTIP participants was 331,562, which is equal to 1.41 percent of the Company's share capital.
  More information can be found via link https://grouphms.com/press_center/press_releases/8941/.

HMS Key Projects, Development & Innovations

Export Activities

Export sales revenue of HMS Group outside the FSU was US$ 51 million including international nuclear power plants projects, less than a year before but still showing stability despite the COVID-19 pandemic. At the same time, the current export sales backlog is equal to US$ 56 million with new promising projects coming.

2020 has shown a significant breakthrough in Egyptian water market and a tremendous work has been done to bring HMS compressors to the international markets.

USD **51** mln

Export sales revenue in 2020, outside the FSU

USD **54** mln

Export sales backlog in 2020

Research and Development

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.

PUMPS

HMS Group set up a serial production of HMS Control SIDUS stations, intended for (simultaneous) control of two submersible or semi-submersible pumps applied in the wastewater disposal, water supply, heat supply, etc.

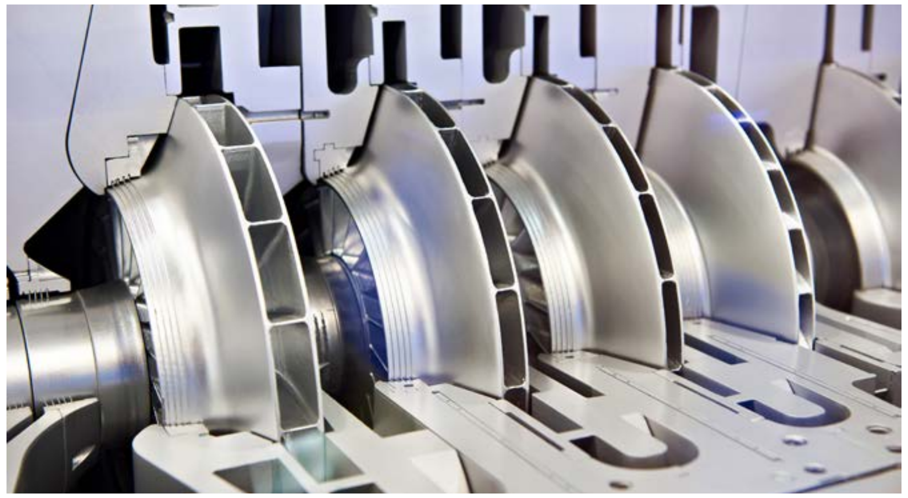
This station's control system is cascaded, in response to control signals. Both discrete signals provided by float fluid level switches, electrocontact manometers, electrode level sensors, and analog signals provided by hydrostatic and ultrasonic level transmitters can be used for the process control.

The stations are designed in two specifications — with direct-on-line start and with an each-pump-softstarter.

HMS Group continued expansion of the standard series of pumps manufactured for thermal power generation and other industries.

Oil pumps 12KM-type and electric pump units, based on them, are intended for transfer of turbine-oil with temperature +25–60°C or other oils with close physicochemical characteristics. These pumps are used in the centralized lubrication systems of turbo-pump units.

Nasosenergomash, the Ukrainian subsidiary of HMS Group, successfully tested the newly designed API 610 main centrifugal pumps for oil transport through trunk pipelines.



HMS Key Projects, Development & Innovations

Continued

The AMG-250N/2×410-308/CN (BB3 according to API 610) pumps with a horizontal housing connector and multi-stage multi-bearing were specially designed and manufactured in accordance with technical requirements of the customer, JSC Ukrtransnafta, with nominal parameters of 1,250m3/h feed and 365m pressure.

HMS Group designed and manufactured double-sided pumps D 500-1050 "in hot design" (3,500m3/h-140m) intended for use in heating networks. These D-series pumps do not require forced lubrication, are equipped with mechanical seals and operate as a part of units with a variable frequency drive.

In 2020, the 13-stage pump units with a horizontal housing connector type AMG 100L according to the API 610 standard were designed and manufactured. The designed pump unit has no analogues in this design among manufacturers of pumping equipment in Eastern Europe and the countries of the former CIS (the main parameters: Q=180m3/h, N=1,180m, n=3,000rpm, and NPSHR=4m). The basic element of the pump is a high-tech casting of the casing, the manufacturing accuracy of which ensures high efficiency and preset parameters of the flow part.

OIL & GAS EQUIPMENT

Thermo-Chemical Binary Mixture Technology (TCBXT)

In 2020, HMS Group continued works on promoting and commercialization of the new technology in subsoil users, but several factors affected works volume and timing.

Commitment of Russia in the OPEC+ group to a record downward adjustment of its overall crude oil production by 1.9 mb/d made Russian VIOCs suspend crude oil production at almost all oilfields in Russia.

The agreement led to crude oil production cut, freezing of investment plans, including among others implementation of new methods of bottomhole formation zone treatment and enhanced oil recovery (EOR). As the developed technology and equipment were the ones classified as methods of bottomhole treatment and EOR, planned works were suspended, canceled or postponed for an indefinite period.

The COVID-19 pandemic complicated planning and carrying out of works at oil wells of almost all oil & gas producers in Russia. Subsoil users canceled, postponed or freeze such kind of works, because access of their personnel to oil wells had been limited.

Despite all restrictions and limitations, HMS Group managed to continue works on the technology, including laboratory testing and experiments on examination of binary textures' energy datum and optimization of the chemicals' formulations.

In the period from October to December 2020, HMS Group conducted 6 successful testing at Tatneft and 1 testing at Gazprom neft.

Today, the company is in the process of assessment of completed works, analysis of received results and preparation of documentation. HMS Group expects to sign a number of agreements for wells' treatment with other subsoil users.

Mobile Secondary Reference Metrology Complex

In 2020, HMS successfully completed an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex, which online calibrates metering units, without interruption of hydrocarbons' extraction, thus lowering costs of extraction.

In October 2020, the prototype of the Complex completed the overall field trials at 8 wells on Slavneft's deposits.

The results of mobile oil analyzers at wells with light separation of oil-gas-water mixtures in assessment of the volumetric water cut, the density of oil, water and liquids, as well as the mass water cut was similar to the inground chemical analysis laboratories' ones.

The developed Mobile Secondary Reference Metrology Complex calibrates an operating fleet of cluster metering units without interruption of oil extraction. And it allows decreasing costs, associated with necessity to renew metering units fleets not subject to calibration as per current verification scheme.

UNIQUE SYSTEM

of the rodless oil extraction mechanism at low-yield reservoirs

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 2020, HMS Neftemash successfully completed the first stage of test operations of the unique system of the rodless oil extraction mechanism at low-yield reservoirs in Volga-Urals oil and gas province.

The developed technical solution decreases costs of oil extraction at poor wells, making it possible to withdrawn from traditional beam units.

The new patented system maintains day capacity up to 8m3 and is intended for installment in wells with up to 2,000m depth. The suggested system maintains up to 65% efficiency factor with a significantly lower energy intensity (2.5–3.5 kW), compared with traditional oil production systems (25–30kW).

In line with a testing plan, one of wells was equipped with a system, based on the unique hydromechanical gearbox, intended for a special sucker rod pumping units, and which was designed and manufactured by HMS Group. The first test successfully proved the system's operational condition and its effectiveness.

HMS Group is the first and the only company in the world, which brought into prototype testing the roadless oil extraction system at a field under actual usage conditions.

COMPRESSORS

In 2020, HMS Group successfully launched a new type of compressor units — a flash gas compressor — for the 4th stage of the Yamal LNG Project (NOVATEK). That was the first of its kind solution, made in Russia and fully on the base of the equipment made in Russia. All elements were designed and produced in accordance with the API standards.

HMS Group developed and successfully launched manufacturing of gas compressor units with 32MW capacity driven by the Siemens SGT-700 gas turbine driver. These units will be installed as a part of a booster compressor station at the Novoportovskoye oil & gas condensate field (Gazpromneft) and placed in operation by the end of 2021.

32 MV

new gas compressor capacity driven by the Siemens SGT-700 gas turbine driver

HMS Key Projects, Development & Innovations

Continued

LEGAL PROTECTION OF INTELLECTUAL PROPERTY

As an innovative company, HMS Group continues to protect the exclusive rights to its products and the individualisation of the goods produced and services that are provided.

Currently, HMS operates more than 350 objects of intellectual property in its portfolio, including 270 patents, 31 registered computer programmes, and 54 registered trademarks.

In 2020, the company received 10 patents for new technological solutions.

The company filed application for a patent on the advanced design of the Hydromechanical Drive for Sucker Rod Pumping Units. Also, HMS initiated process of patenting the Thermo-Chemical Binary Mixture Technology in China and Kazakhstan for its further promotion abroad.

10 patents

for new technological solutions in 2020

350

objects of intellectual property in HMS Group portfolio, including

270 PATENTS

MODERNISATION

Foundry

In 2020, Kazankompressormash (Compressor business segment) completed an investment project on the foundry re-equipment to create the modern foundry complex on its base.

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 modernization expanded 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 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 550 to 1200°C.

90 tonnes

smelting complex of four heat-treating furnaces, with an in-process temperature range

550 – 1200 ° C.

Corporate Social Responsibility

Primary Areas of Social Policy

Social development policy and provision of 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 to the employees, including:

- hardship-duty pays;
- preservation of average earnings after transfer to easier work;
- pecuniary aid in the event of 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.

Corporate Social Responsibility

Continued

Safety and Health

HMS Group believes that achieving its strategic goals and maintaining its competitive advantages require systematic management of labor health protection and 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. Prioritization of 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 analyze 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 labor 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 realization of the labor health safety system.

COVID-19

Since April 2020, as to prevent the expansion of COVID-19 decease, HMS Group undertakes all the necessary measures in its offices and production facilities in accordance with regulatory requirements.

The company informs personnel on a regular basis about the necessity to comply with the preventive measures and personal and social hygiene rules through corporate information materials, as well as materials provided by the Russian consumer protection agency Rospotrebnadzor and other official state sources.

Where business processes allow, the company limited contacts between staff members of separate manufacture workshops, sites, departments and functional work groups, which were not connected by collective tasks and work processes. Where the workshop allows, there is a 1.5-meter physical distance implemented between workers and their workplaces.

The remote working was widely practiced. The company minimized offline business meetings or any mass events in its offices and production facilities. HMS imposed restrictions on business trips: its employees were sent on business trips only in the case of urgent operating issues, which could not be cancelled or postponed.

HMS Group provided its employees and visitors with individual protective equipment — disposable gloves and face masks with change not less than in 2–3 hours.

The company organized an "entry filter" on entering HMS' offices and production facilities, including spots for hands disinfection and temperature screening. Individuals with a high temperature and/or showing signs of the acute respiratory disease are suspended or not admitted to their working places.

Workplaces adopted the "stay at home if unwell" practice and HMS implemented flexible sick leave policies to discourage workers with symptoms of the decease from coming to their workplaces.

The facilities are equipped with bactericidal air recirculating irradiators, and all surfaces are cleaned and treated with sanitizers several times per day.

The company tests employees for the COVID-19 on a regular basis. And our employees on their request can be vaccinated with the "Sputnik V" at offices and production facilities of HMS Group.

Corporate Social Responsibility

Continued

Social Assistance

The company believes in its responsibility for social and economic climate in regions where it operates and 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 at the 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 carried out through:

- social support and protection of citizens, including improvement of the financial position of indigenous peoples, and social assistance to unemployed, 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.

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 recognize 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;
- ensuring 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, revized 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 unfavorable weather conditions. For the last years, no excess of the maximum allowable pollutant emissions has been discovered.

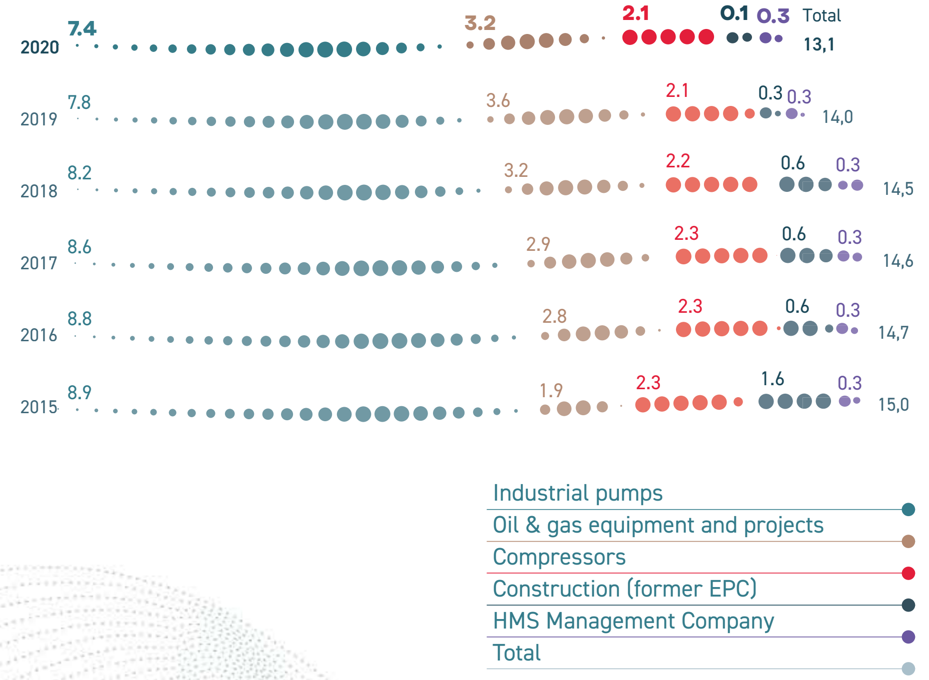
The Group's production facilities conducted chemical and microbiological analyses of natural surface water and waste storm water on a quarterly basis, and spillover tracking of storm water on a monthly basis.

People

As an employer of 13 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 and assists them in achieving their full potential.

In 2020, the average headcount decreased by 1 thousand people (–6.9% YoY) due to attrition and personnel optimization, as well as reduction of staff in the construction segment because of its production cutback.

Average headcount as of December 31, 2020, in thousand people



13 thousand

employees in 2020

Corporate Governance

Good corporate governance generates **trust and engagement** between a company and its stakeholders and contributes to a company's long-term success.

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 has achieved a dynamic and effective communication** between the Board, the Company's management and its shareholders, leading to the successful implementation of its strategy.

The Company's 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 and practices, which are detailed below in this section. 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 memorandum and articles of association of the Company, directors may not vote on a matter in which they have an interest even if the director has disclosed his interests in the transaction.

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

Board of Directors

The Board of Directors and Performance

As at 31 December 2020, the Board consisted of nine (9) Directors: the Group Chairman who was independent on appointment, three (3) Executive Directors and five (5) Non-executive 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 Democrious University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

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 the General Director of "ITS" LLC, a manufacturer of prefabricated modular equipment. Prior to joining "ITS" LLC, Mr. Tsoy served from 2006 to 2011 as an analyst and deputy director of capital markets at HMS Group. From 2003 to 2006, Mr. Tsoy was an analyst at "Smith Barney", a private wealth management company. Mr. Tsoy graduated with honours from Drew University, New Jersey, USA with a degree in economics and finance in 2003.

Principal Activities of the Board of Directors in 2020

The Board of Directors held four ordinary meetings and one extraordinary meeting in 2020. Due to the COVID-19 pandemic, four out of five meetings of the Board of Directors were held via videoconference call. In 2020, the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategies, including in relation to investment plans, mergers and acquisitions activities, budgeting, the 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.

Board of Directors

Continued

The Board of Directors Committees

In order to exercise proper oversight of risk and control and pursuant to the authority granted to the Board under the Company's memorandum and 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 [principal] Committees in 2020 is set out below.

Audit Committee

General Overview

As at 31 December 2020, 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: (i) monitoring the financial reporting process and the integrity of the Group's financial statements, including its annual and interim financial statements; (ii) the effectiveness of the Group's internal quality control and risk management systems; (iii) auditors' reports on the Group; and (iv) 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.

Further details on the main features of the Group's internal quality control and risk management systems, including in relation to the financial reporting process, are set out in the next section.

Activities in 2020

Two meetings of the Audit Committee were held in 2020. 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 review 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 appointment of the external auditor and the remuneration of the auditor, and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2020, 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 2019. Deloitte remains appointed for the 2020 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 2020

Two meetings of the Remuneration Committee were held in 2020. The main matter reviewed by the Remuneration Committee was the implementation of the Group's updated Long-Term Incentive Plan ("LTIP"), as well as the 2020 LTIP targets and the list of participants.

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. Yury N. Skrynnik and Mr. Nikolay N. Yamburenko.

The Strategy and Investments Committee is responsible for considering, amongst other matters: (i) strategic business combinations; (ii) acquisitions, mergers, disposals and similar strategic transactions involving the Company; and (iii) fundamental investments of the Company.

Activities in 2020

One meeting of the Strategy and Investments Committee was held in 2020. 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 2020.

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 2020.

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.

Long Term Incentive Plan

During 2020, the Group's Executive Directors and persons discharging managerial responsibilities ("PDMRs") listed below acquired an interest over the Company's global depositary receipts ("GDRs") following the grant of awards under the Company's LTIP for the 2017 and 2018 award years. The awards were part of a grant of GDRs to seventeen Company managers as a motivational package for the 2017 and 2018 award years under the LTIP. The total amount of GDRs awarded to the LTIP participants was equal to 2.87 percent of the Company's issued share capital.

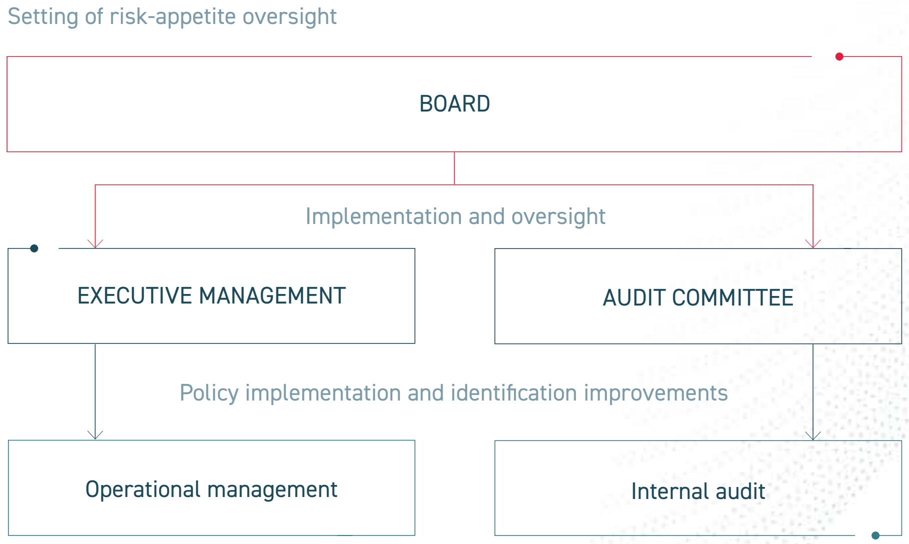
Risk management and internal control

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 the Group's 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 and internal control program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks that the Group 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, by way of its function, reports to the Audit Committee and, for administrative purposes, to the First Deputy CEO. The internal audit department performs its activities in accordance with an audit plan and incorporates a 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

The 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; and
- Actively monitoring the steps taken to control the most significant risks.

Principal risks and uncertainties

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

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

Risk	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing long-term suppliers
Global political 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	●	●	●	●		
Credit and liquidity risks	●	●	●	●		

Risk management and internal control

Continue

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, and Germany) but also in jurisdictions where the Group has other interests (e.g. projects in the Middle East and Central Asia).

Starting from 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies.

Nowadays, more than 14,000 Russian legal entities and 174 Russian citizens have been sanctioned. According to experts' reviews, more than 28 percent of Russian companies under sanctions are manufacturing facilities, approximately 17 percent trade companies, nine percent transport companies, and three percent natural resource providers and agricultural companies. The great number of companies subject to foreign sanctions is related to OFAC's so-called «50 Per Cent Rule». Under this rule, any company, of which 50 percent or more in the aggregate of interests are owned by a blocked person or entity, will be blocked even if the company itself is not on the list of entities under sanctions.

The above-mentioned events have led to reduced access of Russian businesses to international capital markets. Russian companies try to seek alternatives via the government or foreign non-Western investors (e.g, Chinese investors, initially). For instance, in December 2020 the Russian government approved the list of 70 legal entities receiving Chinese investment for a total of US$ 107 billion.

The impact of further economic and political developments on the future operations and financial position of the Group 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 which it does business, though amid fairly high crude oil prices the influence of these actions could be softened.

We consider the additional imposition of targeted personal sanctions to be the most probable of these risks facing our Group. They alone will unlikely 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 oil 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 its list of restricted import goods from Ukraine, including starch, fruit-sugar, certain medical equipment, heaters, central heating boilers and certain machine-building products.

In 2020, Russia continued widening the range of sanctions imposed on individuals. In total, there have been 849 Ukrainian citizens listed for sanction, for whom economic measures were applied, including the freezing of non-cash money, uncertificated securities and assets in Russia, as well as the prohibition of their transfer out of the Russian Federation. Additionally, in November 2020, Russia extended a prohibition on the import of Ukrainian agricultural products.

In general, the most dangerous effect of sanctions lies in growing uncertainty. Uncertainty affects both short-term and long-term investment projects. This could have an adverse, material effect on the Group'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 those 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. A large share of the Group's revenue is generated by a limited number of key customers and contracts and may incur losses due to unfavourable terms of contracts with certain large customers, though the Group does not depend on any one particular client, contract or industry.

Project execution risks

Since the Group's 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

The Group systematically reviews and manages its legal risks through identifying and preventing conditions giving rise to such risks, at the pre-contractual stage of an engagement as well as at the stages of execution and any legal proceedings.

Risk formation in 2018 was stipulated by a number of reasons, both macroeconomic and contractual related to a number of projects executed by the Group. The main legal risks which arise when contracts are executed include:

a. The risk of non-performance of a contract by a client (in whole or in part);
b. The risk of non-fulfillment of obligations or liabilities by third parties, responsible for delivery or production of a product's components;
c. The risk of a «mediator» insolvency (i.e., a failure to generate a cash flow in a «settlements' chain» from client to producer);
d. The risk of penalty, litigation or claims for a breach of the contract;
e. Default risk (including, as a result of sanctions and/or other enforcement actions from state services); and
f. Piracy risks.

The management of legal risks is based on expert assessment, and the identification of, monitoring of, and mitigation against risk factors are generally performed by HMS's Legal department.

HMS's Legal department uses the following basic strategy of risk management:

- Legal risks are identified and/or verified when potential contracts are vetted as well as through further support;
- Regarding risks (a)-(c) above: contracts execution security to guarantee adequate sources of funds to cover any breach or non-performance of the obligations of a contract, 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 (e.g., banking or corporate) for advance payments/contract performance, third-party guarantees, collateral and others;
  - Withholding of an advance payment until the provision of a security; if it is not provided, then payment is made after delivery; and
  - Management of the "contract commitments chain" from client to producer, which assures the receipt of the relevant payment at the time of cash flow passing.
- Regarding risk (d) above: we control and identify the legally important facts and circumstances of the contract, through putting together evidential documentation (letter, acts, protocols, etc.), identified factors of contractual non-fulfillment (a customer's fault), with subsequent claims settled through the signing of amendments to the contract;
- Regarding risk (e): we monitor changes and control deal compliance with the current legislation of the Russian Federation;
- Regarding risk (f): we carry out patent searches, due diligence, and record-keeping of intellectual activity results.

When risks occur at the level of litigation, we follow standard legal procedures and collect relevant documentation, in order to evidence the client's breach of contract. This helps to deliver success at trial (by way of 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 human resources practices. In line with the 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.

Risk management and internal control

Continue

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 research and development employees (talented personnel with high potential and unique research and development knowledge) can reduce the organisation's productivity. Moreover, the Group can spend considerable time and money in replacing such employees. The Group employs a proactive approach to avoid unwanted resignations. The Group is increasing its focus on approaching and retaining the right talent, using a tailored mix of financial and non-financial incentives.

Acquisitions & disposals

Since its formation, the Group has completed a number of acquisitions targeting the key players in the markets of industrial pumps, compressors, modular oil and gas equipment, and engineering, procurement and construction contracts.

Taking into account the economic slow-down and high uncertainties, insufficient demand in many segments, all of which make it difficult to evaluate potential synergies from mergers and acquisitions, the Group is not currently considering any material acquisitions in the near future, so considers this risk 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 depend on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

The tightening of anti-corruption control over government-owned corporations can affect the pattern of interaction of the Group with its largest Russian customers in terms of mutual trust and confidence.

In addition, the 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.

The 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.

Information technologies

There are several significant risks in information technology that can affect the Group, including cyber security and incident response risk, information technology resiliency and continuity risk, data management risk, and technology operations risk. The Group believes that the main risks for the Group are 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 without detection.

The Group has developed a group-wide information security (IS) strategy and a road-map based on the audit results. The action plan was started in 2018, including the creation of an Information Security department. The Group implements measurements on ongoing basis to mitigate the risk of information security breaches, including through the development of an Information Security Policy, perimeter protection, segmentation of the network, TDS /Intrusion Prevention System, and two-factor authentication.

Legislation and regulations

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax and regulatory frameworks are subject to different 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, the Group recognises that these developments may have significant implications for its business and development plans. The Group continues to monitor these developments.

Financial risks

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.

The Group does not use financial instruments for hedging or other risk management and, as a result, the Group is not exposed to risks relating to hedging.

Foreign exchange risks

The Group has no material foreign exchange mismatch. The Group operates primarily in Russia, with the majority of its revenue generated in Russian rubles. Operating costs are also mainly Russian ruble-denominated and almost 100 percent of debt is in Russian rubles.

Credit and liquidity risks

In February 2017, HYDROMASHSERVICE JSC, the Group's subsidiary, issued 3.0 billion rubles of bonds. The maturity of the bonds was 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 10.75 percent was set for the first six coupon periods. In February 2020, the bonds were fully redeemed by the Group.

In 2020, the Group continued work with its debt portfolio.

In July 2020, the Group through its subsidiary HYDROMASHSERVICE JSC issued 3.0 billion rubles of bonds. The maturity of the bonds is 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 8.15 percent is set for the first six coupon periods. Subsequent coupon rates are to be determined in July 2023.

In October 2020, HYDROMASHSERVICE JSC issued 3.0 billion rubles of bonds. The maturity of the bonds is 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 7.95 percent is set for the first six coupon periods. Subsequent coupon rates are to be determined in September 2023.

The financial resources acquired from issuing such bonds were used for the partial refinancing of bank credits. As a result of the above actions, at the end of 2020, the Group had only 1.3 billion rubles to be repaid in 2021.

At the end of 2020, the Group accumulated 10.4 billion rubles of available cash. The Group didn't exceed the credit limits of any of the banks during the reporting period. Considering all the above factors, the Group estimates its exposure to credit and liquidity risks as immaterial.

The COVID-19 pandemic

Starting from late 2019/early 2020, a new coronavirus disease (the COVID-19) began rapidly spreading all over the world resulting in the declaration of a pandemic 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. In addition, in March and April 2020, oil prices dropped significantly, which resulted in the immediate weakening of the strength of the Russian ruble against major currencies.

The Group's management does not expect the current operating environment to have a significant adverse impact on the financial position and operating results of the Group and the Group's ability to continue as a going concern.

HMS global depository receipts

Shareholding

As of December 31, 2020, 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.

Currently there are 6,676,593 depositary receipts outstanding in the GDR program.

Long Term Incentive Plan

During 2020, the Group's Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's LTIP for the 2017 and 2018 award years. The awards were the part of a grant of GDRs to the company's managers as a motivational package under the LTIP.

Since the start of the LTIP, the total amount of GDRs awarded to its participants has equaled to 4.81% of the company's issued share capital.

Credit ratings

	Fitch Ratings	Expert RA
HMS Credit Rating / Outlook	B+ / Stable	ruA / Stable
Date of Rating / Date of Confirmation	22 Feb 2017 / 27 July 2020	11 July 2017 / 27 July 2020

Share price

HMS Group's GDRs performance in 2020, the London Stock Exchange

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
2020	**3.50**	**5.85**	**3.90**	**91.39**
1Q 2020	4.60	5.85	4.90	114.82
2Q 2020	3.50	4.90	4.02	94.60
3Q 2020	4.00	4.40	4.00	93.73
4Q 2020	3.78	4.70	3.90	91.39

Dividends

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 2019, **HMS Group paid Rub 3.41 total dividends per 1 ordinary share (Rub 17.05 per 1 GDR).**

History of dividend payments

Period	Dividend per share, Rub	Dividend per GDR, Rub	Amount announced, Rub mn	Record Date	Payment Date
2012	6.82	6.82	799.1	10.06.2013	28.06.2013
2013	3.41	3.41	399.5	10.06.2014	27.06.2014
2015	8.37	41.85	980.7	03.06.2016	21.06.2016
2016	8.53	42.65	999.5	09.06.2017	27.06.2017
2017	11.95	59.75	1,400.2	15.06.2018	03.07.2018
2018	9.81	49.05	1,149.5	14.06.2019	01.07.2019
2019	**3.41**	**17.05**	**399.5**	**19.06.2020**	**30.06.2020**

HMS global depository receipts

Continue

Buyback program

HMS Group started its buyback program in 2012. 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.

The total amount of GDRs subject to the Buyback (taking into account any GDRs already owned by the Company) shall not exceed 6% of the subscribed capital of the Company at prevailing market prices.

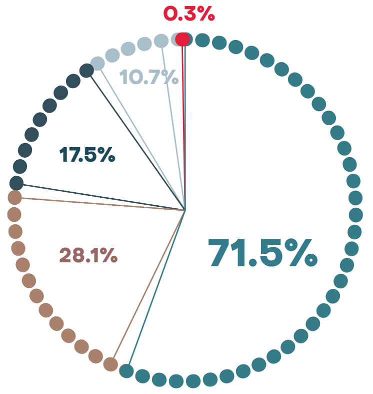
The GDRs are purchased by the Company with the assistance of Renaissance Capital or any other independent broker as may be further determined by the Board of Directors.

The amount and timing of the planned repurchases is determined by the Company based on its evaluation of its financial condition, business opportunities and market conditions at the time, in accordance with market practices.

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

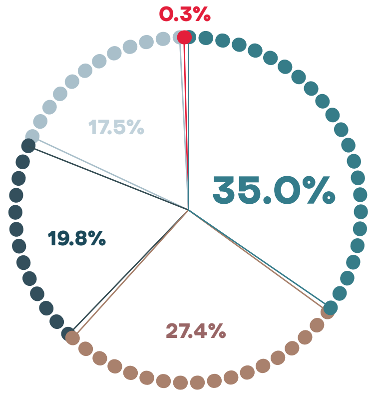
Major shareholders of HMS Group as of December 31, 2020

Shareholders by legal entities



JSC HMS Holding	71.5%
Free-float, where	28.1%
Free-float (other holders of GDRs)	17.5%
Managers and persons closely associated with management	10.7%
Treasury GDRs	0.3%

Shareholding by holders



Managers and persons closely associated with management	35.0%
Vladimir Lukyanenko	27.4%
German Tsoy	19.8%
Free-float (other holders of GDRs)	17.5%
Treasury GDRs	0.3%

Information for shareholders and disclaimer

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.

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
ISIN	RegS: US40425X4079 144A: US40425X3089
CFI	EDSXFR
Ratio, GDR:ordinary shares	1:5
Issued GDRs	6,676,593
Ordinary shares (share capital)	117,163,427
Local exchange	Not traded
Underlying ISIN	CY0104230913
Underlying CFI	ESVUFR
Depositary bank	BNY Melon

Information for shareholders and disclaimer

Continue

Global Depositary 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: shrrelations@bnymellon.com
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General Shareholder enquiries and Investor Relations contacts

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Investor Relations
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Tel: +7 495 730 6601
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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

Vocabulary, calculations and formulas

Units of measurement

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

Abbreviations & contractions

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

Formulas and calculations

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.

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.

HMS Hydraulic Machines & Systems Group plc

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

31 December 2020

Contents

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

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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 2020. 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 53.9 billion (20% yoy) based on growth in the compressors and the oil & gas equipment and projects business segments. In terms of contracts type, recurring business grew by 13% yoy and large contracts was up 30% yoy, compared with 2019.

Order intake grew to RR 54.2 billion, by 4% yoy, compared with RR 52.2 billion for 2019. The compressors business segment was the main contributor to this growth.

Group performance. Revenue was RR 46.5 billion, down by 10% yoy, compared with RR 51.4 billion for 2019, because of less revenue generated by the oil & gas equipment and the compressors business segments.

Adjusted EBITDA, in contrast, was up to RR 4.9 billion, due to increased margin of pumps and compressors contracts. EBITDA margin grew to 10.6%, compared with 9.4% for 2019.

Revenue from recurring business declined by 7% yoy, and revenue from large projects was down by 13% yoy. EBITDA from recurring business increased by 15% yoy, and, in contrast, EBITDA from large contracts declined by 16% yoy.

Loss for 2020 was RR 816 million, including the effect of goodwill impairment of RR 426 million, compared with profit for the period of RR 151 million for 2019.

Financial review. Working capital declined to RR 6.7 billion, by 24% yoy, compared with RR 8.8 billion in 2019. As a share of revenue, working capital declined to 14.5% as a result of tough anti-crisis measures initiated by the Group.

Capital expenditures were down to RR 1.4 billion, by 11% yoy, compared with RR 1.6 billion in 2019.

Free cash inflow was RR 3.0 billion, compared with RR 23 million in 2019, due to the implemented cost-optimisation program.

Total debt declined by 9% yoy to RR 22.2 billion, compared with RR 24.3 billion in 2019. Net debt was down to RR 11.8 billion, by 18% yoy, compared with RR 14.4 billion in 2019. Net debt to EBITDA LTM ratio decreased to 2.39x, compared with 2.98x in 2019.

Definitions to Non-IFRS financial measures

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 expenses, allowances and provisions (including allowance for obsolete inventory, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, warranty provision, provision for legal claims, tax provision and other provisions).

EBITDA Margin is calculated as Adjusted EBITDA divided by Revenue.

Capital Expenditures (CAPEX) is calculated on a cash basis as the sum of "Purchase of property, plant and equipment, net of VAT" and "Acquisition of intangible assets, net of VAT".

Free Cash Flow is calculated as a sum of "Net cash from/(used in) operating activities" and "Net cash used in investing activities".

Net Debt is defined as the sum of "Long-term borrowings", "Short-term borrowings" and "Lease liabilities" less "Cash and cash equivalents".

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” less “Trade and other payables”, “Short-term provisions for liabilities and charges”, “Current income tax payable” and “Other taxes payable”.

Backlog represents a portfolio of signed uncompleted contracts.

Order Intake is a portfolio of contracts signed for a period.

Revenue / EBITDA from Large Contracts represents total revenue / EBITDA generated by contracts and orders exceeding the internally set threshold.

Revenue from Recurring Business represents Revenue less Revenue from large contracts.

EBITDA from Recurring Business represents adjusted EBITDA less EBITDA from large contracts.

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 31 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 and actively participating in the government-initiated process of import substitution in all its main business segments.

In particular, the Industrial Pumps segment set up a serial production of HMS Control SIDUS control stations, intended for simultaneous control of two submersible or semi-submersible pumps applied in the wastewater disposal, water supply, heat supply, etc.

Also, NASOSENERGOMASH Sumy JSC, the Ukrainian subsidiary of HMS Group, successfully tested the newly designed API 610 main centrifugal pumps for oil transport through trunk pipelines.

In 2020, the 13-stage pump units with a horizontal housing connector type AMG 100L (BB#) according to the API 610 standard were designed and manufactured. The designed pump unit has no analogues in this design among manufacturers of pumping equipment in Eastern Europe and the countries of the former CIS. The basic element of the pump is a high-tech casting of the casing, the manufacturing accuracy of which ensures high efficiency and preset parameters of the flow part.

The Oil & Gas Equipment and Projects segment continues promoting and commercialization of the new Thermo-Chemical Binary Mixture Technology in subsoil users. The Group continued laboratory testing and experiments on examination of binary textures' energy datum and optimization of the chemicals' formulations as well as conducted a number of successful field tests.

In 2020, the Group successfully completed an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex that online calibrates metering units without interruption of extraction, thus lowering costs of extraction.

In 2020, HMS Neftemash JSC successfully completed the first stage of test operations of the unique system of the rodless oil extraction mechanism at a low-yield reservoirs in Volga-Urals oil and gas province. The developed technical solution decreases costs of oil extraction at poor wells, making it possible to withdraw from traditional rocking pumps. The Group is the first company in the world, which brought into prototype testing the roadless oil extraction system at a field under actual usage conditions.

In the Compressors segment, the Group developed and successfully launched manufacturing of gas compressor units with 32MW capacity driven by the Siemens SGT-700 gas turbine driver. These units will be installed as a part of a booster compressor station at the Novoportovskoye oil & gas condensate field (Gazprom neft) and placed in operation by the end of 2021.

Also, the Group successfully launched a new type of compressor units – a flash gas compressor – for the Yamal LNG Project (NOVATEK). That was the first of its kind solution, made in Russia and fully on locally made components.

Results

The Group's results for the year ended 31 December 2020 are set out on page 17 of the consolidated financial statements.

Dividends

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

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

At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2020 of 4.25 Russian Roubles per ordinary share, amounting to a total dividend of RR 497,945 thousand, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2021.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2020 and 2019.

At the Annual General Meeting in June 2020, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2019 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 391,942 thousand. These dividends were paid in June 2020.

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. These dividends were paid in July 2019.

Share capital

At 31 December 2020, 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 20 of the consolidated financial statements.

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

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

The role of the Board of Directors

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

Members of the Board of Directors

The members of the Board of Directors at 31 December 2020 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. Giorgio Veronesi, Ezio Vergani and Andreas S. Petrou 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 2020 and 31 December 2019 are shown below:

Director	31 December 2020	31 December 2019
Vladimir V. Lukyanenko	27.4%	27.4%
Artem V. Molchanov	7.0%	6.8%
Yury N. Skrynnik	4.1%	3.6%
Kirill V. Molchanov	2.7%	2.5%

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 36 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 Nikolai 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 2020 amounted to RR 43,130 thousand (2019: RR 38,552 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 98,691 thousand for the year ended 31 December 2020 (2019: RR 100,444 thousand). See also Note 30.

Branches

The Company did not operate through any branches during the year ended 31 December 2020.

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

During 2020, 5,554 GDRs of the Company representing 0.02% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 1,705 thousand.

In May-December 2020, 713,158 GDRs of the Company representing 3.04% of its issued share capital with the total cost of RR 288,125 thousand were transferred to the participants under the Long-term Incentive Program (Notes 20, 21).

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 1.77% 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 20, 21).

At 31 December 2020, the Company, via a wholly-owned subsidiary, is holding 81,960 (31 December 2019: 789,564) of its own GDRs with the total cost of RR 33,055 thousand (31 December 2019: RR 319,475 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 2021, 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
21 April 2021

Directors' responsibility statement

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 16 to 63) 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 2020 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
21 April 2021

Kirill V. Molchanov
Director
21 April 2021

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Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (the "Group"), which are presented in pages 16 to 63 and comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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.

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue and profit recognition on construction contracts	
The Group enters into construction projects, design and engineering projects and certain other long-term contracts. The recognition of revenue and profit on those contracts in accordance with IFRS 15 "Revenue from contracts with customers" is based on the stage of completion of contract activity, 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. As dislosed in Note 23 "Revenue" of the consolidated financial statements, during 2020 the Group recognised revenue from construction contracts in the amount of RR 21,666,020 thousand, being 47% of the total Group's revenue. Recognition of revenue and profit on construction contracts is considered a key audit matter for our audit of the Group's consolidated financial statements because of the significance of judgments and estimates applied by management in assessing the costs to complete, stage of completion, variations to the contracts requested by customers and the factual or future possible claims against the Group for delays in deliveries. Refer to Note 3 "Summary of significant accounting policies" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.	Our audit procedures included: • obtaining an understanding of key controls around the processes of budgeting and accounting for construction contracts, as well as • assessing whether the accounting policies, methods of accounting and amounts recognised in the consolidated financial statements were in line with IFRS 15. We performed detailed procedures in respect of individually significant contracts, including: • inquiries of the individual project managers and directors on status of the projects; • examination 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 inquiring and reviewing the correspondence files related to construction contracts with customers; • considered the accuracy and consistency of relevant estimates made in previous years; • tested, on a sample basis, the reasonableness and reliability of assumptions and data used regarding future contract costs by examining contracts with suppliers and contractors, where available; • 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)

Impairment testing of goodwill

The Group has a significant goodwill balance of RR 3,255,984 thousand at 31 December 2020.

At the reporting date the Group's management performed mandatory impairment testing of cash-generating units ("CGUs") with allocated goodwill. As a result of performed tests, the Group's management recognized an impairment loss in respect of goodwill related to the acquisition of CGU TMCP in February 2019, in the amount of RR 425,668 thousand. The Group disclosed information on impairment tests and related impairment losses in the Note 9 "Goodwill" to the consolidated financial statements.

We consider goodwill impairment testing a key audit matter for our audit of the Group's consolidated financial statements due to materiality of respective goodwill balance as well as high degree of subjectivity of assumptions used by the Group's management and the high degree of estimation uncertainty inherent in the impairment tests, such as operating cash flow projections, discount and long-term growth rates and other assumptions applied to each CGU.

Refer to the Note 9 "Goodwill" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.

In this area our audit procedures included the following:

- obtaining an understanding of key controls around the impairment review processes;
- analysing the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2020 and comparing the forecast performance to the Board approved long-term plans;
- assessing forecasted revenues for the year ending 31 December 2021 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 models 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;
- verifying the arithmetic accuracy of the impairment model; and
- checking the adequacy of the disclosures in the consolidated financial statements with the requirements of accounting standards in respect of impairment testing and disclosure of the key judgements applied by management in the cash flow forecasts and impairment review.

The above procedures were completed in a satisfactory manner.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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 8, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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.

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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)

- 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 and 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.

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, actions taken to eliminate threats or safeguards applied.

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.

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 7 years.

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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)

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 15 April 2021 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.

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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 Andreas Georgiou.

....
Andreas Georgiou
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, 21 April 2021

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets:			
Property, plant and equipment	7	14,684,279	15,532,576
Other intangible assets	8	1,743,399	2,001,646
Goodwill	9	3,255,984	3,370,275
Right-of-use assets	10	183,211	174,614
Investments in associates		94,307	94,489
Deferred income tax assets	22	786,455	631,428
Other long-term assets		42,252	42,316
Investment property		176,833	186,632
Total non-current assets		**20,966,720**	**22,033,976**
Current assets:			
Inventories	12	8,847,749	7,859,051
Trade and other receivables and other financial assets	13	15,598,766	18,051,909
Contract assets	23	6,201,354	8,058,877
Current income tax receivable		94,972	227,917
Cash and cash equivalents	11	10,360,588	9,952,118
Total current assets		**41,103,429**	**44,149,872**
TOTAL ASSETS		**62,070,149**	**66,183,848**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	48,329	48,329
Share premium	20	3,523,535	3,523,535
Treasury shares	20	(33,055)	(319,475)
Other reserves		129,392	62,716
Currency translation reserve		646,427	(44,878)
Retained earnings		5,510,974	7,029,094
Equity attributable to the shareholders of the Company		**9,825,602**	**10,299,321**
Non-controlling interests		**3,518,674**	**3,569,953**
TOTAL EQUITY		**13,344,276**	**13,869,274**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	14	20,452,736	20,582,061
Deferred income tax liability	22	1,421,489	1,620,211
Retirement benefit obligations	15	646,213	597,238
Provisions for liabilities and charges	19	228,199	154,809
Lease liabilities	10	153,048	139,272
Other long-term payables	18	230,581	240,172
Total non-current liabilities		**23,132,266**	**23,333,763**
Current liabilities:			
Trade and other payables	16	17,969,950	20,658,429
Contract liabilities	23	4,304,845	2,248,029
Short-term borrowings	14	1,548,574	3,578,390
Provisions for liabilities and charges	19	589,762	550,050
Retirement benefit obligations	15	77,859	76,904
Lease liabilities	10	20,440	21,329
Current income tax payable		134,080	218,974
Other taxes payable	17	948,097	1,628,706
Total current liabilities		**25,593,607**	**28,980,811**
TOTAL LIABILITIES		**48,725,873**	**52,314,574**
TOTAL EQUITY AND LIABILITIES		**62,070,149**	**66,183,848**

Approved for issue and signed on behalf of the Board of Directors on 21 April 2021.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2020	2019
Revenue	32	46,476,487	51,412,961
Cost of sales	24	(37,071,430)	(41,803,705)
Gross profit		**9,405,057**	**9,609,256**
Distribution and transportation expenses	25	(1,985,928)	(1,961,331)
General and administrative expenses	26	(5,242,566)	(5,395,083)
Other operating expenses, net	27	(412,472)	(195,595)
Impairment of goodwill	9	(425,668)	-
Operating profit		**1,338,423**	**2,057,247**
Finance income	28	251,571	172,302
Finance costs	29	(1,926,310)	(1,784,607)
Share of results of associates		(161)	(632)
(Loss)/profit before income tax		**(336,477)**	**444,310**
Income tax expense	22	(479,814)	(293,680)
(Loss)/profit for the year		**(816,291)**	**150,630**
(Loss)/profit attributable to:			
Shareholders of the Company		(971,996)	(93,932)
Non-controlling interests		155,705	244,562
(Loss)/profit for the year		**(816,291)**	**150,630**
Other comprehensive income/(loss):			
Items that will not be subsequently reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		(5,321)	(64,673)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		693,105	(141,369)
Currency translation differences of associates		(21)	1,856
Other comprehensive income/(loss) for the year		**687,763**	**(204,186)**
Total comprehensive loss for the year		**(128,528)**	**(53,556)**
Total comprehensive loss attributable to:			
Shareholders of the Company		(288,238)	(300,891)
Non-controlling interests		159,710	247,335
Total comprehensive loss for the year		**(128,528)**	**(53,556)**
Basic and diluted loss per ordinary share for profit attributable to the ordinary shareholders (RR per share)	20	**(8.50)**	**(0.84)**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2020	2019
Cash flows from operating activities			
(Loss)/profit before income tax		(336,477)	444,310
Adjustments for:			
Depreciation and amortisation	24-27	2,451,191	2,295,572
Gain from disposal of property, plant and equipment and intangible assets	27	(1,821)	(50,312)
Finance income	28	(251,571)	(172,302)
Finance costs	29	1,926,310	1,784,607
Change in retirement benefits obligations	15	82,075	95,974
Change in warranty provision	24	136,752	6,392
Change in expected credit losses allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets	26	72,152	116,303
Change in expected credit losses allowance for cash and cash equivalents	26	31,850	-
Change in allowance for obsolete inventories	24	10,598	118,515
Change in provision for legal claims	27	83,987	(32,866)
Share-based compensation	21	58,921	118,544
Foreign exchange loss, net	27	73,534	80,332
Gain on remeasurement of contingent consideration liability	27	-	(58,890)
Amortisation of government grants	24	(36,048)	(32,411)
Impairment of taxes		10,418	-
Impairment of goodwill	9	425,668	-
Impairment of property, plant and equipment	7	13,936	-
Change in provision for tax risks, other than income tax	26	9,898	-
Share of results of associates		161	632
Operating cash flows before working capital changes		**4,761,534**	**4,714,400**
(Increase)/decrease in inventories		(869,830)	1,142,258
Decrease/(increase) in trade and other receivables		2,967,766	(5,825,144)
Decrease/(increase) in contract assets		1,916,049	(3,493,520)
Decrease in current income tax receivable		132,920	29,492
(Decrease)/increase in accounts payable and accrued liabilities		(3,361,448)	6,830,995
Increase in contract liabilities		2,056,816	404,649
(Decrease)/increase in taxes payable		(829,967)	354,446
Cash from operations		**6,773,840**	**4,157,576**
Income tax paid		(806,031)	(366,040)
Interest paid		(1,887,821)	(1,793,240)
Interest received		259,533	164,692
Net cash from operating activities		**4,339,521**	**2,162,988**
Cash flows from investing activities			
Repayment of loans advanced		6,953	10,378
Loans advanced		(20,203)	(30,588)
Proceeds from sale of property, plant and equipment and intangible assets, net		55,948	120,539
Interest received		-	175
Purchase of property, plant and equipment, net of VAT		(937,132)	(996,241)
Acquisition of intangible assets, net of VAT		(454,417)	(574,322)
Acquisition of subsidiaries, net of cash acquired		-	(670,141)
Repayment of contingent consideration liability		(33,000)	-
Net cash used in investing activities		**(1,381,851)**	**(2,140,200)**
Cash flows from financing activities			
Repayments of borrowings		(11,478,749)	(9,488,918)
Proceeds from borrowings		9,127,605	14,364,549
Proceeds from government grant		28,092	40,000
Repayment of the lease liabilities principal		(35,905)	(27,234)
Buy back of issued shares	20	(1,705)	(25,649)
Dividends related to Long-term Incentive Program		(5,660)	(42,964)
Dividends paid to non-controlling shareholders of subsidiaries		(55,162)	(60,950)
Dividends paid to the shareholders of the Company	20	(391,942)	(1,103,859)
Net cash (used in)/from financing activities		**(2,813,426)**	**3,654,975**
Net increase in cash and cash equivalents		**144,244**	**3,677,763**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**296,076**	**(20,804)**
Effect of changes in expected credit losses allowance for cash and cash equivalents		**(31,850)**	**-**
Cash and cash equivalents at the beginning of the year		**9,952,118**	**6,295,159**
Cash and cash equivalents at the end of the year		**10,360,588**	**9,952,118**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2018		**48,329**	**3,523,535**	**(461,630)**	**122,730**	**123,918**	**7,847,636**	**11,204,518**	**3,386,155**	**14,590,673**
Profit/(loss) for the year		-	-	-	-	-	(93,932)	(93,932)	244,562	**150,630**
Other comprehensive (loss)/income										
Remeasurement of post-employment benefit obligations	15	-	-	-	-	-	(38,163)	(38,163)	(26,510)	**(64,673)**
Currency translation differences		-	-	-	-	(170,652)	-	(170,652)	29,283	**(141,369)**
Currency translation differences of associates		-	-	-	-	1,856	-	1,856	-	**1,856**
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**-**	**(168,796)**	**(132,095)**	**(300,891)**	**247,335**	**(53,556)**
Buy back of issued shares	20	-	-	(25,649)	-	-	-	(25,649)	-	**(25,649)**
Share-based compensation	21	-	-	-	-	-	97,240	97,240	-	**97,240**
Transfer of GDRs under Long-term Incentive Program	20,21	-	-	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	20	-	-	-	-	-	(675,897)	(675,897)	-	**(675,897)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**142,155**	**(60,014)**	**-**	**(686,447)**	**(604,306)**	**(63,537)**	**(667,843)**
Balance at 31 December 2019		**48,329**	**3,523,535**	**(319,475)**	**62,716**	**(44,878)**	**7,029,094**	**10,299,321**	**3,569,953**	**13,869,274**
(Loss)/profit for the year		-	-	-	-	-	(971,996)	(971,996)	155,705	**(816,291)**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations	15	-	-	-	-	-	(7,547)	(7,547)	2,226	**(5,321)**
Currency translation differences		-	-	-	-	691,326	-	691,326	1,779	**693,105**
Currency translation differences of associates		-	-	-	-	(21)	-	(21)	-	**(21)**
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**691,305**	**(979,543)**	**(288,238)**	**159,710**	**(128,528)**
Buy back of issued shares	20	-	-	(1,705)	-	-	-	(1,705)	-	**(1,705)**
Share-based compensation	21	-	-	-	-	-	53,261	53,261	-	**53,261**
Transfer of GDRs under Long-term Incentive Program	20,21	-	-	288,125	66,676	-	(354,801)	-	-	**-**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(56,084)	**(56,084)**
Dividends declared to the shareholders of the Company	20	-	-	-	-	-	(391,942)	(391,942)	-	**(391,942)**
Effect of the Group restructuring on non-controlling interest	6	-	-	-	-	-	154,905	154,905	(154,905)	**-**
Total transactions with owners, recognised directly in equity		**-**	**-**	**286,420**	**66,676**	**-**	**(538,577)**	**(185,481)**	**(210,989)**	**(396,470)**
Balance at 31 December 2020		**48,329**	**3,523,535**	**(33,055)**	**129,392**	**646,427**	**5,510,974**	**9,825,602**	**3,518,674**	**13,344,276**

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.

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 2020, the average number of employees of the Group was 13,053 (2019: 14,026).

At 31 December 2020 and 2019, 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.

During the year ended 31 December 2020, the Group was negatively impacted by the consequences of COVID-19 pandemic, including postponement of tenders, general decline in demand for the Group's products and services, price pressure and worsening of payment terms with its major clients. Still, the adverse effect of the pandemic on 2020 results was limited by the strong backlog of signed contracts as of the beginning of the year as well as diversified customer base and products portfolio, which ensured stability in the Group's performance.

As the Group has a strong budget for 2021, supported by a solid backlog of signed contracts, the Group's management does not expect a significant adverse impact of the current operating environment on future financial position and operating results of the Group and the Group's ability to continue as a going concern.

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

2 Operating Environment of the Group (continued)

One of the Group's subsidiaries, NASOSENERGOMASH Sumy JSC, 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 NASOSENERGOMASH Sumy JSC are sold in Russia and other countries. For the year ended 31 December 2020, the revenue of NASOSENERGOMASH Sumy JSC approximated 8% of consolidated revenue of the Group, more than half of this amount being sales to Russian customers (for the year ended 31 December 2019: 9% of consolidated revenue of the Group, one third of this amount being sales to Russian customers). As of the date these consolidated financial statements were authorised for issuance, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of NASOSENERGOMASH Sumy JSC, however, the Group's management believes that certain customers of the Group may take conservative and cautious position when considering the purchase of products from EU and Ukraine. Due to these risks as well as due to high-level capacity utilisation of NASOSENERGOMASH Sumy JSC, the Group has realised the project aimed at building up the respective competencies within Russian subsidiaries of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2020 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 idemnification asset, equivalent to the fair value of the indemnified liabilities, is included in net assets acquired in the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have impact on future earnings, unless the indemnification asset becomes impaired.

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

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

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

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 2020 and 2019, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2020	**31 December 2019**	**2020**	**2019**
1 USD = RR	73.8757	61.9057	72.3230	64.6184
1 EUR = RR	90.6824	69.3410	82.8358	72.3187
1 UAH = RR	2.6174	2.6121	2.6728	2.5129
1 BYN = RR	28.6018	29.4257	29.5712	30.9394

Current and non-current assets and liabilities. The classification of an asset or liability related to settlements with suppliers and customers 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.

Research and development costs. Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit, and amortisation is recognised in cost of sales.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 34.

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. The Group classifies financial assets 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 (FVTOCI).

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, contract assets and cash and cash equivalents, are classified as at amortised cost. The Group does not have financial assets classified as at FVTOCI.

Contract assets, trade and other receivables. For contract assets and trade receivables the Group applies a simplified approach in calculating expected credit losses (ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date.

3 Summary of Significant Accounting Policies (continued)

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

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'.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. For internal credit risk management purposes the Management considers the following events indicating that financial assets that meet either of the following criteria are generally not recoverable:

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group);

- failure to make contractual payments for a period of greater than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group may write off financial assets that are still subject to enforcement activity when it seeks to recover amounts that are contractually due but there is no reasonable expectation of recovery.

If ECL allowance was recognised, uncollectable contract asset or trade receivable are written off against the ECL allowance account. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, 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 recognises 12-month ECL for cash and cash equivalents. The low credit risk exemption has been applied to cash and cash equivalents which 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.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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

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

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

Advances issued. Advances issued are carried at cost less 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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

3 Summary of Significant Accounting Policies (continued)

When dividends are paid to the employees in respect of the share awards not yet vested, such awards are valued as if no dividends were 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.

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:

(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 revenue based on proportion of costs incurred to total expected cost. 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 2020, the Group recognised revenue from such contracts in amount of RR 21,666,020 (2019: RR 21,563,310) (Note 23).

In addition, receivables and contract assets 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 be unable 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 allowance 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 as well as potential claims which may rise from current or completed contracts 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 19 and 31.

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

At 31 December 2020, 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, at 31 December 2020 and for the year then ended, the Group recognised impairment charge in relation to goodwill related to CGU TMCP in amount of RR 425,668 (Note 9) and impairment of the property, plant and equipment of Bobruisk Machine Building Plant OJSC in amount of RR 13,936 (Note 7).

(d) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 31.

(e) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations

The following standards and amendments to the standards were adopted by the Group from 1 January 2020:

- *Amendments to IFRS 3, Definition of a Business.* Changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only;
- *Amendments to IAS 1 and IAS 8, Definition of material.* Clarifies the definition of "material" and align the definition used in the Conceptual Framework and the standards;
- *Amendment to IFRS 7, IFRS 9 and IAS 39, Interest rate benchmark reform;*
- *Amendments to References to the Conceptual Framework in IFRS Standards.*

The adoption of such standards and amendments did not have a material impact on the Group's consolidated financial statements.

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 2021 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**
Amendments to IFRS 16, COVID-19 – Related Rent Concessions	1 June 2020
Amendments to IFRS 7, IFRS 9, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase II	1 January 2021
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	1 January 2021
Amendments to IFRS 16, COVID-19 – Related Rent Concessions beyond 30 June 2021	1 April 2021*
Amendments to IFRS 3, Reference to the Conceptual Framework	1 January 2022*
Amendments to IAS 16, Property, Plant and Equipment: Proceeds Before Intended Use	1 January 2022*
Amendments to IAS 37, Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022*
Annual improvements to IFRS Standards 2018-2020	1 January 2022*
IFRS 17, Insurance contracts	1 January 2023*
Amendments to IAS 1 on classification of liabilities as current or non-current	1 January 2023*
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting policies	1 January 2023*
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023*

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.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

At 31 December 2020 and 2019, 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 2020 and 31 December 2019 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, % 2020	2019
Segment "Industrial pumps"				
HMS Livhydromash JSC	Manufacture of pumps	Russia	100.00	100.00
Livnynasos JSC	Manufacture of pumps	Russia	100.00	100.00
NASOSENERGOMASH Sumy JSC	Manufacture of pumps	Ukraine	90.61	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
Nizhnevartovskremservis JSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Segment "Oil and gas equipment and projects"				
HMS Neftemash JSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash JSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
Giprotyumenneftegaz PJSC	Engineering services	Russia	45.34	45.34
Institute Rostovskiy Vodokanalproekt JSC	Engineering services	Russia	85.70	85.70
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompressormash JSC	Manufacture of compressors	Russia	89.86	89.86
CIPS LLC	Project engineering	Russia	100.00	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

In December 2020, 100% shares of CIPS LLC were transferred between subsidiaries of the Group. As result of this transaction, the Group's effective ownership interest in CIPS LLC increased from 89.86% to 100%, and the Group recognised a respective decrease in non-controlling interest in amount of RR 154,905. This transaction was presented as the effect of the Group restructuring on non-controlling interest in the consolidated statement of changes in equity.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

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

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2020						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	Ukraine	9.39	9.39	(15,230)	221,969	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	17,630	147,874	197
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(84,365)	(372,259)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	174,797	1,640,911	50,135
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	29,363	1,333,873	4,830
Segment "Compressors"						
Kazankompressormash JSC	Russia	10.14	5.73	64,352	561,074	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	(30,842)	(14,768)	-
Year ended 31 December 2019						
Segment "Industrial pumps"						
NASOSENERGOMASH 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 JSC	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	-

At 31 December 2020 and 2019, 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 2020				
Segment "Industrial pumps"				
NASOSENERGOMASH Sumy JSC	4,786,456	1,602,204	(3,312,908)	(712,735)
Plant Promburvod OJSC	201,635	149,907	(37,546)	(9,832)
Bobruisk Machine Building Plant OJSC	196,943	302,892	(126,815)	(1,237,765)
Dimitrovgradkhimmash JSC	2,839,968	1,054,469	(346,056)	(199,581)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	2,854,253	835,045	(1,038,200)	(210,843)
Segment "Compressors"				
Kazankompressormash JSC	12,440,702	5,474,866	(9,948,242)	(2,432,474)
Balance at 31 December 2019				
Segment "Industrial pumps"				
NASOSENERGOMASH 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 JSC	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)

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

The summarised financial information about transactions and cash flows for the years ended 31 December 2020 and 2019 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 2020						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	3,656,095	(162,137)	(214,282)	(339,191)	(182,188)	470,106
Plant Promburvod OJSC	425,211	36,263	27,320	53,258	(26,732)	(591)
Bobruisk Machine Building Plant OJSC	495,083	(195,977)	(170,117)	(38,561)	(6,535)	50,389
Dimitrovgradkhimmash JSC	3,150,324	356,729	355,808	600,968	(46,428)	(102,657)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	2,489,081	53,718	59,536	236,815	(91,912)	(9,420)
Segment "Compressors"						
Kazankompressormash JSC	13,974,503	1,194,903	1,188,574	2,496,808	697,888	(891,908)
CIPS LLC	4,442,707	(50,022)	(50,022)	2,254,917	(135,163)	(558,283)
Year ended 31 December 2019						
Segment "Industrial pumps"						
NASOSENERGOMASH 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 JSC	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)	-

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

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 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	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**
Additions	-	29,304	467,676	17,803	108,306	209,444	832,533
Reclassification from intangible assets	-	-	-	-	-	65,294	65,294
Transfers	-	25,159	190,960	-	6,907	(223,026)	-
Disposals	(4,789)	(114,495)	(128,751)	(25,762)	(29,861)	(2,326)	(305,984)
Translation to presentation currency	9,538	86,403	79,826	(381)	74,163	16	249,565
Balance at 31 December 2020	**1,548,478**	**10,781,702**	**11,911,081**	**332,049**	**1,611,857**	**627,093**	**26,812,260**
Accumulated depreciation and impairment							
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)**
Eliminated on disposals	-	39,788	106,751	25,752	29,207	-	201,498
Depreciation expense	-	(400,652)	(1,137,699)	(30,499)	(183,319)	-	(1,752,169)
Impairment charge	-	(66)	(12,751)	-	(1,119)	-	(13,936)
Translation to presentation currency	-	(32,611)	(43,454)	346	(49,379)	-	(125,098)
Balance at 31 December 2020	**(7,993)**	**(3,648,283)**	**(7,010,574)**	**(239,075)**	**(1,212,305)**	**(9,751)**	**(12,127,981)**
Carrying amount							
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**
Carrying amount at 31 December 2020	**1,540,485**	**7,133,419**	**4,900,507**	**92,974**	**399,552**	**617,342**	**14,684,279**

At 31 December 2020, RR 133,655 of the Group's property, plant and equipment had been pledged (31 December 2019: RR 187,496), including RR 40,356 related to borrowings (31 December 2019: RR 66,137) (Note 14) and RR 93,299 related to bank guarantees (31 December 2019: RR 121,359).

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. The capitalisation rate calculated using Group weighted average interest was 9%.

Construction-in-progress includes advances for capital expenditures for a total of RR 174,232 at 31 December 2020 (31 December 2019: RR 99,684).

At 31 December 2020, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 291,039 (31 December 2019: RR 148,145).

At 31 December 2020 and for the year then ended, the Group recognised an impairment of property, plant and equipment in amount of RR 13,936 (Note 4).

(in thousands of Russian Roubles, unless otherwise stated)

8 Other Intangible Assets

	Project documentation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
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	-	-	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**
Additions	209,944	-	217,233	-	26,875	454,052
Reclassification to property, plant and equipment	(65,294)	-	-	-	-	(65,294)
Disposals	(74,135)	(181,900)	(213,658)	-	(7,940)	(477,633)
Translation to presentation currency	(269)	101,751	7,005	-	(17)	108,470
Balance at 31 December 2020	**969,014**	**1,619,910**	**451,650**	**43,406**	**57,252**	**3,141,232**
Accumulated amortisation and impairment						
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)**
Amortisation on disposals	68,587	181,900	213,658	-	7,940	472,085
Amortisation expense	(129,609)	(298,411)	(223,329)	(2,199)	(13,346)	(666,894)
Translation to presentation currency	961	(79,015)	(4,987)	-	8	(83,033)
Balance at 31 December 2020	**(218,864)**	**(867,247)**	**(269,052)**	**(22,793)**	**(19,877)**	**(1,397,833)**
Carrying amount						
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**
Carrying amount at 31 December 2020	**750,150**	**752,663**	**182,598**	**20,613**	**37,375**	**1,743,399**

9 Goodwill

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

	2020	2019
Carrying amount at 1 January	**3,370,275**	**3,092,257**
Business combination	-	425,668
Impairment loss	(425,668)	-
Effect of translation to presentation currency related to Apollo Goessnitz GmbH	311,377	(147,650)
Carrying amount at 31 December	**3,255,984**	**3,370,275**

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 2020	31 December 2019
Kazankompressormash JSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,323,056	1,011,679
Sibneftemash JSC	511,784	511,784
EPF “SIBNA” Inc. JSC	117,308	117,308
Dimitrovgradkhimmash JSC	64,027	64,027
CGU TMCP (part of HMS Neftemash JSC)	-	425,668
Total carrying amount of goodwill	**3,255,984**	**3,370,275**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill (continued)

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

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

	31 December 2020	**31 December 2019**
For Apollo Goessnitz GmbH CGU:		
Forecast period	8 years	8 years
Growth rate beyond forecast period	2.1%	2.1%
Pre-tax discount rate	12.1%	12.1%
For other CGUs:		
Forecast period	10 years	10 years
Growth rate beyond forecast period	4.0%	4.0%
Pre-tax discount rate	13.8%	14.8%

At 31 December 2020, the Group fully impaired goodwill relating to CGU TMCP, part of reportable segment "Oil and gas equipment and projects". The impairment charge of RR 425,668 was primarily driven by the changes of the future growth and profitability assumptions, influenced by COVID-19 pandemic and general uncertainties on the oil and gas market, which limited the possibility for TMCP to benefit from synergies with other Group companies.

Other non-current assets of the CGU TMCP include property, plant and equipment with a carrying value of RR 642,155 at 31 December 2020, which is supported by valuation made by independent appraiser in 2019. Management believes there have been no any significant changes in assumptions, which may require the additional impairment charge in relation to these assets, apart from the respective accumulated depreciation for the period from acquisition of TMCP to the reporting date.

(in thousands of Russian Roubles, unless otherwise stated)

10 Right-of-use Assets and Lease Liabilities

	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
Acquisition through business Combination	-	-	-	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**
Additions	21,073	2,827	1,062	-	24,962
Termination of lease agreements	(4,773)	-	(21,727)	(20,899)	(47,399)
Translation to presentation currency	28	126	23,177	4,351	27,682
Balance at 31 December 2020	**30,264**	**65,066**	**122,731**	**-**	**218,061**
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)**
Eliminated on termination of lease agreements	4,773	-	11,727	14,521	31,021
Depreciation expense	(3,283)	(6,080)	(9,412)	(3,553)	(22,328)
Translation to presentation currency	59	115	(2,737)	(2,778)	(5,341)
Balance at 31 December 2020	**(2,717)**	**(11,633)**	**(20,500)**	**-**	**(34,850)**
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**
Carrying amount at 31 December 2020	**27,547**	**53,433**	**102,231**	**-**	**183,211**

At 31 December 2020 and 2019, lease liabilities were as follows:

	31 December 2020	31 December 2019
Current lease liabilities	20,440	21,329
Non-current lease liabilities	153,048	139,272
Total lease liabilities	**173,488**	**160,601**

At 31 December 2020, 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 lessee's incremental borrowing rate was used.

For the year ended 31 December 2020, lease expenses for short-term leases and leases of low-value assets in amount of RR 181,338 (2019: RR 174,565) (Notes 24, 25, 26) 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 2020, total cash outflows for leases contracts recognised as right-of-use assets amounted to RR 53,222, of which RR 17,317 was included in interest paid (2019: RR 44,220, of which RR 16,986 was included in interest paid).

11 Cash and Cash Equivalents

	31 December 2020	31 December 2019
Cash on hand	1,627	2,495
RR denominated balances with banks	3,281,688	2,410,595
Foreign currency denominated balances with banks	564,406	919,575
RR denominated bank deposits	6,538,608	6,564,999
Foreign currency denominated bank deposits	2,019	49,935
Other cash equivalents	4,090	4,519
Less: ECL allowance for cash and cash equivalents	(31,850)	-
Total cash and cash equivalents	**10,360,588**	**9,952,118**

(in thousands of Russian Roubles, unless otherwise stated)

11 Cash and Cash Equivalents (continued)

At 31 December 2020, the closing balance of short-term deposits denominated in foreign currencies comprised BYN-denominated deposit of RR 2,002 and UAH-denominated deposit of RR 17. At 31 December 2019, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposit of RR 49,935.

12 Inventories

	31 December 2020	31 December 2019
Raw materials and supplies	4,062,030	3,731,761
Work in progress	3,077,177	2,698,975
Finished goods and goods for resale	1,708,542	1,428,315
Total inventories	**8,847,749**	**7,859,051**

Inventories are presented net of allowance for obsolescence in amount of RR 794,011 at 31 December 2020 (31 December 2019: RR 753,778).

At 31 December 2020, inventories of RR 647,349 had been pledged (31 December 2019: RR 460,853), including RR 609,079 related to borrowings (31 December 2019: RR 460,853) (Note 14) and RR 38,270 related to bank guarantees. The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 24.

13 Trade and Other Receivables and Other Financial Assets

	31 December 2020	31 December 2019
Trade receivables	12,492,813	16,060,380
Less: ECL allowance	(382,310)	(344,383)
Short-term loans issued	34,108	31,524
Bank promissory notes receivable	4,000	-
Bank deposits	6,353	15,582
Other receivables	207,599	327,253
Less: ECL allowance	(34,404)	(57,578)
Financial assets, net	**12,328,159**	**16,032,778**
Prepayments and advances to suppliers and subcontractors	2,911,384	1,745,061
Less: allowance for impairment of advances to suppliers and subcontractors	(38,545)	(34,500)
VAT receivable	377,990	277,179
Other taxes receivable	19,778	31,391
Non-financial assets, net	**3,270,607**	**2,019,131**
Total trade and other receivables and other financial assets	**15,598,766**	**18,051,909**

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 2020, the closing balance of bank deposits comprised EUR-denominated deposit of RR 6,350 and UAH-denominated deposit of RR 3. 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 2020, trade receivables arising from certain sales contracts in the amount of RR 1,089,538 (31 December 2019: RR 862,766) were pledged as collateral for certain borrowings (Note 14).

(in thousands of Russian Roubles, unless otherwise stated)

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

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

	ECL allowance for trade receivables	ECL allowance for other financial receivables	Allowance for impairment of non-financial assets
At 1 January 2019	**276,504**	**53,380**	**30,417**
ECL allowance and allowance 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**
ECL allowance and allowance for impairment of receivables	82,592	5,004	5,689
Unused amounts reversed	(7,966)	(22,940)	(1,272)
Receivables written off during the year as uncollectible	(38,682)	(7,373)	(377)
Effect of translation to presentation currency	1,919	15	5
Foreign currency translation differences	64	2,120	-
At 31 December 2020	**382,310**	**34,404**	**38,545**

The creation and release of ECL allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets have been included in 'general and administrative expenses' (Note 26). Amounts charged to the ECL allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets 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 33.

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 2020	31 December 2019
RR	9,885,918	13,719,467
UAH	1,243,114	1,133,587
EUR	948,757	896,999
USD	127,606	112,578
KZT	49,064	114,584
BYN	45,753	22,323
TMT	27,947	33,240
Financial assets, net	**12,328,159**	**16,032,778**

(in thousands of Russian Roubles, unless otherwise stated)

14 Borrowings

	Interest rate	Denominated in	31 December 2020	31 December 2019
Long-term unsecured loans and bonds:				
Unsecured bank loans	CBR Key Rate[(1)]+2.75% to 8.75%	RR	14,205,483	20,235,358
Bonds 2	7.95%	RR	2,989,796	-
Bonds 1	8.15%	RR	2,985,409	-
Unsecured bank loans	EURIBOR+3.00%-EURIBOR+3.45%	EUR	453,413	346,703
Unsecured non-bank loans	5.00%	RR	-	222,222
Bonds 3	10.75%	RR	-	2,999,526
			20,634,101	**23,803,809**
Less: current portion of long-term borrowings			(181,365)	(3,221,748)
Total long-term borrowings			**20,452,736**	**20,582,061**
Short-term unsecured loans:				
Unsecured bank loans	CBR Key Rate[(1)]+2.75%	RR	1,000,000	-
			1,000,000	**-**
Short-term secured bank loans:				
Secured loans	3.00%	EUR	181,365	214,125
Secured loans	11.00%	BYN	2,860	4,973
Secured loans	13.50%	RR	-	6,709
			184,225	**225,807**
Current portion of long-term borrowings			181,365	3,221,748
Interest payable			182,984	130,835
Total short-term borrowings			**1,548,574**	**3,578,390**

[(1)] Key rate of the Central Bank of the Russian Federation (CBR Key Rate).

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

	31 December 2020	31 December 2019
RR	21,363,533	23,594,233
EUR	634,899	560,921
BYN	2,878	5,297
Total borrowings	**22,001,310**	**24,160,451**

Bonds 1. In July 2020, 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 8.15% is set for the first 6 coupon periods. Subsequent coupon rates are to be determined in July 2023. HMS Group JSC, HMS Neftemash JSC and Sibneftemash JSC issued guarantees in respect of these bonds.

Bonds 2. In October 2020, 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 7.95% is set for the first 6 coupon periods. Subsequent coupon rates are to be determined in September 2023. HMS Group JSC, HMS Neftemash JSC and Sibneftemash JSC issued guarantees in respect of these bonds.

Bonds 3. 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% was set for the first six coupon periods. HMS Group JSC, HMS Neftemash JSC, HMS Livhydromash 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 2020, the Group pledged property, plant and equipment and inventories in total amount of RR 40,356 and RR 609,079 (31 December 2019: RR 66,137 and RR 460,853), respectively.

At 31 December 2020 and 2019, the Group also pledged deposits and its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2020, the Group recognised deposits and trade receivables under these sales contracts in amount of RR 6,348 and RR 1,089,538 (31 December 2019: RR 4,854 and RR 862,766), respectively.

(in thousands of Russian Roubles, unless otherwise stated)

15 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 2020 and 2019:

	Russia and Belorussia		**Ukraine**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Discount rate	6.0%	6.5%	9.1%	11.1%
Inflation	3.8%	4.0%	5.0%	5.5%
Expected annual increase in salaries	4.8%	5.0%	7.0%	7.5%
Mortality tables	Russian Federation, 2014	Russian Federation, 2014	Russian Federation, 2014	Russian Federation, 2014

The following amounts were recognised in profit or loss:

	2020	**2019**
Service cost	23,189	34,667
Current service cost	*34,931*	*27,178*
Past service cost and gain from curtailment of plans	*(11,742)*	*7,489*
Interest expense	52,714	51,223
Net actuarial loss on other long-term employment benefit obligations	6,172	10,084
Net periodic benefit expense	**82,075**	**95,974**

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 2019	**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, net	(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
actuarial loss from changes in demographic assumptions	*8,308*	*139*	*8,447*
*actuarial loss from changes in financial assumptions**	*50,041*	*3,138*	*53,179*
experience loss	*6,324*	*6,807*	*13,131*
Present value of defined benefit obligations at 31 December 2019	**610,647**	**63,495**	**674,142**
Current service cost	28,408	6,523	34,931
Interest expense	49,353	3,361	52,714
Past service cost and gain from curtailment of plans, net	(11,742)	-	(11,742)
Benefits paid	(35,015)	(5,040)	(40,055)
Effect of translation to presentation currency	2,589	-	2,589
Remeasurements, including:	5,321	6,172	11,493
actuarial loss from changes in demographic assumptions	*6,136*	*5,946*	*12,082*
*actuarial loss from changes in financial assumptions**	*37,909*	*1,227*	*39,136*
experience gain	*(38,724)*	*(1,001)*	*(39,725)*
Present value of defined benefit obligations at 31 December 2020	**649,561**	**74,511**	**724,072**

* Actuarial loss from changes in financial assumptions is mainly attributable to the changes in discount rates used.

(in thousands of Russian Roubles, unless otherwise stated)

15 Retirement Benefit Obligations (continued)

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

	31 December 2020	31 December 2019
Short-term	77,859	76,904
Long-term	646,213	597,238
Present value of defined benefit obligations at the end of the year	**724,072**	**674,142**

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

		31 December 2020	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(66,708)	80,454
Inflation	1.0%	40,988	(35,202)
Expected annual increase in salaries	1.0%	27,722	(24,306)

		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)

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 2020 and 2019.

The contributions under voluntary defined benefit pension programs in 2021 are expected to be approximately RR 77,859.

16 Trade and Other Payables

	31 December 2020	31 December 2019
Trade payables	13,760,707	16,147,555
Contingent consideration liability	-	33,000
Other payables	170,691	239,144
Financial trade and other payables	**13,931,398**	**16,419,699**
Advances from customers	2,925,155	3,282,487
Wages and salaries payable	1,113,397	956,243
Other non-financial payables	**4,038,552**	**4,238,730**
Total trade and other payables	**17,969,950**	**20,658,429**

17 Other Taxes Payable

	31 December 2020	31 December 2019
VAT	592,894	1,221,300
Social funds contribution	198,738	187,984
Personal income tax	70,387	91,420
Withholding tax provision, related to acquisition of subsidiary	45,827	87,227
Property tax	21,498	21,207
Land tax	11,045	11,479
Transport tax	3,195	3,770
Other taxes	4,513	4,319
Total other taxes payable	**948,097**	**1,628,706**

(in thousands of Russian Roubles, unless otherwise stated)

18 Other Long-term Payables

	31 December 2020	31 December 2019
Deferred income related to Government grant 1	59,504	74,380
Deferred income related to Government grant 2	96,254	110,601
Deferred income related to Government grant 3	62,418	40,000
Other deferred income	1,666	2,328
Long-term deferred income	**219,842**	**227,309**
Other liabilities	10,739	12,863
Total other long-term payables	**230,581**	**240,172**

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 2020, under this project, the long-term liability in amount of RR 59,504 (31 December 2019: RR 74,380) and other short-term payables in amount of RR 14,876 (31 December 2019: RR 14,876) were recognised as deferred income. The grant was subject to certain conditions stipulated by the agreement and set for the period till 2020 inclusive. During this period, the Group complied with the required conditions.

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. At 31 December 2020, under this project, the long-term liability in amount of RR 96,254 (31 December 2019: RR 110,601) and other short-term payables in amount of RR 24,432 (31 December 2019: RR 25,603) 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 2020, 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 68,092 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. During 2020, the Group obtained grants in amount of RR 28,092 (2019: RR 40,000) and also invested its own funds in amount of RR 19,102 (2019: RR 61,749) to the project. At 31 December 2020, under this project, the long-term liability in amount of RR 62,418 (31 December 2019: 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 2020, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

19 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2019	**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	-	83,100	-
At 31 December 2019	**461,797**	**243,062**	**-**
Additional provisions	550,383	103,646	9,898
Unused amounts reversed	(99,027)	(19,659)	-
Provision used during the period	(334,733)	(98,167)	-
Effect of translation to presentation currency	598	163	-
At 31 December 2020	**579,018**	**229,045**	**9,898**

(in thousands of Russian Roubles, unless otherwise stated)

19 Provisions for Liabilities and Charges (continued)

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 2020, the closing balance of the warranty provision comprised a short-term portion of RR 350,819 and a long-term portion of RR 228,199 (31 December 2019: RR 306,988 and RR 154,809, respectively).

Provision for legal claims. Provision for legal claims was accrued in accordance with the management position related to claims received from the counterparties of the Group's subsidiaries. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

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

20 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 2019	**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)**
Movements during 2020	-	-	-	-	286,420
At 31 December 2020	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(33,055)**

At 31 December 2020 and 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.

Treasury shares. During 2020, 5,554 GDRs of the Company representing 0.02% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 1,705.

In May-December 2020, 713,158 GDRs of the Company representing 3.04% of its issued share capital with the total cost of RR 288,125 were transferred to the participants under the Long-term Incentive Program (Note 21).

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 1.77% 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 21).

At 31 December 2020, the Company, via a wholly-owned subsidiary, is holding 81,960 (31 December 2019: 789,564) of its own GDRs with the total cost of RR 33,055 (31 December 2019: RR 319,475). The voting and dividend rights of these GDRs are suspended.

Dividends. At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2020 of 4.25 Russian Roubles per ordinary share, amounting to a total dividend of RR 497,945, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2021.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2020 and 2019.

At the Annual General Meeting in June 2020, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2019 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 391,942. These dividends were paid in June 2020.

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. These dividends were paid in July 2019.

(in thousands of Russian Roubles, unless otherwise stated)

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

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.

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 2020 and 2019, loss per share are calculated as follows:

	2020	**2019**
Loss for the year attributable to ordinary shareholders	(971,996)	(93,932)
Weighted average number of ordinary shares outstanding (thousands)	114,417	112,437
Basic and diluted loss per ordinary share (expressed in RR per share)	**(8.50)**	**(0.84)**

21 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 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 fully vested at 31 December 2018 and was transferred to the participants in May 2019 (Note 20).

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 fully vested at 31 December 2019 and was transferred to the participants during May-September 2020 (Note 20).

The grant date of the third award is 12 December 2017, and the service period of the third award started on 1 January 2018. Award 2018 fully vested at 31 December 2020 and was transferred to the participants as of that date (Note 20).

At 31 December 2020, there were no awards outstanding under the Program.

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

For the year ended 31 December 2020, the Group recognised share-based compensation expense of RR 67,727 (2019: RR 136,258) 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 58,921 (2019: RR 118,544) and the respective personal income tax effect of RR 8,806 (2019: RR 17,714). The Group also recognised related social security contributions expense of RR 10,362 (2019: RR 20,847).

For the year ended 31 December 2020, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 5,660 (2019: RR 21,304) 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 53,261 (2019: RR 97,240).

(in thousands of Russian Roubles, unless otherwise stated)

21 Share-based Payments (continued)

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. 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 Award 2019.

The grant date of the second award of the New Program is 6 December 2019, and the service period of the second award started on 1 January 2020. As the Group obtained a loss attributable to shareholders of the Company for the year ended 31 December 2020, the Group did not recognise any share-based compensation expense in respect of the second award.

The grant date of the third award of the New Program is 29 January 2021, and the service period of the third award started on 1 January 2021.

22 Income Taxes

Income tax expense for the year ended 31 December 2020 and 2019 included:

	2020	**2019**
Current tax	856,032	585,528
In respect of the current period	*826,527*	*574,487*
In respect of prior years	*29,505*	*11,041*
Deferred tax	(376,218)	(291,848)
Total income tax expense	**479,814**	**293,680**

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

	2020	**2019**
(Loss)/profit before income tax	**(336,477)**	**444,310**
Estimated tax charge at applicable tax rates of 20% (2019: 20%)	67,295	(88,862)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Remeasurement of contingent consideration liability	-	11,778
Utilisation of previously unrecognised tax losses	16,309	-
Impairment of previously recognised deferred tax assets	(125,593)	-
Tax losses for which no deferred income tax asset was recognised	(107,874)	(70,567)
Impairment of goodwill	(85,134)	-
Share-based compensation expense	(34,221)	(31,346)
Effect of tax on intragroup dividends received	(30,621)	(34,361)
Current tax in respect of prior years	(29,505)	(11,041)
Effect of the difference in tax rates in countries other than the Russian Federation	(24,426)	(37,073)
Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes	(21,511)	(28,549)
Dividend withholding tax provision	(20,000)	30,000
Other non-deductible expenses not subject to tax	(84,533)	(33,659)
Total income tax expense	**(479,814)**	**(293,680)**

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.

(in thousands of Russian Roubles, unless otherwise stated)

22 Income Taxes (continued)

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

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

	1 January 2020	Credited/ (charged) to profit or loss	Impairment of previously recognised deferred tax assets	Translation to presentation currency	31 December 2020
Deferred tax liabilities					
Property, plant and equipment	(1,192,005)	60,733	47,858	(10,666)	(1,094,080)
Intangible assets	(341,203)	55,626	220	(6,848)	(292,205)
Right-of-use assets	(22,204)	5,731	-	(6,369)	(22,842)
Trade and other receivables, other financial assets and contract assets	(513,138)	513,138	-	-	-
Short-term borrowings	(95)	95	-	-	-
Trade and other payables and contract liabilities	(149,478)	(1,364,574)	-	(3,799)	(1,517,851)
Long-term borrowings	-	(4,959)	-	-	(4,959)
Withholding tax provision	(5,000)	(20,000)	-	-	(25,000)
	(2,223,123)	**(754,210)**	**48,078**	**(27,682)**	**(2,956,937)**
Deferred tax assets					
Inventories	524,389	592,772	(7,686)	8,647	1,118,122
Trade and other receivables, other financial assets and contract assets	-	402,481	1,462	(3,718)	400,225
Cash and cash equivalents	13	4,473	-	-	4,486
Other long-term assets	3,385	(2,441)	-	84	1,028
Share of results of associates	12,166	36	-	-	12,202
Other long-term payables	4,441	(2,520)	-	-	1,921
Long-term provisions for liabilities and charges	57,300	(5,507)	-	(64)	51,729
Loss carried forward	446,070	287,984	(155,089)	(761)	578,204
Other taxes payable	7,864	(3,298)	-	-	4,566
Lease liabilities	4,713	(1,573)	-	1,081	4,221
Short-term provisions for liabilities and charges	173,999	(16,356)	(12,388)	(56)	145,199
	1,234,340	**1,256,051**	**(173,701)**	**5,213**	**2,321,903**
Total net deferred tax liability	**(988,783)**	**501,841**	**(125,623)**	**(22,469)**	**(635,034)**

	1 January 2019	Credited/ (charged) to profit or loss	Translation to presentation currency	Business combination	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 and contract liabilities	(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	12,171	(9,106)	320	-	3,385
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	151,114	283,332	(2,237)	13,861	446,070
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)**

At 31 December 2020, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 15,641,032 (31 December 2019: RR 14,405,721) 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 2020 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 8,253 (2019: RR 42,046) and recognised deferred tax asset in the amount of RR 295,476 on the loss incurred by its certain subsidiaries in 2020 (2019: RR 323,141). At 31 December 2020, the Group's unrecognised deferred tax asset in relation to loss carried forward amounted to RR 482,741 (31 December 2019: RR 283,092).

(in thousands of Russian Roubles, unless otherwise stated)

22 Income Taxes (continued)

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

23 Revenue

Disaggregation of the Group's revenue for the years ended 31 December 2020 and 2019, which is consistent with the revenue by segment disclosure, is disclosed in Note 32.

During 2020, the Group recognised revenue over time in amount of RR 21,666,020, (2019: RR 21,563,310), the remaining revenue was recognised at a point of time (Note 4, 32).

Contract assets decreased in 2020, primarily as a result of completion of the large projects and repayment of due amounts by customers. Contract liabilities increased in 2020 primarily due to advance consideration received from customers under construction contracts signed in the reporting year.

The Group had not recognised revenue from contracts with customers for the year ended 31 December 2020 and 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 2020 includes RR 1,862,127 (2019: RR 1,242,323) that was included in the opening contract liabilities.

24 Cost of Sales

	2020	2019
Materials and components	23,760,241	27,956,728
Labour costs	5,386,366	5,493,707
Construction, design and engineering and other services of subcontractors	2,557,447	2,467,447
Depreciation and amortisation	2,121,747	1,954,252
Social taxes	1,519,381	1,566,608
Utilities	466,649	456,235
Change in warranty provision	136,752	6,392
Change in retirement benefits obligations	67,994	74,307
Lease expense	66,667	63,559
Change in allowance for obsolete inventories	10,598	118,515
Change in work in progress and finished goods	(552,666)	360,113
Amortisation of government grants	(36,048)	(32,411)
Other expenses	1,566,302	1,318,253
Total cost of sales	**37,071,430**	**41,803,705**

25 Distribution and Transportation Expenses

	2020	2019
Transportation expenses	687,607	648,228
Labour costs	599,191	565,588
Social taxes	142,174	137,198
Insurance	103,623	117,904
Agency services	99,683	45,431
Lease expense	61,194	62,750
Advertising	46,754	111,508
Material expenses	41,474	45,366
Products certification	34,154	30,245
Depreciation and amortisation	26,165	25,779
Entertaining costs and business trip expenses	19,430	45,136
Telecommunication services	15,614	17,386
Customs duties	7,636	5,735
Change in retirement benefits obligations	1,966	1,749
Other expenses	99,263	101,328
Total distribution and transportation expenses	**1,985,928**	**1,961,331**

(in thousands of Russian Roubles, unless otherwise stated)

26 General and Administrative Expenses

	2020	2019
Labour costs	2,700,006	2,779,157
Social taxes	586,753	595,798
Bank services	362,793	369,330
Depreciation and amortisation	294,621	305,573
Taxes and duties	207,875	215,182
Consulting and other professional fees	128,760	91,780
Insurance	84,889	99,021
Stationary and office maintenance	82,036	72,064
Security	78,958	59,075
Property, plant and equipment repair and maintenance	78,898	112,875
Change in ECL allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets	72,152	116,303
Lease expense	53,477	48,256
Auditors' remuneration	41,520	38,611
Entertaining costs and business trip expenses	38,454	97,462
Change in ECL allowance for cash and cash equivalents	31,850	-
Telecommunications services	26,875	31,045
Training and recruitment	13,889	14,976
Change in retirement benefits obligations	12,115	19,918
Change in provision for tax risks, other than income tax	9,898	-
Other expenses	336,747	328,657
Total general and administrative expenses	**5,242,566**	**5,395,083**

The auditors' remuneration stated above includes fees for the audit of the Group's consolidated financial statements in amount of RR 21,518 (2019: RR 20,324), fees for statutory audit services of the Group parent and subsidiaries in amount of RR 12,035 (2019: RR 10,078) and fees for other assurance services in amount of RR 7,967 (2019: RR 8,209) 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 227 (2019: RR 198) 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 5,458 for the year ended 31 December 2020 (2019: RR 3,314).

27 Other Operating Expenses, net

	2020	2019
Charity, social expenditures	98,014	134,976
Change in provision for legal claims	83,987	(32,866)
Foreign exchange loss, net	73,534	80,332
Fines and late payment interest under contracts	73,420	43,481
Loss on purchase/sale of foreign currency, net	20,933	30,290
Impairment of property, plant and equipment	13,936	-
Impairment of taxes receivable	10,418	-
Depreciation of social assets	8,658	9,968
Gain from disposal of property, plant and equipment and intangible assets	(1,821)	(50,312)
Gain on remeasurement of contingent consideration liability	-	(58,890)
Other expenses, net	31,393	38,616
Total other operating expenses, net	**412,472**	**195,595**

28 Finance Income

	2020	2019
Interest income	248,454	189,597
Foreign exchange gain/(loss) from deposits, net	3,117	(17,295)
Total finance income	**251,571**	**172,302**

(in thousands of Russian Roubles, unless otherwise stated)

29 Finance Costs

	2020	2019
Interest expense	1,848,057	1,764,173
Interest expense on lease liabilities	17,317	17,072
Foreign exchange loss from borrowings, net	368	3,362
Other finance costs	60,568	-
Total finance costs	**1,926,310**	**1,784,607**

30 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 2020 and 2019 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 2020**			**31 December 2019**		
	Associate	**Joint Venture**	**Other**	**Associate**	**Joint Venture**	**Other**
Loans issued	-	-	20,000	-	-	6,713
Accounts receivable	19	48,323	607,207	544	114,802	330,795
Less: ECL allowance for accounts receivable	-	-	(8,773)	-	-	(8,756)
Accounts payable	(4,156)	(876)	(1,245,525)	(4,554)	(880)	(763,235)
Current lease liabilities	(5,683)	-	-	(4,675)	-	-
Non-current lease liabilities	(84,481)	-	-	(86,206)	-	-

All monetary balances outstanding are expected to be settled in cash. Neither party issued guaranties to secure accounts receivable or payable.

Transactions with related parties	**2020**			**2019**		
	Associate	**Joint Venture**	**Other**	**Associate**	**Joint Venture**	**Other**
Sales of goods and finished products	168	368,469	227,742	-	252,685	30,704
Purchase of materials and components	-	-	(458,620)	-	(23,508)	(130,792)
Development costs expensed	(38,075)	-	-	(28,407)	-	-
Purchase of intangible assets	(26,011)	-	-	(22,244)	-	-
Interest expenses on lease liabilities	(13,610)	-	-	(12,885)	-	-
Purchase of services	(8,128)	(46)	(3,294)	(12,053)	-	(1,517)
Other income/(expenses)	1,329	-	3,267	1,849	(333)	(510)
Lease expense	-	-	-	(238)	-	-

At 31 December 2020 and 2019, 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.

Key management compensation

Key management compensation amounted to RR 470,893 for the year ended 31 December 2020 (2019: RR 491,629) 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 403,166 (2019: RR 355,371) as well as share-based compensation of RR 67,727 (2019: RR 136,258). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 43,130 (2019: RR 38,552) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 98,691 for the year ended 31 December 2020 (2019: RR 100,444), including share-based compensation of RR 12,313 (2019: RR 24,772).

30 Balances and Transactions with Related Parties (continued)

For the year ended 31 December 2020, dividends of RR 48,576 were accrued and paid by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (2019: RR 43,018).

31 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 2020, management concluded that possible risk related with various claims and legal proceedings amounted to RR 139,296 (31 December 2019: RR 125,983). All probable legal risks are provided for (Note 19).

(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.

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 2020, the Group accrued uncertain income tax positions as a component of income tax payable of RR 29,712 (31 December 2019: RR 14,971).

(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.

(in thousands of Russian Roubles, unless otherwise stated)

31 Contingencies and Commitments (continued)

(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 2020, commitments for purchase of the services amounted to RR 31,998 (31 December 2019: RR 31,933).

At 31 December 2020, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 291,039 (31 December 2019: RR 148,145).

At 31 December 2020, the Group has contractual commitments related to the obtained government grants. Management believes that the Group will be able to comply with all conditions stipulated by these agreements. Also refer to Note 18.

(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 (earnings before interest, taxes, depreciation, and amortisation) ratio and certain other requirements. At 31 December 2020, the Group was in compliance with all its loan covenants. At 31 December 2019, 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.

32 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 (CODM), 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 2020	31 December 2019
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	NASOSENERGOMASH Sumy JSC	NASOSENERGOMASH Sumy JSC
4	HYDROMASHSERVICE JSC	HYDROMASHSERVICE JSC
5	Plant Promburvod OJSC	Plant Promburvod OJSC
6	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
7	Dimitrovgradkhimmash JSC	Dimitrovgradkhimmash JSC
8	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
9	Nizhnevartovskremservis JSC	Nizhnevartovskremservis JSC

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 JSC	Kazankompressormash JSC
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.

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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	HMS Hydraulic Machines & Systems Group plc	HMS Hydraulic Machines & Systems Group plc
4	H.M.S. FINANCE LIMITED	H.M.S. FINANCE LIMITED
5	H.M.S. CAPITAL LIMITED	H.M.S. CAPITAL LIMITED
6	CMPC LLC	CMPC LLC
7	HMS New Urengoy-Property LLC	HMS New Urengoy-Property LLC
8	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 expenses, allowances and provisions (including allowance for obsolete inventory, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, 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 2020 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**Other companies**	**Intersegment transactions**	**Total**
External revenue	20,121,091	10,748,183	14,896,874	701,053	9,286	-	**46,476,487**
Intersegment revenue	135,259	536,210	50,473	16,487	1,353,806	-	**2,092,235**
Adjusted EBITDA	2,931,462	241,344	1,938,726	(62,955)	(106,353)	5,177	**4,947,401**

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**	**Other companies**	**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**

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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

	2020						
	Industrial pumps	Oil and gas equipment and projects	Compressors	Construction	Other companies	Intersegment transactions	Total
Adjusted EBITDA	**2,931,462**	**241,344**	**1,938,726**	**(62,955)**	**(106,353)**	**5,177**	**4,947,401**
Depreciation and amortisation	(1,118,540)	(474,596)	(763,493)	(32,288)	(62,274)	-	**(2,451,191)**
Non-monetary items[(1)]	(151,027)	(13,897)	(241,484)	(35,461)	(6,470)	-	**(448,339)**
Amortisation of government grants (Note 24)	-	36,048	-	-	-	-	**36,048**
Impairment of goodwill (Note 9)	-	(425,668)	-	-	-	-	**(425,668)**
Other operating (expenses)/ income, net[(2)]	(177,846)	(65,674)	(51,745)	596	(17,259)	(7,900)	**(319,828)**
Operating profit/(loss), IFRS	**1,484,049**	**(702,443)**	**882,004**	**(130,108)**	**(192,356)**	**(2,723)**	**1,338,423**
Finance income							251,571
Finance costs							(1,926,310)
Share of results of associates							(161)
Loss before income tax, IFRS							**(336,477)**

[(1)] Non-monetary items consist of defined benefits scheme expenses, allowances and provisions (allowance for obsolete inventories, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, 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 27, excluding depreciation of social assets and provision for legal claims.

	2019						
	Industrial pumps	Oil and gas equipment and projects	Compressors	Construction	Other companies	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 24)	-	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, allowances and provisions (allowance for obsolete inventories, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, 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 27, excluding depreciation of social assets and provision for legal claims.

In 2020 revenue from any single customer didn't exceed 10% of the Group's consolidated revenue. The management believes that the Group's sales are not subject to concentration risk.

The analisys of concentration risk in 2019 is presented in the table below:

	2019					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**EPC**	**Other companies**	**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

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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

	Consolidated revenue for 2020	Consolidated revenue for 2019	Non-current assets at 31 December 2020[(1)]	Non-current assets at 31 December 2019[(1)]
Total revenue/ non-current assets	46,476,487	51,412,961	20,043,706	21,265,743
Including				
Russia	40,765,946	44,612,575	16,281,399	17,760,336
Ukraine	1,068,019	2,202,874	1,444,340	1,528,077
Germany	937,331	672,061	1,999,208	1,612,265
Kazakhstan	673,771	954,625	-	-
India	577,933	507,154	-	-
Belarus	445,748	330,395	318,759	365,065
Iraq	419,850	524,517	-	-
Iran	310,058	439,187	-	-
Azerbaijan	302,726	80,470	-	-
Egypt	240,026	2,088	-	-
Others	735,079	1,087,015	-	-

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

33 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 2020 and 2019. 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 2020			31 December 2019		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	1,038,512	(335,917)	702,595	1,082,023	(894,218)	187,805
EUR	1,827,996	(1,692,511)	135,485	1,376,300	(1,893,910)	(517,610)
RR	429,331	(1,691,743)	(1,262,412)	374,195	(1,150,862)	(776,667)

At 31 December 2020, if RR had strengthened/weakened by 20% against the US dollar with all other variables held constant, loss for the year would have been RR 112,415 higher/lower (31 December 2019: profit for the year would have been RR 30,049 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 2020, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, loss for the year would have been RR 21,678 higher/lower (31 December 2019: profit for the year would have been RR 82,818 higher/lower), mainly as a result of foreign exchange losses/gains on translation of Euro denominated trade receivables and contract assets.

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

Certain Group subsidiaries with functional currencies other than Russian rouble hold RR-denominated financial assets and liabilities. At 31 December 2020, if respective functional currencies of such subsidiaries had strengthened/weakened by 20% against the RR with all other variables held constant, loss for the year would have been RR 201,986 lower/higher (31 December 2019: profit for the year would have been RR 124,267 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 14). The Group does not have significant interest-bearing assets.

At 31 December 2020, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, loss before income tax for the year would have been RR 148,621 higher/lower (31 December 2019: profit before income tax for the year would have been RR 189,973 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 2020	**31 December 2019**
Trade and other receivables		
- Trade receivables	12,110,503	15,715,997
- Other financial receivables	259,675	358,772
Contract assets	6,201,354	8,058,877
Cash and cash equivalents (Note 11)		
- Bank balances	10,358,961	9,949,623
- Cash on hand	1,627	2,495
Total on-balance sheet exposure	**28,932,120**	**34,085,764**
Total maximum exposure to credit risk before ECL allowance	**29,418,083**	**34,514,286**

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.

At 31 December 2020, ECL allowance was accrued in relation to cash and cash equivalents in amount of RR 31,850 (31 December 2019: nil). At 31 December 2020, the carrying amount of cash and cash equivalents less ECL allowance was RR 10,360,588 (31 December 2019: RR 9,952,118).

(in thousands of Russian Roubles, unless otherwise stated)

33 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 2020	31 December 2019
Moody's[(1)]	Ba1 – B2	6,548,658	7,825,942
Fitch[(2)]	BBB- – B-	1,565,341	560,136
S&P's[(3)]	BBB+ – B-	1,254,766	211,432
Expert RA[(4)]	B – BBB+	400,379	1,011,856
ACRA[(5)]	B-	235,503	-
Expert RA[(4)]	A+ – AA	158,956	35,006
S&P's[(3)]	AA- – A	71,420	116,016
Fitch[(2)]	AA- – A	24,193	11,993
Other[(6)]	-	131,595	177,242
Total cash and cash equivalents before ECL allowance		**10,390,811**	**9,949,623**

[(1)] International rating agency Moody's Investor Service.
[(2)] International rating agency Fitch.
[(3)] International rating agency Standard & Poor's.
[(4)] National Russian rating agency Expert RA.
[(5)] National Russian rating agency ACRA.
[(6)] At 31 December 2020, other item includes cash which was placed in Russian Treasury departments and the Central Bank of the Russian Federation in amount of RR 122,386 (31 December 2019: RR 170,482).

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.

Most of the Group's sales are made to government customers and non-governmental industry majors, for which credit risk is assessed as extremely low. However, the Group is exposed to the risk of payment defaults of small and medium-sized companies. To minimize credit risk, the Group monitors the recoverability of these debtors by analyzing ageing of receivables by type of customers and their respective prior payment history. Also, the Group performs the analysis of macroeconomic factors affecting the ability of the customers to settle the receivable balances and considers forward looking information associated with the industry and economic environment the customers operate.

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

	31 December 2020		**31 December 2019**	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Gross carrying amount:	**12,492,813**	**294,079**	**16,060,380**	**416,350**
- not overdue	9,195,262	186,148	14,122,612	326,917
- past due less than 60 days	968,913	29,251	735,951	11,007
- past due 61 to 180 days	702,094	8,307	404,497	3,031
- past due 181 to 365 days	543,696	1,754	191,506	3,073
- past due over 365 days	1,082,848	68,619	605,814	72,322
ECL allowance:	**(382,310)**	**(34,404)**	**(344,383)**	**(57,578)**
- not overdue	(22,332)	(2,986)	(24,425)	(4,134)
- past due less than 60 days	(427)	(1)	-	(291)
- past due 61 to 180 days	-	(3)	(246)	-
- past due 181 to 365 days	(21,474)	(37)	(18,457)	(1,593)
- past due over 365 days	(338,077)	(31,377)	(301,255)	(51,560)
Total	**12,110,503**	**259,675**	**15,715,997**	**358,772**

At 31 December 2020, ECL allowance was accrued in relation to the contract assets in amount of RR 37,399 (31 December 2019: RR 26,561). At 31 December 2020, the carrying amount of the contract assets less ECL allowance was RR 6,201,354 (31 December 2019: RR 8,058,877).

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 2020 was RR 12,370,178 (31 December 2019: RR 16,074,769).

There was no significant deterioration in the credit quality of trade and other accounts receivable due to COVID-19 pandemic. Uncertainties due to COVID-19 pandemic may exist in the future, and as a result, actual losses may differ from expected credit losses on accounts receivable.

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

Credit risk concentration

Date	Number of counterparties with aggregated receivables balances above RR 50,000	Aggregate amount of receivables balances	% of the amount of trade and other receivables
At 31 December 2020	45	10,007,199	81%
At 31 December 2019	54	13,447,765	84%

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

At 31 December 2020 and 2019, there was one group of customers (forming a single group) with a receivables' balance exceeding 10% of the Group's monetary assets as of these dates.

(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 2020 and 2019:

		Cash flows under the contract			
Statement of financial position item	Carrying amount at 31 December 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bonds[1]	6,147,893	483,000	483,000	6,306,345	-
Bank loans[1]	15,853,417	2,771,359	13,944,030	1,261,373	-
Trade accounts payable	13,760,707	13,760,707	-	-	-
Lease liabilities[1]	173,488	38,119	37,575	103,476	88,320
Other financial payables	170,691	170,691	-	-	-

		Cash flows under the contract			
Statement of financial position item	Carrying amount at 31 December 2019	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	-	-	-

[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. Maturity classification of the bonds was based on a 3-year put option.

[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 (Notes 31).

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 2020, the Group had unutilised uncommited credit lines in amount of RR 8,000,176 (31 December 2019: RR 4,000,547).

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

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

	31 December 2020	**31 December 2019**
Liquidity ratio	1.61	1.52
Current assets	41,103,429	44,149,872
Current liabilities	25,593,607	28,980,811

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 2020 and 2019, 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 2020	**31 December 2019**
Long-term borrowings	20,452,736	20,582,061
Short-term borrowings	1,548,574	3,578,390
Lease liabilities	173,488	160,601
Total debt	**22,174,798**	**24,321,052**
Cash and cash equivalents	(10,360,588)	(9,952,118)
Net debt	**11,814,210**	**14,368,934**
Equity attributable to the shareholders of the Company	9,825,602	10,299,321
Non-controlling interests	3,518,674	3,569,953
Total capital	**13,344,276**	**13,869,274**
Gearing ratio	**89%**	**104%**

34 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.

(in thousands of Russian Roubles, unless otherwise stated)

34 Fair Value of Financial Instruments (continued)

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.

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 2020, the fair value of bonds was RR 208,395 higher than their carrying amounts (31 December 2019: the fair value of bonds was RR 1,074 higher than their carrying amounts). The fair value of borrowings was based on Level 2 inputs. At 31 December 2020, the fair value of borrowings was RR 317,379 higher than their carrying amounts (31 December 2019: the fair value of borrowings was RR 180,836 higher than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

35 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 at 1 January 2019	**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 29)	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 29)	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 at 31 December 2019	**24,160,451**	**-**	**5,103**	**160,601**	**24,326,155**
Cash flows:					
Repayment of borrowings, net	(2,351,144)	-	-	-	**(2,351,144)**
Repayment of interest, net of factoring interest payments	(1,819,504)	-	-	(17,317)	**(1,836,821)**
Dividends paid to the shareholders of the Company	-	(391,942)	-	-	**(391,942)**
Dividends paid to non-controlling shareholders of subsidiaries	-	-	(55,162)	-	**(55,162)**
Lease payments	-	-	-	(35,905)	**(35,905)**
Non-cash changes:					
Interest expense (Note 29)	1,848,057	-	-	-	**1,848,057**
Currency translation differences	163,917	-	(33)	19,057	**182,941**
Foreign exchange loss from borrowings, net (Note 29)	368	-	-	-	**368**
Dividends declared to the shareholders of the Company	-	391,942	-	-	**391,942**
Dividends declared to non-controlling shareholders of subsidiaries	-	-	56,084	-	**56,084**
Non-cash additions	-	-	-	29,735	**29,735**
Interest expenses on lease liabilities	-	-	-	17,317	**17,317**
Other	(835)	-	(726)	-	**(1,561)**
Closing amount at 31 December 2020	**22,001,310**	**-**	**5,266**	**173,488**	**22,180,064**

36 Subsequent Events

Treasury shares. In March 2021, 176,000 GDRs of the Company representing 0.75% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 60,720.

Large contracts. In April 2021, the Group announced the signature of a RR 7.5 billion contract to design and manufacture oil & gas equipment as part of a helium concentrate membrane recovery unit for one of the largest gas fields in Russia.

HMS Hydraulic Machines & Systems Group plc

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

31 December 2020

Contents

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 2020. 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 2020 was RR 411,796 thousand (2019: RR 506,574 thousand) arising mainly as a result of dividend income in amount of RR 526,750 thousand (2019: RR 620,104 thousand). At 31 December 2020, the total assets of the Company were RR 4,300,337 thousand (31 December 2019: RR 4,273,222 thousand) and net assets were RR 4,281,360 thousand (31 December 2019: RR 4,261,506 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 2020 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.

At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2020 of 4.25 Russian Roubles per ordinary share, amounting to a total dividend of RR 497,945 thousand, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2021.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2020 and 31 December 2019.

At the Annual General Meeting in June 2020, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2019 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 391,942 thousand. This dividend was paid in June 2020.

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.

Share capital

At 31 December 2020, 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 2020 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. Giorgio Veronesi, Ezio Vergani and Andreas S. Petrou 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 2020 and 31 December 2019 are shown below:

Director	31 December 2020	31 December 2019
Vladimir V. Lukyanenko	27.4%	27.4%
Artem V. Molchanov	7.0%	6.8%
Yury N. Skrynnik	4.1%	3.6%
Kirill V. Molchanov	2.7%	2.5%

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 2020 amounted to RR 43,130 thousand (2019: RR 38,552 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 98,691 thousand for the year ended 31 December 2020 (2019: RR 100,444 thousand).

Branches

The Company did not operate through any branches during the year ended 31 December 2020.

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 2020, 5,554 GDRs of the Company representing 0.02% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 1,705 thousand.

In May-December 2020, 713,158 GDRs of the Company representing 3.04% of its issued share capital with the total cost of RR 288,125 thousand were transferred to the participants under the Long-term Incentive Program.

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 1.77% 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.

At 31 December 2020, the Company, via a wholly-owned subsidiary, is holding 81,960 (31 December 2019: 789,564) of its own GDRs with the total cost of RR 33,055 thousand (31 December 2019: RR 319,475 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 2021, 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
21 April 2021

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 2020 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	Kirill V. Molchanov
Director	Director
21 April 2021	21 April 2021

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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 2020, 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 2020, 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.

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Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group plc

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 2020 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.

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.

Deloitte.

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 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.
- 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 the 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.

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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)

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, actions taken to eliminate threats or safeguards applied.

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 7 years.

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 15 April 2021 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.

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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 2020.

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

....

Andreas Georgiou
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, 21 April 2021

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2020	31 December 2019
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	76,158	80,324
Cash and cash equivalents	6	42,439	11,158
Total current assets		**118,597**	**91,482**
TOTAL ASSETS		**4,300,337**	**4,273,222**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	48,329	48,329
Share premium	9	3,563,424	3,563,424
Retained earnings		669,607	649,753
TOTAL EQUITY		**4,281,360**	**4,261,506**
LIABILITIES			
Current liabilities:			
Other payables		18,977	11,716
Total current liabilities		**18,977**	**11,716**
TOTAL LIABILITIES		**18,977**	**11,716**
TOTAL EQUITY AND LIABILITIES		**4,300,337**	**4,273,222**

Approved for issue and signed on behalf of the Board of Directors on 21 April 2021.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2020	2019
Revenue	13	526,750	620,104
General and administrative expenses	11	(83,630)	(82,955)
Other operating (loss)/income, net	12	(3,369)	430
Operating profit		**439,751**	**537,579**
Finance income	13	59	-
Profit before income tax		**439,810**	**537,579**
Income tax expense	10	(28,014)	(31,005)
Profit for the year and total comprehensive income for the year		**411,796**	**506,574**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2020	2019
Cash flows from operating activities			
Profit before income tax		439,810	537,579
Adjustments for:			
Finance income	13	(59)	-
Foreign exchange loss/(gain), net	12	3,360	(430)
Operating cash flows before working capital changes		**443,111**	**537,149**
Decrease in other receivables		62,966	584,648
Increase in accounts payable		5,166	6,957
Cash generated from operations		**511,243**	**1,128,754**
Tax paid	10	(28,014)	(31,005)
Net cash generated from operating activities		**483,229**	**1,097,749**
Cash flows from investing activities			
Loans advanced to related parties	13	(58,740)	-
Net cash used in investing activities		**(58,740)**	
Cash flows from financing activities			
Dividends paid to the shareholders	9	(391,942)	(1,103,859)
Net cash used in financing activities		**(391,942)**	**(1,103,859)**
Net increase/(decrease) in cash and cash equivalents		**32,547**	**(6,110)**
Effect of exchange rate changes on cash and cash equivalents		**(1,266)**	**(234)**
Cash and cash equivalents at the beginning of the year		**11,158**	**17,502**
Cash and cash equivalents at the end of the year	6	**42,439**	**11,158**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2019		**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**
Profit for the year and total comprehensive income for the year		-	-	411,796	411,796
Dividends declared to the shareholders of the Company	9	-	-	(391,942)	(391,942)
Total transactions with owners of the Company, recognised directly in equity		**-**	**-**	**(391,942)**	**(391,942)**
Balance at 31 December 2020		**48,329**	**3,563,424**	**669,607**	**4,281,360**

Companies, which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, within two years after the end of the relevant tax year, will be deemed to have distributed this amount as dividend on the 31 of December of the second year. The amount of the deemed dividend distribution is reduced by any actual dividend already distributed by 31 December of the second year for the year the profits relate. The Company pays special defence contribution on behalf of the shareholders over the amount of the deemed dividend distribution at a rate of 17% (applicable since 2014) when the entitled shareholders are natural persons tax residents of Cyprus and have their domicile in Cyprus. In addition, from 2019 (deemed dividend distribution of year 2017 profits), the Company pays on behalf of the shareholders General Healthcare System (GHS) contribution at a rate of 2,65% (31.12.2019: 1,70%), when the entitled shareholders are natural persons tax residents of Cyprus, regardless of their domicile.

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 registered office was at 13 Karaiskaki, 3032, Limassol, Cyprus).

Approval of the financial statements. These financial statements were authorised for issue by the Board of Directors of the Company on 21 April 2021.

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 2020 and 2019, 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.

During the year ended 31 December 2020, the Group was negatively impacted by the consequences of COVID-19 pandemic, including postponement of tenders, general decline in demand for the Group's products and services, price pressure and worsening of payment terms with its major clients. Still, the adverse effect of the pandemic on 2020 results was limited by the strong backlog of signed contracts as of the beginning of the year as well as diversified customer base and products portfolio, which ensured stability in the Group's performance.

(in thousands of Russian Roubles, unless otherwise stated)

2 Operating Environment of the Company (continued)

As the Group has a strong budget for 2021, supported by a solid backlog of signed contracts, the Group's management does not expect a significant adverse impact of the current operating environment on future financial position and operating results of the Group and the Group's ability to continue as a going concern.

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. 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, NASOSENERGOMASH 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 NASOSENERGOMASH Sumy JSC are sold in Russia and other countries. For the year ended 31 December 2020, the revenue of NASOSENERGOMASH Sumy JSC approximated 8% of consolidated revenue of the Group, more than half of this amount being sales to Russian customers (for the year ended 31 December 2019: 9% of consolidated revenue of the Group, one third of this amount being sales to Russian customers). As of the date these consolidated financial statements were authorised for issuance, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of NASOSENERGOMASH Sumy JSC, however, the Group's management believes that certain customers of the Group may take conservative and cautious position when considering the purchase of products from EU and Ukraine. Due to these risks as well as due to high-level capacity utilisation of NASOSENERGOMASH Sumy JSC, the Group has realised the project aimed at building up the respective competencies within Russian subsidiaries of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements for the year ended 31 December 2020 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 2020 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 2020 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 2020 and 2019, the principal rates of exchange used for translating foreign currency balances were:

	2020	2019
1 USD = RR	73.8757	61.9057
1 EUR = RR	90.6824	69.3410

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.

(in thousands of Russian Roubles, unless otherwise stated)

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 2021 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**
Amendments to IFRS 16 – "COVID-19 – Related Rent Concessions". The amendments provides relief to lessees from assessment whether a COVID-19 - related rent concession is a lease modification.	1 June 2020
Amendments to IFRS 7, IFRS 9, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase II	1 January 2021
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	1 January 2021
Amendments to IFRS 16 – "COVID-19 – Related Rent Concessions". The amendments provides relief to lessees from assessment whether a COVID-19 - related rent concession is a lease modification.	1 April 2021*
Amendments to IFRS 3, Reference to the Conceptual Framework	1 January 2022*
Amendments to IAS 16, Property, Plant and Equipment: Proceeds Before Intended Use	1 January 2022*
Amendments to IAS 37, Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022*
Annual improvements to IFRS Standards 2018-2020	1 January 2022*
IFRS 17, Insurance contracts	1 January 2023*
Amendments to IAS 1 on classification of liabilities as current or non-current	1 January 2023*
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting policies	1 January 2023*
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023*

Management believe that the standards, amendments and interpretations which are to be adopted from 1 January 2021 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 2020	**31 December 2019**
Cash at bank in RR	40,604	11,124
Cash at bank in EUR	1,797	3
Cash at bank in USD	36	31
Cash at bank in GBP	2	-
Total cash and cash equivalents	**42,439**	**11,158**

7 Other Receivables and Other Financial Assets

	31 December 2020	**31 December 2019**
Short-term loans issued (Note 13)	58,799	**-**
Dividends receivable from related parties (Note 13)	14,238	77,718
Other receivables	7,565	6,544
Less: provision for impairment of other receivables	(6,296)	(5,275)
Financial assets within other receivables, net	**74,306**	**78,987**
Prepayments and advances to subcontractors	1,852	1,337
Non-financial assets within other receivables, net	**1,852**	**1,337**
Total other receivables and other financial assets	**76,158**	**80,324**

(in thousands of Russian Roubles, unless otherwise stated)

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 2020	%, interest held at 31 December 2019
HMS Group JSC	Russia	Holding company	100.00	100.00
HMS Livhydromash 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
Hydromashservice CJSC	Russia	Operating company	3.15	3.15
HMS Capital	Cyprus	Holding company	0.05	0.05

In 2019 and 2020, there were no changes in investments in subsidiaries.

At 31 December 2020, investments in subsidiaries include guarantees given to Hydromashservice CJSC in the amount of RR 573,826 (31 December 2019: RR 573,826).

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 2019	**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**
During 2020	**-**	**-**	**-**	**-**
At 31 December 2020	**117,163,427**	**0.01**	**48,329**	**3,563,424**

At 31 December 2020 and 31 December 2019, the Company's authorised share capital consisted of 120,705,882 ordinary shares with par value of EUR 0.01 each.

Treasury shares. During 2020, 5,554 GDRs of the Company representing 0.02% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 1,705.

In May-December 2020, 713,158 GDRs of the Company representing 3.04% of its issued share capital with the total cost of RR 288,125 were transferred to the participants under the Long-term Incentive Program.

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 1.77% of its issued share capital with the total cost of RR 167,804 were transferred to the participants under the Long-term Incentive Program.

At 31 December 2020, the Company, via a wholly-owned subsidiary, is holding 81,960 (31 December 2019: 789,564) of its own GDRs with the total cost of RR 33,055 thousand (31 December 2019: RR 319,475). The voting and dividend rights of these GDRs are suspended.

Dividends. At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2020 of 4.25 Russian Roubles per ordinary share, amounting to a total dividend of RR 497,945, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2021.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2020 and 31 December 2019.

At the Annual General Meeting in June 2020, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2019 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 391,942. This dividend was paid in June 2020.

(in thousands of Russian Roubles, unless otherwise stated)

9 Share Capital and Other Equity Items (continued)

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.

10 Income Taxes

Income tax expense for the year ended 31 December 2020 and 2019 include:

	2020	2019
Current tax		
Corporation tax	-	-
Withholding tax on dividends receivable	28,014	31,005
Total income tax expense	**28,014**	**31,005**

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

	2020	2019
Profit before tax	**439,810**	**537,579**
Estimated tax charge at statutory rate of 12.5% (2019: 12.5%)	54,976	67,197
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax effect of expenses not deductible for tax purposes	2,456	2,121
Tax effect of income not subject to tax	(65,844)	(77,512)
Foreign withholding tax	28,013	31,005
Deferred tax not recognised on tax loss carry forward	8,413	8,194
Income tax charge	**28,014**	**31,005**

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

	2020	2019
Directors' remuneration	43,130	38,552
Legal, consulting and other professional services	22,040	20,885
Insurance	8,789	9,785
Entertaining costs and business trip expenses	5,544	5,863
Auditors' remuneration – statutory auditor	2,681	2,272
Lease	758	737
Bank services	439	3,782
Other expenses	212	269
Telecommunication services	37	810
Total general and administrative expenses	**83,630**	**82,955**

Legal, consulting and other professional services stated above include fees of RR 148 (2019: RR 129) for tax consultancy services and RR 1,234 (2019: RR 1,693) for other assurance services charged by the Company's statutory auditor.

12 Other Operating Income, net

	2020	2019
Foreign exchange (loss)/gain, net	(3,360)	430
Other loss, net	(9)	-
Total other operating (loss)/income, net	**(3,369)**	**430**

(in thousands of Russian Roubles, unless otherwise stated)

13 Balances and Transactions with Related Parties

At 31 December 2020, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2019: 71.51%), including shares in form of GDRs. At 31 December 2020 and 2019, 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 2020**	**31 December 2019**
Dividends receivable		
Hydromashservice JSC	14,238	-
HMS Neftemash JSC	-	71,818
HMS Livhydromash JSC	-	5,900
Accounts receivable		
Other receivables from H.M.S. Finance Limited	1,269	1,269
Accounts payable		
Other short-term payables to H.M.S. Capital	(453)	(347)

Transactions with related parties	**2020**	**2019**
Short-term loan provided to HMS Group entities		
H.M.S. Capital Limited (unsecured loan at 3.01% interest rate):		
At 1 January	**-**	**-**
Loans advanced	58,740	-
Interest charged	59	-
At 31 December	**58,799**	**-**
Dividend income from subsidiaries, including 5%-15% income tax, withheld at source		
Livnynasos JSC	510,000	69,998
Hydromashservice JSC	16,750	100,000
HMS Neftemash JSC	-	450,106
Total	**526,750**	**620,104**
Dividends received from subsidiaries, net of withholding tax		
HMS Neftemash JSC	71,818	853,773
Hydromashservice JSC	-	190,000
Livnynasos JSC	484,500	114,000
HMS Livhydromash JSC	5,900	14,431
Total	**562,218**	**1,172,204**

Key management compensation. The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2020 amounted to RR 43,130 (2019: RR 38,552). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 98,691 for the year ended 31 December 2020 (2019: RR 100,444).

(in thousands of Russian Roubles, unless otherwise stated)

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 2020 and 2019:

	31 December 2020			**31 December 2019**		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	37	(14,856)	(14,819)	31	(8,298)	(8,267)
EUR	1,797	(3,872)	(2,075)	3	(3,180)	(3,177)
Total	**1,834**	**(18,728)**	**(16,894)**	**34**	**(11,478)**	**(11,444)**

At 31 December 2020, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 2,964 higher/lower (31 December 2019: RR 1,653), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated other payables.

At 31 December 2020, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 415 higher/lower (31 December 2019: RR 635), 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 2020, the Company had RR 695 (31 December 2019: RR 33) of cash placed in a bank with Moody's rating of "B3" and RR 41,744 (31 December 2019: RR 11,126) 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 2020 and 2019, 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 2020 and 2019, 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

Treasury shares. In March 2021, 176,000 GDRs of the Company representing 0.75% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 60,720.