HMS Hydraulic Machines & Systems Group plc

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

31 December 2016

Contents

Board of Directors

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

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

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

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

Mr. Philippe Delpal
Non-executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee

Mr. Gary S. Yamamoto
Non-executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Strategy and Investments Committee

Mr. Andreas S. Petrou
Non-executive Director

Board support

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

Company Secretary

Cyproservus Co Limited
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FORTUNA COURT, Block B
3rd Floor, Flat/ Office 32
3105 Limassol, Cyprus

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its consolidated management report together with the audited consolidated financial statements for the year ended 31 December 2016. 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

The Group's revenue for 2016 grew by 11.5% yoy and amounted to RR 41,582 million. In terms of revenue mix, this growth was supported by recurring products, while the revenue from large contracts remained flat year on year. In contrast, recurring business increased by 15%, where machine-building recurring products grew by 18% compared to 2015. In terms of segments, the compressors business segment was the driver of the revenue increase demonstrating extraordinary growth.

In contrast, adjusted EBITDA decreased by 14.5% yoy to RR 6,369 million. As a result, adjusted EBITDA margin for 12 months 2016 decreased to 15.3% versus 20.0% last year. The decline in the profitability of large contracts led to the decline in EBITDA.

The Group's operating profit totalled RR 3,624 million versus RR 4,525 million in 2015, as a result, operating margin decreased to 8.7% in the reporting period versus 12.1% in 2015.

Principal risks and uncertainties

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

The Group's contingencies are disclosed in Note 34 to the consolidated financial statements.

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

Future developments

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

Results

The Group's results for the year ended 31 December 2016 are set out on page 14 of the consolidated financial statements.

Dividends

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

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

At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2016 of 5.12 Russian Roubles per ordinary share, amounting to a total dividend of RR 599,877 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 2017.

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

At the Annual General Meeting in June 2016, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2015 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 579,863 thousand. This dividend was paid in June 2016.

In December 2015, an interim dividend in respect of the profit for the nine months ended 30 September 2015 of 3.25 Russian Roubles per ordinary share amounting to a total dividend of RR 374,380 thousand was approved by the Board of Directors of the Company. This dividend was paid in December 2015.

Share capital

At 31 December 2016, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 23 of the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital. The Company's Articles of Association and the Companies Law, Cap 113 (as amended), to the extent not 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 2016 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. Philippe Delpal and Vladimir V. Lukyanenko 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 2016 and at the date of approval of these consolidated financial statements are shown below:

Director	Interest in the share capital of the Company at 31 December 2016	Interest in the share capital of the Company at 25 April 2017
Vladimir V. Lukyanenko	27.4%	27.4%
Artem V. Molchanov	6.4%	6.4%
Yury N. Skrynnik	3.4%	3.4%
Kirill V. Molchanov	2.3%	2.3%
Philippe Delpal	0.017%	0.017%

The above stated interests do not include the effect of treasury shares held by the Group both at the reporting date and the date of approval of these consolidated financial statements.

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 38 to the consolidated financial statements.

The Board Committees

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

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

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

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

Corporate governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. The Company's and the Group's corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit, remuneration and strategy and investments committees, ethical conduct, securities dealings and disclosure.

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2016 amounted to RR 38,228 thousand (2015: RR 32,644 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 108,250 thousand for the year ended 31 December 2016 (2015: RR 137,753 thousand). See also Note 33.

Branches

The Company did not operate through any branches during the year ended 31 December 2016.

Treasury shares

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

During 2016, 431,455 GDRs of the Company representing 1.84% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 110,067 thousand.

During 2015, 70,526 GDRs of the Company representing 0.30% of its issued share capital (after applying the new ratio retrospectively) were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 12,284 thousand.

At 31 December 2016, the Company, via a wholly-owned subsidiary, is holding 865,869 (31 December 2015: 434,414 after applying the new ratio retrospectively) of its own GDRs with the total cost of RR 323,556 thousand (31 December 2015: RR 213,489 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 2017, 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
25 April 2017

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 13 to 60) 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 2016 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
25 April 2017

Kirill V. Molchanov
Director
25 April 2017

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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 13 to 60 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the incremental 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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 IAS 11 "Construction Contracts" is based on the stage of completion of contract activity. This 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.	Our audit procedures included obtaining an understanding of key controls around the process of accounting for construction contracts, as well as assessment whether the amounts recognised in the consolidated financial statements were in line with the Group's accounting policies and IAS 11.

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Independent Auditor's Report (Cont'd)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Key Audit 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 (cont'd)	
Recognition of revenue and profit on construction contracts is considered a key audit matter that requires special audit consideration because of the judgment involved in assessing the costs to complete, stage of completion, variations to the contracts requested by customers and claims made or due to be made 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.	We also performed detailed procedures on individually significant contracts, including discussions with the individual project managers and directors, inspection of selected signed contracts, and evaluation of management's assumptions in the determination of the stage of completion of a project, estimates of project costs to complete and any provisions for customer claims made or due to be made against the Group for delays. We challenged management's assumptions by discussing and reviewing the files related to construction contracts with customers, considered the accuracy and consistency of similar estimates made in previous years, corroborated the assumptions with the latest contractual information, traced a sample of costs incurred to supporting documentation and assessed the appropriateness of provisions pertaining to factual or anticipated customer claims with reference to contractual delivery schedules.
Impairment assessment of goodwill	
The Group had goodwill of RR 2,863,925 thousand at 31 December 2016. Goodwill impairment charges have been recognised in prior periods, and with continued challenging economic conditions in the Russian Federation, there is a risk that goodwill is impaired. For the CGUs that contain goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value-in-use, requires management to make significant estimates including the operating cash flow projections, discount rates and long-term growth rates applied to each CGU. As a result of the Group's impairment review completed during the year, an impairment charge of RR 370,360 thousand was recognised.	In this area our audit procedures included: • obtaining an understanding of key controls around the impairment review processes; • considering the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2016 and comparing the forecast performance to Board approved long-term plans; • assessing forecasted revenues for the year ending 31 December 2017 against performance up to the date of this report, existing backlog (including revenues already contracted but not earned) and analysing respective variances; • comparing the long-term growth rates for each cash generating unit to economic forecasts; • 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;

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Independent Auditor's Report (Cont'd)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Key Audit Matters (continued)

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment assessment of goodwill (cont'd)	
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.	• assessing the appropriateness of the sensitivities applied by management to the impairment testing model and whether the scenarios reflected reasonably possible changes in key assumptions. We performed further sensitivities based on our understanding of the future prospects to identify whether these scenarios could give rise to further impairment; • checking the arithmetic accuracy of the impairment model; and • considering the adequacy of the Group's disclosures and the requirements of accounting standards in respect of impairment testing and disclosure of the key judgements taken by management in the cash flow forecasts and impairment review.
Impairment assessment of property, plant and equipment	
The balance of property, plant and equipment at 31 December 2016 amounted to RR 13,908,291 thousand. As required by applicable accounting standards, management performs an analysis to determine whether there are any indicators of impairment in respect of the Group's property, plant and equipment at each reporting date. Where impairment indicators are identified, management performs an impairment assessment and in each instance determines the recoverable amount of respective assets as the 'fair value less costs to sell', calculated by reference to the market of relevant assets, less costs which would be incurred on disposal. For a sample of assets, the Group engages independent valuation specialists to determine their respective fair values. We specifically focused on the impairment assessment for property, plant and equipment given the judgements involved in determining the recoverable amount for each asset. Based on the results of the Group's impairment assessment that was completed during the year, an impairment charge of RR 18,685 thousand was recognised. Refer to Note 7 "Property, Plant and Equipment" 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 impairment review processes and assessing the appropriateness of the methodology applied by management in calculating the impairment charges, and the judgements applied in determining the cash generating units ("CGUs") of the business. We have also assessed the completeness of the Group's impairment charges with reference to CGU performance. In relation to the Group's 'fair value less costs of disposal', we have challenged the assumptions used by the Group in determining the fair market value of the assets, including those completed by external valuers, using internal property valuation specialists and assessing whether appropriate valuation methodologies have been applied.

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Independent Auditor's Report (Cont'd)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report, 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 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.

Responsibilities of the Board of Directors 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 incremental 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

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Independent Auditor's Report (Cont'd)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, 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 our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, 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 consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not 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.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

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Independent Auditor's Report (Cont'd)

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 Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

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

Limassol, 25 April 2017

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets:			
Property, plant and equipment	7	13,908,291	14,161,704
Other intangible assets	8	712,527	984,280
Goodwill	9	2,863,925	3,466,063
Investments in associates	10	88,724	106,040
Deferred income tax assets	25	366,057	380,351
Other long-term assets	14	29,040	43,444
Investment property	15	233,994	244,247
Restricted cash		-	23,219
Total non-current assets		**18,202,558**	**19,409,348**
Current assets:			
Inventories	12	7,228,293	6,860,390
Trade and other receivables and other financial assets	13	14,021,896	11,701,492
Current income tax receivable		169,650	152,680
Cash and cash equivalents	11	2,989,691	3,496,420
Restricted cash		-	2,573
Total current assets		**24,409,530**	**22,213,555**
TOTAL ASSETS		**42,612,088**	**41,622,903**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	48,329	48,329
Share premium	23	3,523,535	3,523,535
Treasury shares	23	(323,556)	(213,489)
Other reserves		122,730	(191,585)
Currency translation reserve		(607,393)	476,312
Retained earnings		6,348,279	6,180,042
Equity attributable to the shareholders of the Company		**9,111,924**	**9,823,144**
Non-controlling interests		**2,972,005**	**3,325,643**
TOTAL EQUITY		**12,083,929**	**13,148,787**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	12,770,486	11,217,538
Deferred income tax liability	25	1,579,152	1,534,031
Pension liability	17	519,397	566,475
Provisions for liabilities and charges	22	151,359	132,865
Other long-term payables	21	162,984	133,552
Total non-current liabilities		**15,183,378**	**13,584,461**
Current liabilities:			
Trade and other payables	19	10,417,155	8,455,740
Short-term borrowings	16	3,565,875	4,666,626
Provisions for liabilities and charges	22	531,075	451,410
Redemption liability	37	-	326,759
Pension liability	17	72,621	69,538
Current income tax payable		53,278	142,323
Other taxes payable	20	704,777	777,259
Total current liabilities		**15,344,781**	**14,889,655**
TOTAL LIABILITIES		**30,528,159**	**28,474,116**
TOTAL EQUITY AND LIABILITIES		**42,612,088**	**41,622,903**

Approved for issue and signed on behalf of the Board of Directors on 25 April 2017.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2016	2015
Revenue	26	41,582,388	37,296,437
Cost of sales	27	(30,798,509)	(25,782,590)
Gross profit		**10,783,879**	**11,513,847**
Distribution and transportation expenses	28	(1,699,610)	(1,377,995)
General and administrative expenses	29	(4,523,183)	(4,603,227)
Other operating expenses, net	30	(547,886)	(623,897)
Impairment of property, plant and equipment and investment property	7,15	(18,685)	(383,472)
Impairment of goodwill	9	(370,360)	-
Operating profit		**3,624,155**	**4,525,256**
Finance income	31	174,213	192,595
Finance costs	32	(1,905,206)	(2,086,920)
Share of results of associates	10	(257)	(467)
Profit before income tax		**1,892,905**	**2,630,464**
Income tax expense	25	(694,475)	(866,289)
Profit for the year		**1,198,430**	**1,764,175**
Profit/(loss) attributable to:			
Shareholders of the Company		1,196,789	1,884,619
Non-controlling interests		1,641	(120,444)
Profit for the year		**1,198,430**	**1,764,175**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		8,390	(158,400)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(1,164,504)	51,868
Currency translation differences of associates	10	(17,059)	(11,332)
Other comprehensive loss for the year		**(1,173,173)**	**(117,864)**
Total comprehensive income for the year		**25,257**	**1,646,311**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		106,559	1,817,172
Non-controlling interest		(81,302)	(170,861)
Total comprehensive income for the year		**25,257**	**1,646,311**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	23	**10.53**	**16.34**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Profit before income tax		1,892,905	2,630,464
Adjustments for:			
Depreciation and amortisation	27-30	1,553,657	1,491,317
Loss from disposal of property, plant and equipment and intangible assets	30	10,758	9,856
Finance income	31	(174,213)	(192,595)
Finance costs	32	1,905,206	2,086,920
Change in retirement benefits obligations	17	90,479	94,507
Change in warranty provision	27	67,297	97,606
Change in provision for impairment of trade and other receivables and other financial assets	29	38,179	112,237
Change in provision for obsolete inventories	27	45,922	87,289
Change in provision for legal claims	30	55,408	250,023
Share-based compensation	24	28,840	-
Impairment of goodwill	9	370,360	-
Impairment of property, plant and equipment and investment property	7,15	18,685	383,472
Impairment reversal of property, plant and equipment	30	(1,705)	(6,160)
Foreign exchange loss/(gain), net	30	65,031	(72,636)
Loss on revaluation of redemption liability	30	17,960	136,392
Change in provision for tax risks, other than income tax	29	13,096	-
Impairment of taxes receivable	30	101,948	-
Share of results of associates	10	257	467
Operating cash flows before working capital changes		**6,100,070**	**7,109,159**
Increase in inventories		(833,072)	(1,086,345)
(Increase)/decrease in trade and other receivables		(2,337,883)	578,408
(Increase)/decrease in current income tax receivable		(16,970)	4,235
Decrease in taxes payable		(19,916)	(350,009)
Increase/(decrease) in accounts payable and accrued liabilities		1,700,349	(1,277,293)
Cash from operations		**4,592,578**	**4,978,155**
Income tax paid		(773,816)	(1,091,049)
Interest paid		(2,036,200)	(1,987,450)
Decrease/(increase) in restricted cash		25,792	(18,204)
Net cash from operating activities		**1,808,354**	**1,881,452**
Cash flows from investing activities			
Repayment of loans advanced		63,073	35,515
Loans advanced		(187,837)	(45,870)
Proceeds from sale of property, plant and equipment and intangible assets		20,190	22,184
Interest received		17,527	14,082
Purchase of property, plant and equipment, net of VAT		(1,566,691)	(1,381,062)
Acquisition of intangible assets, net of VAT		(134,138)	(75,687)
Net cash used in investing activities		**(1,787,876)**	**(1,430,838)**
Cash flows from financing activities			
Repayments of borrowings		(10,117,158)	(10,330,274)
Proceeds from borrowings		10,756,815	9,127,120
Proceeds from government grant	21	50,000	55,000
Payment for finance lease		(6,382)	(2,474)
Buy back of issued shares	23	(110,067)	(12,284)
Acquisition of non-controlling interest in subsidiaries		(346,900)	-
Dividends paid to non-controlling shareholders of subsidiaries		(40,798)	(56,547)
Dividends paid to the shareholders of the Company	23	(579,863)	(374,380)
Net cash used in financing activities		**(394,353)**	**(1,593,839)**
Net decrease in cash and cash equivalents		**(373,875)**	**(1,143,225)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(132,854)**	**104,692**
Cash and cash equivalents at the beginning of the year		**3,496,420**	**4,534,953**
Cash and cash equivalents at the end of the year		**2,989,691**	**3,496,420**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2014		**48,329**	**3,523,535**	**(201,205)**	**(191,585)**	**430,519**	**4,783,043**	**8,392,636**	**3,550,667**	**11,943,303**
Profit for the year		-	-	-	-	-	1,884,619	1,884,619	(120,444)	**1,764,175**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(113,240)	(113,240)	(45,160)	**(158,400)**
Currency translation differences		-	-	-	-	57,125	-	57,125	(5,257)	**51,868**
Currency translation differences of associates	10	-	-	-	-	(11,332)	-	(11,332)	-	**(11,332)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**45,793**	**1,771,379**	**1,817,172**	**(170,861)**	**1,646,311**
Buy back of issued shares		-	-	(12,284)	-	-	-	(12,284)	-	**(12,284)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(54,163)	**(54,163)**
Dividends declared to the shareholders of the Company	23	-	-	-	-	-	(374,380)	(374,380)	-	**(374,380)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(12,284)**	**-**	**-**	**(374,380)**	**(386,664)**	**(54,163)**	**(440,827)**
Balance at 31 December 2015		**48,329**	**3,523,535**	**(213,489)**	**(191,585)**	**476,312**	**6,180,042**	**9,823,144**	**3,325,643**	**13,148,787**
Profit for the year		-	-	-	-	-	1,196,789	1,196,789	1,641	**1,198,430**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(6,525)	(6,525)	14,915	**8,390**
Currency translation differences		-	-	-	-	(1,066,646)		(1,066,646)	(97,858)	**(1,164,504)**
Currency translation differences of associates	10	-	-	-	-	(17,059)		(17,059)		**(17,059)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**(1,083,705)**	**1,190,264**	**106,559**	**(81,302)**	**25,257**
Buy back of issued shares	23	-	-	(110,067)	-	-	-	(110,067)	-	**(110,067)**
Acquisition of non-controlling interest in subsidiary	23	-	-	-	314,315	-	(7,250)	307,065	(309,246)	**(2,181)**
Share-based compensation	24	-	-	-	-	-	28,840	28,840	-	**28,840**
Effect of the Group restructuring on non-controlling interest	23	-	-	-	-	-	(78,990)	(78,990)	78,990	**-**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(42,080)	**(42,080)**
Dividends declared to the shareholders of the Company	23	-	-	-	-	-	(964,627)	(964,627)	-	**(964,627)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(110,067)**	**314,315**	**-**	**(1,022,027)**	**(817,779)**	**(272,336)**	**(1,090,115)**
Balance at 31 December 2016		**48,329**	**3,523,535**	**(323,556)**	**122,730**	**(607,393)**	**6,348,279**	**9,111,924**	**2,972,005**	**12,083,929**

1 General Information

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

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

For the year ended 31 December 2016, the average number of employees of the Group was 15,018 (2015: 15,236).

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

2 Operating Environment of the Group

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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

In the first quarter of 2015, international credit agencies downgraded Russia’s long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have 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.

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.

In 2016, average inflation amounted to 13.2% compared to 48.7% in 2015. Despite the fact that the cumulative inflation in Ukraine for the three previous years slightly exceeded 100%, management believes that the Ukrainian economy is not hyperinflationary due to slowing down of inflation during 2016 and a lack of qualitative characteristics of a hyperinflationary economic environment.

The economic situation began to stabilize in 2016, which resulted in GDP growth around 1% and stabilization of Ukrainian Hryvna. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 65% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranche of extended fund facilities agreed with the International Monetary Fund (“IMF”). Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government’s efforts, yet further economic and political developments are currently difficult to predict.

One of the Group’s subsidiaries, Nasosenergomash PJSC, is located in Sumy, Ukraine, and specializes in pumps manufacturing for oil and gas, thermal and nuclear power, water supply and utilities. Pumps produced by Nasosenergomash PJSC are sold in Russia and other countries. For the year ended 31 December 2016, the revenue of Nasosenergomash PJSC approximated 7% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers (for the year ended 31 December 2015: 9% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers). As of the date these consolidated financial statements were authorised for issuance, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of Nasosenergomash PJSC, 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 PJSC, the Group has accelerated the previously developed 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 2016 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.

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.

3 Summary of Significant Accounting Policies (continued)

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 IAS 39, Financial Instruments: recognition and measurement, or, when applicable, 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.

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.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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 ("BYR") and Euro ("EUR"); and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

At 31 December 2016 and 2015, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2016	**31 December 2015**	**2016**	**2015**
1 USD = RR	60.6569	72.8827	66.8335	61.3194
1 EUR = RR	63.8111	79.6972	73.9924	67.9915
1 UAH = RR	2.2383	3.0463	2.6146	2.8261
1 BYR = RR*	30.9474	0.00389	33.5624	0.00382

*Since 1 July 2016 Belorussian Rouble was denominated in a ratio of 10,000 roubles to 1 rouble.

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

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

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

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

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

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

Land and construction in progress are not depreciated.

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 have definite useful lives and primarily include capitalised computer software, websites, trademarks, project documentation, development costs, patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

3 Summary of Significant Accounting Policies (continued)

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.

Non-current assets or disposal groups held for sale. Non-current assets and disposal groups are classified in the consolidated statement of financial position as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

If a non-current asset (or disposal group) no longer meets the criteria of classification, it ceases to be classified as held for sale. This asset is measured at the lower of its carrying amount before the asset (disposal group) was reclassified, adjusted for any depreciation, amortisation or revaluations that would be have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decisions not to sell the asset. Any required adjustment to the carrying amount is included in profit or loss in the period when the reclassification criteria are no longer met.

Discontinued operations. Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification. The comparative statement of profit or loss and other comprehensive income is presented as if the operation had been discontinued from the beginning of the comparative period. Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the statement of financial position.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 37.

3 Summary of Significant Accounting Policies (continued)

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. All financial assets of the Group fall into one measurement category: loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where maturities are greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, other long-term receivables and cash and cash equivalents in the statement of financial position.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade or other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

3 Summary of Significant Accounting Policies (continued)

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities. Financial liabilities of the Group consist of symmetrical put/call option and other financial liabilities, which include trade and other payables, borrowings and finance lease liabilities.

The forwards or symmetrical put/call options. The forward or symmetrical put/call options on shares in an existing subsidiary that are held by non-controlling interests and which should be exercised in future at fair value of the underlying non-controlling interest are recognised as financial liability (redemption liability) at present value of the estimated redemption amount with corresponding amount recognised in statement of changes in equity within other reserves. All subsequent changes to the redemption liability are recognised in profit or loss.

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

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

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

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

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

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

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 provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

Past service costs are recognised immediately in profit and loss.

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, risks and rewards of ownership of the goods have been transferred and it is probable that future economic benefits will flow to the entity. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Construction contracts. Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that has been agreed with the customer and the amounts are capable of being reliably measured.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the statement of financial position date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within trade accounts receivable.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

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.

Changes in presentation. During 2016, the Group made certain presentational changes in an effort to provide more relevant financial information. In particular, certain types of intangible assets were renamed and classification of intangible assets by types was changed for the purpose of more relevant disclosure. As a result of these changes, certain intangible assets with carrying amount of RR 33,899 were reclassified at 1 January 2016 from "Licensed technology" category to "Project documentation, development costs and patents" category (1 January 2015: RR 30,257) (Note 8).

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 accounts for construction projects, design and engineering projects and certain other long-term contracts using the 'percentage-of-completion' method. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the year ended 31 December 2016, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 12,709,673 (2015: 12,749,301) (Note 18).

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

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

(i) In December 2013, the Group signed a RR 5.7 billion contract to deliver technological integrated solution for a major Siberian gasfield. The scope of the contract includes development of design documentation, manufacturing, delivery, supervision and testing of complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components for providing complex integrated systems such as deethanising compressor station, methanol regenerating unit etc. The project implementation time is three years. Total amount of payments received in relation to this project at 31 December 2016 amounted to RR 4,040,956, net of VAT (31 December 2015: RR 3,258,793). For the year ended 31 December 2016, the Group recognised revenue of RR 547,985 in relation to this project (2015: RR 3,884,695), and the excess of accumulated revenue recognised over progress billings of RR 809,882 was included in receivables due from customers for construction work (31 December 2015: RR 1,159,588).The excess of progress billings over payments received from customer RR of 312,634 was included in trade receivables (31 December 2015: RR 197,106).

(ii) During the year ended 31 December 2014, the Group signed a contract to deliver complex equipment for processing of liquid hydrocarbons for large oil-gas-and-condensate fields in Siberia. The scope of contract includes manufacturing and delivery of a complex technological facility, including block-modular process pump stations, block-modular head pump stations, block-modular main pump stations, block-modular retaining pump stations, buildings of oil system and other components of the major process equipment. Total budgeted revenue for this contract at 31 December 2016 amounted to approximately RR 7.3 billion. At 31 December 2016, the total amount of payments received from customer in relation to this project equalled to RR 7,258,573, net of VAT (31 December 2015: RR 7,258,573). Group recognised revenue of RR 42,337 in relation to this project for the year ended 31 December 2016 (31 December 2015: RR 4,109,558). The contract was completed in the first half of 2016 and the related payments by the customer have been settled in full (31 December 2015: the excess of advances received over accumulated revenue recognised of RR 42,337 was included in payables due to customers for construction work).

(iii) During the year ended 31 December 2014, the Group signed a contract for the construction and delivery of highly customised pump stations for an oil-gas-and-condensate field in the northern part of Yamal peninsula. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 1.9 billion. At 31 December 2016, the total amount of payments received from customer in relation to this project equalled to RR 1,944,400 (31 December 2015: RR 1,030,800), net of VAT. For the year ended 31 December 2016 the Group recognised revenue of RR 249,802 in relation to this project (31 December 2015: RR 1,694,598). The contract was completed in the first half of 2016 and the related payments by the customer have been settled in full (31 December 2015: the excess of accumulated revenue recognised over progress billings of RR 520,998 was included in receivables due from customers for construction work, the excess of progress billings over payments received from customer RR of 142,800 was included in trade receivables).

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

(iv) In July 2015, the Group signed a contract to deliver 5 high-pressure compressor units, intended for compression of separated associated gas. This equipment will be manufactured by the Group and installed at an oil and gas condensate deposit, located in the Ural region of Russia. The contract is expected to be fulfilled in 2017. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 3.7 billion. At 31 December 2016, the total amount of payments received in relation to this project equalled to RR 3,095,420, net of VAT (31 December 2015: RR 1,043,400). For the year ended 31 December 2016, the Group recognised revenue of RR 3,088,873 in relation to this project (for the year ended 31 December 2015: RR 259,388). The excess of progress billings over accumulated revenue recognised of RR 129,739 was included in payables due to customers for construction work. The excess of progress billings over payments received of RR 382,580 was included in trade receivables (31 December 2015: excess of progress billings over accumulated revenue recognised of RR 784,012 was included in payables due to customers for construction work).

(v) In February 2016, the Group signed a contract for delivery and installation of a boosting compressor station at an oil and gas condensate deposit, located in the West Siberia. The contract is expected to be completed in 2017. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 2.8 billion. Total amount of advances received in relation to this project at 31 December 2016 amounted to RR 792,258, net of VAT. For the year ended 31 December 2016, the Group recognised revenue of RR 1,627,065 in relation to this project, and the excess of accumulated revenue recognised over advances received of RR 834,807 was included in receivables due from customers for construction work.

(vi) In March 2016, the Group signed a contract for delivery and installation of technological integrated solution for Siberian gas fields. The scope of the contract includes manufacturing and delivery of complex integrated solutions for pumping of natural gas liquids and pumping of oil, wash-down water and rust preventive chemical. The contract is expected to be completed in 2017. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 3.5 billion. Total amount of payments received in relation to this project at 31 December 2016 amounted to RR 2,844,604, net of VAT. For the year ended 31 December 2016, the Group recognised revenue of RR 2,709,585 in relation to this project, and the excess of progress billings over accumulated revenue recognized of 243,689 was included in payables due to customers for construction work. The excess of progress billings over payments received of RR 108,670 was included in trade receivables.

(vii) In April 2016, the Group signed a contract for delivery and installation of a formation-fluid and low-temperature separation unit. The unit, made up of inlet formation-fluid separators, heavy condensate separators, heavy condensate degassers, low-temperature separators, heat exchangers and other components will be manufactured by the Group and installed at an oil and gas condensate deposit, located in West Siberia. The contract is expected to be completed in 2017. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 2.1 billion. Total amount of advances received in relation to this project at 31 December 2016 amounted to RR 625,906, net of VAT. For the year ended 31 December 2016, the Group recognised revenue of RR 1,537,780 in relation to this project, and the excess of accumulated revenue recognised over advances received from customer of RR 911,873 was included in receivables due from customers for construction work.

(viii) In November 2016, the Group signed a contract for delivery and installation of oil and gas equipment for one of the largest gas fields in Russia. In accordance with the contract, the Group will manufacture and deliver a range of technologically integrated solutions, including helium concentrate membrane recovery unit, interstage compressor stations based on turbo-compressor units and gas booster stations. The contract is expected to be completed in the first quarter of 2018. Total budgeted revenue for this contract at 31 December 2016 amounted to RR 10.9 billion. For the year ended 31 December 2016, the Group recognised revenue of RR 577,470 in relation to this project and related receivables in amount of RR 577,470 were included in receivables due from customers for construction work.

(b) Provisions for claims received and legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, resolution of current legal proceedings or other claims outstanding would not have a material adverse effect on the result of operations or financial position of the Group. There are no probable or possible legal risks which have not been recorded or disclosed in these consolidated financial statements. Refer to Note 34.

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

(c) Assessment of useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

If the management's estimates on useful lives differ by 10%, the impact on depreciation for the year ended 31 December 2016 would be either increase or decrease by RR 117,502 (2015: RR 109,943).

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

At 31 December 2016, the Group performed the 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, except for Nizhnevartovskremservis CJSC, 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. As a result of these analysis and testing, no impairment was identified for the CGUs of the Group, with the exception of following subsidiaries of the Group:

- HMS Neftemash JSC, an oil and gas equipment manufacturer belonging to the reportable segment "Oil and gas equipment" of the Group;
- Nizhnevartovskremservis CJSC, a pump manufacturer and provider of repair services belonging to the reportable segment "Industrial pumps" of the Group;

Based on the results of these calculations, the Group impaired goodwill, related to the acquisition of Giprotyumenneftegaz PJSC and allocated to HMS Neftemash JSC, for RR 370,360 (Note 9) due to the lack of synergy effects which at the time of acquisition of Giprotyumenneftegaz PJSC were the allocation basis for part of the recognised goodwill to HMS Neftemash JSC.

The Group performed an impairment test of the assets of Nizhnevartovskremservis CJSC, determining the fair value less cost to sell, calculated by reference to the market of relevant assets, as the recoverable amount of these CGUs. The fair value of the assets was determined using Level 3 inputs assuming that the best use of the assets is to sell them.

Based on the results of these calculations, the Group recognised impairment charge in relation to the property, plant and equipment of Nizhnevartovskremservis CJSC in amount of RR 18,685 (Note 7). At 31 December 2016, the recoverable amount of this CGU was approximately RR 432 million. There are no reasonably possible changes in key assumptions that would give rise to any further impairment.

(e) Tax legislation

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

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations

The following amendments to the standards were adopted by the Group from 1 January 2016, but had no significant impact on these consolidated financial statements:

- *Amendments to IAS 1, Presentation of Financial Statements*;
- *Amendments to IFRS 11, Joint Arrangements*, *on accounting for acquisitions of interests in joint operations;*
- *Amendments to IAS 16, Property, Plant and Equipment* and *IAS 38, Intangible Assets*;
- *Amendments to IAS 16, Property, Plant and Equipment* and *IAS 41, Agriculture*;
- *Amendments to IAS 27, Separate Financial Statements*;
- *Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities;*
- *Annual Improvements to IFRSs 2012-2014 Cycle*.

The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Group has not early adopted (items marked with * have not been endorsed by the EU; the Group will only be able to apply new standards and interpretations when they are endorsed by the EU):

Standards, amendments and interpretations	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2014–2016 Cycle. The improvements consist of changes to the following standards: IFRS 1, IFRS 12, IAS 28.	1 January 2017- 1 January 2018*
Amendments to IAS 7, Cash Flow. The amendments require companies to provide additional information about changes in their financing liabilities.	1 January 2017*
Amendments to IAS 12, Income Taxes. These amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.	1 January 2017*
Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards.	1 January 2018*
Amendments to IAS 40, Transfers of Investment Property. Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use.	1 January 2018*
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions. These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.	1 January 2018*
IFRIC 22, Foreign Currency Transactions and Advance Consideration. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.	1 January 2018*
IFRS 9, Financial Instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2018
IFRS 16, Leases	1 January 2019*

The impact of adoption of the pronouncements listed above on the consolidated financial statements of future periods is currently assessed by management of the Group.

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

At 31 December 2016 and 2015, 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 2016 and 31 December 2015 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, % 2016	2015
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 PJSC	Manufacture of pumps	Ukraine	83.33	83.33
HYDROMASHSERVICE JSC	Trading company	Russia	100.00	100.00
Plant Promburvod OJSC	Manufacture of pumps	Belorussia	51.38	51.38
Bobruisk Machine Building Plant OJSC	Manufacture of pumps	Belorussia	56.95	56.95
Dimitrovgradkhimmash JSC	Manufacture of pumps and oil & gas equipment	Russia	51.00	51.00
Apollo Goessnitz GmbH*	Manufacture of pumps	Germany	100.00	75.00
Nizhnevartovskremservis CJSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Institute Rostovskiy Vodokanalproekt OJSC	Engineering services	Russia	85.70	85.70
Segment "Oil and gas equipment"				
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
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompessormash OJSC	Manufacture of compressors	Russia	89.86	89.86
NIITurbokompressor named after V.B.Shnepp JSC	Development of project documentation	Russia	98.39	98.39
Segment "Engineering, procurement and construction"				
Tomskgazstroy PJSC**	Construction services	Russia	93.49	80.78
Giprotyumenneftegaz PJSC	Engineering services	Russia	45.34	45.34
Noyabrskneftegazproekt LLC***	Engineering services	Russia	-	45.34

* In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH. Share purchase transaction was legally completed in February 2016, as a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100% (Note 23).

**During 2016, a Group subsidiary entered into the share purchase agreement with Tomskgazstroy PJSC to acquire additional ordinary shares. As a result, the Group's effective share in Tomskgazstroy PJSC increased from 80.78% to 93.49% (Note 23).

***The subsidiary was liquidated in January 2016. Its assets and liabilities were transferred to Giprotyumenneftegaz PJSC in 2015.

(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 2016						
Segment "Industrial pumps"						
Nasosenergomash PJSC	Ukraine	16.67	16.67	53,501	271,911	3
Plant Promburvod OJSC	Belorussia	48.62	48.62	16,121	119,552	760
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(104,113)	(144,934)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	101,597	1,099,422	36,377
Institute Rostovskiy Vodokanalproekt OJSC	Russia	14.30	14.30	(5,111)	6,642	-
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	5,574	360,177	493
NIITurbokompressor named after V.B.Shnepp JSC	Russia	1.61	1.40	(1,684)	14,851	9
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	Russia	6.51	6.97	(11,051)	(12,813)	-
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(52,124)	1,217,114	3,156
Other subsidiaries with insignificant non-controlling interests	-	-	-	(1,069)	40,083	-

	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 2015						
Segment "Industrial pumps"						
Nasosenergomash PJSC	Ukraine	16.67	16.67	76,804	326,946	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	14,466	130,113	336
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(183,594)	(59,040)	22
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	113,605	1,027,982	47,029
Apollo Goessnitz GmbH (Note 23)	Germany	25.00	25.00	13,633	301,394	-
Institute Rostovskiy Vodokanalproekt OJSC	Russia	14.30	14.30	(1,141)	11,752	-
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	(15,012)	354,374	11
NIITurbokompressor named after V.B.Shnepp JSC	Russia	1.61	1.40	(1,169)	16,461	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	Russia	19.22	23.89	(10,135)	(80,752)	-
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(83,837)	1,259,831	9,136
Noyabrskneftegazproekt LLC (liquidated in January 2016)	Russia	54.66	0.00	(45,449)	-	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	1,385	36,582	-

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

At 31 December 2016 and 2015, the summarised financial information about financial position of these subsidiaries, represented before inter-company eliminations and consolidation adjustments, including goodwill on acquisitions, was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Balance at 31 December 2016				
Segment "Industrial pumps"				
Nasosenergomash PJSC	1,655,042	1,127,558	(661,619)	(489,564)
Plant Promburvod OJSC	157,955	139,325	(38,776)	(12,596)
Bobruisk Machine Building Plant OJSC	248,476	395,784	(702,225)	(278,712)
Dimitrovgradkhimmash JSC	1,459,410	1,234,140	(234,080)	(215,751)
Institute Rostovskiy Vodokanalproekt OJSC	19,077	86,857	(53,772)	(5,723)
Segment "Compressors"				
Kazankompessormash OJSC	4,426,229	4,494,547	(4,560,855)	(807,464)
NIITurbokompressor named after V.B.Shnepp JSC	114,337	932,122	(74,291)	(52,355)
Segment "Engineering, procurement and construction"				
Tomskgazstroy PJSC	300,688	538,315	(1,025,375)	(10,525)
Giprotyumenneftegaz PJSC	1,812,551	1,295,162	(668,707)	(212,488)
Balance at 31 December 2015				
Segment "Industrial pumps"				
Nasosenergomash PJSC	1,998,741	1,489,756	(946,309)	(580,570)
Plant Promburvod OJSC	153,801	161,875	(32,108)	(15,936)
Bobruisk Machine Building Plant OJSC	198,381	503,263	(498,393)	(340,400)
Dimitrovgradkhimmash JSC	1,314,297	1,277,206	(287,054)	(206,527)
Apollo Goessnitz GmbH (Note 23)	1,247,177	871,328	(737,037)	(175,891)
Institute Rostovskiy Vodokanalproekt OJSC	24,862	94,133	(23,301)	(13,523)
Segment "Compressors"				
Kazankompessormash OJSC	3,411,255	4,672,263	(3,537,435)	(1,050,857)
NIITurbokompressor named after V.B.Shnepp JSC	191,833	1,026,928	(122,477)	(76,718)
Segment "Engineering, procurement and construction"				
Tomskgazstroy PJSC	288,433	597,051	(1,296,385)	(9,175)
Giprotyumenneftegaz PJSC	2,126,039	1,033,697	(606,340)	(248,738)
Noyabrskneftegazproekt LLC (liquidated in January 2016)	-	-	-	-

The summarised financial information about transactions and cash flows for the years ended 31 December 2016 and 2015 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 2016						
Segment "Industrial pumps"						
Nasosenergomash PJSC	3,101,043	320,997	(330,201)	461,623	(164,547)	(342,590)
Plant Promburvod OJSC	387,782	33,160	(20,573)	36,415	(19,063)	(1,577)
Bobruisk Machine Building Plant OJSC	677,691	(241,851)	(199,526)	(68,199)	(2,014)	86,759
Dimitrovgradkhimmash JSC	2,480,180	207,341	221,727	109,604	(83,368)	(67,373)
Institute Rostovskiy Vodokanalproekt OJSC	7,230	(35,748)	(35,748)	(18,512)	1,953	17,580
Segment "Compressors"						
Kazankompessormash OJSC	8,557,070	54,975	57,231	(244,243)	(104,011)	74,993
NIITurbokompressor named after V.B.Shnepp JSC	388,570	(104,320)	(99,753)	12,914	(12,854)	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	684,133	(169,916)	(169,916)	(153,931)	41,452	137,834
Giprotyumenneftegaz PJSC	1,615,285	(104,853)	(80,123)	(87,423)	(113,641)	(6,424)

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

	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 2015						
Segment "Industrial pumps"						
Nasosenergomash PJSC	3,359,857	460,812	(73,318)	399,976	(129,733)	(273,335)
Plant Promburvod OJSC	378,547	29,756	30,395	15,330	(5,659)	2,703
Bobruisk Machine Building Plant OJSC	504,745	(426,482)	(375,283)	(147,744)	(20,366)	148,161
Dimitrovgradkhimmash JSC	2,303,330	231,846	195,378	121,167	(133,548)	(83,289)
Apollo Goessnitz GmbH (Note 23)	1,763,576	54,530	240,505	611,541	(54,983)	(199,610)
Institute Rostovskiy Vodokanalproekt OJSC	39,102	(7,975)	(7,975)	(10,709)	(331)	11,050
Segment "Compressors"						
Kazankompessormash OJSC	4,127,275	(148,063)	(150,623)	462,024	(103,129)	(144,412)
NIITurbokompressor named after V.B.Shnepp JSC	417,701	(72,428)	(73,085)	(7,036)	5,902	-
Segment "Engineering, procurement and construction"						
Tomskgazstroy PJSC	1,023,629	(52,717)	(52,717)	(81,201)	(30,537)	73,500
Giprotyumenneftegaz PJSC	1,593,238	(153,366)	(173,878)	309,159	(120,967)	(17,554)
Noyabrskneftegazproekt LLC (liquidated in January 2016)	-	(83,144)	(83,144)	(22,069)	-	7,332

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

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2015	**1,452,586**	**8,869,493**	**6,542,384**	**289,765**	**808,413**	**831,104**	**18,793,745**
Additions	22,022	97,642	369,975	34,133	124,920	811,195	1,459,887
Transfers	-	215,787	348,828	-	6,012	(570,627)	-
Disposals	-	(26,796)	(58,876)	(14,572)	(35,543)	(12,091)	(147,878)
Translation to presentation currency	1,181	(40,998)	(127,330)	(2,561)	(1,842)	(14,639)	(186,189)
Balance at 31 December 2015	**1,475,789**	**9,115,128**	**7,074,981**	**306,765**	**901,960**	**1,044,942**	**19,919,565**
Additions	46	116,007	545,070	11,547	136,090	729,877	1,538,637
Transfers	-	277,939	364,664	-	8,567	(651,170)	-
Disposals	-	(9,665)	(70,785)	(23,798)	(19,750)	(42,477)	(166,475)
Translation to presentation currency	(13,202)	(240,140)	(474,102)	(8,937)	(87,381)	(24,411)	(848,173)
Balance at 31 December 2016	**1,462,633**	**9,259,269**	**7,439,828**	**285,577**	**939,486**	**1,056,761**	**20,443,554**
Accumulated depreciation and impairment							
Balance at 1 January 2015	**(7,993)**	**(1,318,721)**	**(2,431,692)**	**(187,140)**	**(477,025)**	**-**	**(4,422,571)**
Eliminated on disposals	-	21,565	41,461	11,389	26,278	-	100,693
Depreciation expense	-	(331,887)	(613,175)	(32,664)	(121,706)	-	(1,099,432)
Impairment charge	-	(261,011)	(85,764)	-	(7,605)	(9,751)	(364,131)
Impairment reversal	-	-	6,051	-	109	-	6,160
Translation to presentation currency	-	2,315	19,643	960	(1,498)	-	21,420
Balance at 31 December 2015	**(7,993)**	**(1,887,739)**	**(3,063,476)**	**(207,455)**	**(581,447)**	**(9,751)**	**(5,757,861)**
Eliminated on disposals	-	3,511	59,070	22,186	18,287	-	103,054
Depreciation expense	-	(333,158)	(677,925)	(31,181)	(132,759)	-	(1,175,023)
Impairment charge (Note 4)	-	-	(18,685)	-	-	-	(18,685)
Impairment reversal	-	441	1,236	-	28	-	1,705
Translation to presentation currency	-	56,126	201,402	5,356	48,663	-	311,547
Balance at 31 December 2016	**(7,993)**	**(2,160,819)**	**(3,498,378)**	**(211,094)**	**(647,228)**	**(9,751)**	**(6,535,263)**
Carrying amount							
Carrying amount at 1 January 2015	**1,444,593**	**7,550,772**	**4,110,692**	**102,625**	**331,388**	**831,104**	**14,371,174**
Carrying amount at 31 December 2015	**1,467,796**	**7,227,389**	**4,011,505**	**99,310**	**320,513**	**1,035,191**	**14,161,704**
Carrying amount at 31 December 2016	**1,454,640**	**7,098,450**	**3,941,450**	**74,483**	**292,258**	**1,047,010**	**13,908,291**

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment (continued)

At 31 December 2016, RR 244,281 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2015: RR 202,657), including RR 191,157 related to undrawn credit facilities (31 December 2015: RR 9,737) (Note 16).

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

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the year ended 31 December 2016 was RR 66,286 (2015: RR 41,201). The capitalisation rate calculated using Group weighted average interest rate was 12.7%, except for borrowing costs related to the specific loan at interest rate of 5% (2015: the capitalisation rate using Group weighted average interest rate was 11.4%).

Construction-in-progress includes advances for capital expenditures for a total of RR 464,544 at 31 December 2016 (31 December 2015: RR 77,643).

At 31 December 2016, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 324,899 (31 December 2015: RR 172,792).

At 31 December 2016 and for the year then ended, the Group recognised an impairment of property, plant and equipment of Nizhnevartovskremservis CJSC in amount of RR 18,685 (Note 4).

At 31 December 2015 and for the year then ended, the Group recognised an impairment of property, plant and equipment of Giprotyumenneftegaz PJSC and Bobruisk Machine Building Plant OJSC in amount of RR 257,757 and RR 106,374, respectively.

8 Other Intangible Assets

	Project documen-tation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
Balance at 1 January 2015	**648,045**	**1,352,199**	**153,799**	**196,878**	**36,258**	**2,387,179**
Additions	18,183	-	68,416	-	11,309	97,908
Disposals	(160)	(340,148)	(32,625)	-	(8,258)	(381,191)
Translation to presentation currency	21,391	63,345	(3,059)	(1,185)	(36)	80,456
Balance at 31 December 2015	**687,459**	**1,075,396**	**186,531**	**195,693**	**39,273**	**2,184,352**
Additions	101,386	-	76,426	-	16,741	194,553
Disposals	(160)	(432,760)	(46,309)	(43,643)	(30,569)	(553,441)
Translation to presentation currency	(55,566)	(75,739)	(12,760)	(1,864)	(78)	(146,007)
Balance at 31 December 2016	**733,119**	**566,897**	**203,888**	**150,186**	**25,367**	**1,679,457**
Accumulated amortisation and impairment						
Balance at 1 January 2015	**(212,553)**	**(767,901)**	**(71,710)**	**(94,050)**	**(11,956)**	**(1,158,170)**
Amortisation on disposals	160	340,148	32,453	-	5,664	378,425
Amortisation expense	(118,005)	(175,280)	(57,918)	(21,098)	(7,369)	(379,670)
Translation to presentation currency	(14,617)	(27,742)	1,258	420	24	(40,657)
Balance at 31 December 2015	**(345,015)**	**(630,775)**	**(95,917)**	**(114,728)**	**(13,637)**	**(1,200,072)**
Amortisation on disposals	83	432,760	46,264	41,064	10,056	530,227
Amortisation expense	(140,335)	(136,188)	(63,101)	(20,980)	(7,841)	(368,445)
Translation to presentation currency	32,193	30,585	7,496	1,019	67	71,360
Balance at 31 December 2016	**(453,074)**	**(303,618)**	**(105,258)**	**(93,625)**	**(11,355)**	**(966,930)**
Carrying amount						
Carrying amount at 1 January 2015	**435,492**	**584,298**	**82,089**	**102,828**	**24,302**	**1,229,009**
Carrying amount at 31 December 2015	**342,444**	**444,621**	**90,614**	**80,965**	**25,636**	**984,280**
Carrying amount at 31 December 2016	**280,045**	**263,279**	**98,630**	**56,561**	**14,012**	**712,527**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill

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

	2016	2015
Carrying amount at 1 January	**3,466,063**	**3,300,399**
Impairment loss (Note 4)	(370,360)	-
Effect of translation to presentation currency	(231,778)	165,664
Carrying amount at 31 December	**2,863,925**	**3,466,063**

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 2016	31 December 2015
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	930,997	1,162,775
Sibneftemash JSC	511,784	511,784
EPF "SIBNA" Inc. JSC	117,308	117,308
Dimitrovgradkhimmash JSC	64,027	64,027
Neftemash JSC (goodwill, recognised on acquisition of Giprotyumenneftegaz PJSC) (Note 4)	-	370,360
Total carrying amount of goodwill	**2,863,925**	**3,466,063**

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 2016	31 December 2015
For Apollo Goessnitz GmbH CGU:		
Forecast period	8 years	8 years
Growth rate beyond 8 years	2.0%	2.0%
Pre-tax discount rate	14.1%	14.1%
For other CGUs:		
Forecast period	5-10 years	5-10 years
Growth rate beyond forecast period	4.0%	4.5%
Pre-tax discount rate	17.4-17.6%	17.4-17.6%

Based on the results of these calculations, the Group impaired goodwill, related to the acquisition of Giprotyumenneftegaz PJSC and allocated to HMS Neftemash JSC, for RR 370,360 due to the lack of synergy effects which at the time of acquisition of Giprotyumenneftegaz PJSC were the basis for allocation of part of the recognised goodwill to HMS Neftemash JSC.

10 Investments in Associates

The Group's investments in associates are as follows:

	2016	2015
Carrying amount at 1 January	**106,040**	**117,839**
Share of after tax results of associates	(257)	(467)
Effect of other changes, including translation to presentation currency	(17,059)	(11,332)
Carrying amount at 31 December	**88,724**	**106,040**

At 31 December 2016 and 2015, 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.

(in thousands of Russian Roubles, unless otherwise stated)

10 Investments in Associate (continued)

The table below summarises financial information of VNIIAEN OJSC:

	At 31 December 2016 and for the year then ended	At 31 December 2015 and for the year then ended
Total non-current assets	101,079	133,072
Total current assets	10,081	17,761
Total non-current liabilities	(6,224)	(9,640)
Total current liabilities	(9,263)	(9,241)
Revenue	67,241	66,431
Loss after tax	(530)	(975)
Other comprehensive loss	(36,310)	(24,741)

11 Cash and Cash Equivalents

	31 December 2016	31 December 2015
Cash on hand	2,007	1,786
RR denominated balances with banks	788,943	1,082,075
Foreign currency denominated balances with banks	317,071	943,004
RR denominated bank deposits	1,716,379	1,178,428
Foreign currency denominated bank deposits	116,392	278,319
Other cash equivalents	48,899	12,808
Total cash and cash equivalents	**2,989,691**	**3,496,420**

At 31 December 2016, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 116,392. At 31 December 2015, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 137,084 and EUR-denominated deposits of RR 141,235.

12 Inventories

	31 December 2016	31 December 2015
Raw materials and supplies	3,321,090	3,164,485
Work in progress	2,676,819	2,353,042
Finished goods and goods for resale	1,230,384	1,342,863
Total inventories	**7,228,293**	**6,860,390**

Inventories are presented net of provision for obsolescence in amount of RR 375,201 at 31 December 2016 (31 December 2015: RR 377,410).

At 31 December 2016, inventories of RR 54,263 were pledged as collateral for certain borrowings (31 December 2015: RR 64,046, including RR 9,737 for undrawn credit facilities) (Note 16). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 27.

13 Trade and Other Receivables and Other Financial Assets

	31 December 2016	31 December 2015
Trade receivables	8,168,609	7,305,883
Less: provision for impairment of trade receivables	(350,854)	(349,428)
Short-term loans issued	116,770	12,340
Bank deposits	28,175	62,752
Other receivables	240,958	146,688
Less: provision for impairment of other receivables	(65,426)	(80,910)
Receivables due from customers for construction work (Note 18)	3,566,522	2,174,638
Financial assets, net	**11,704,754**	**9,271,963**
Prepayments and advances to suppliers and subcontractors	2,062,835	1,916,339
Less: provision for impairment of advances to suppliers and subcontractors	(22,696)	(36,133)
VAT receivable	247,179	526,057
Less: provision for VAT receivable	-	(6,403)
Other taxes receivable	29,824	29,669
Non-financial assets, net	**2,317,142**	**2,429,529**
Total trade and other receivables and other financial assets	**14,021,896**	**11,701,492**

(in thousands of Russian Roubles, unless otherwise stated)

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

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 2016, the closing balance of bank deposits comprised USD-denominated deposit of RR 18,414 (31 December 2015: RR 21,696), RUB-denominated deposits of RR 5,294 (31 December 2015: RR 3,200), EUR-denominated deposit of RR 4,467 (31 December 2015: RR 37,856).

At 31 December 2016, trade receivables arising from certain sales contracts in the amount of RR 265,263 (31 December 2015: RR 322,490) were pledged as collateral for certain borrowings (Note 16).

At 31 December 2016, trade receivables of RR 350,854 (31 December 2015: RR 349,428) and other financial receivables of RR 65,426 (31 December 2015: RR 80,910) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

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

	Provision for impairment of trade receivables	Provision for impairment of other financial receivables	Provision for impairment of non-financial assets
At 1 January 2015	**303,988**	**93,528**	**49,037**
Provision for receivables impairment	109,279	35,678	17,409
Unused amounts reversed	(20,069)	(11,701)	(18,359)
Receivables written off during the year as uncollectible	(43,730)	(36,810)	(3,525)
Effect of translation to presentation currency	(40)	215	(2,026)
At 31 December 2015	**349,428**	**80,910**	**42,536**
Provision for receivables impairment	170,497	12,033	3,242
Unused amounts reversed	(138,359)	(6,059)	(8,671)
Receivables written off during the year as uncollectible	(30,648)	(19,626)	(10,109)
Effect of translation to presentation currency	(64)	(790)	(4,302)
Foreign currency translation differences	-	(1,042)	-
At 31 December 2016	**350,854**	**65,426**	**22,696**

The creation and release of provision for receivables impairment have been included in the Change in provision for impairment of trade and other receivables and other financial assets (Note 29). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Information related to aging of receivables past due but not impaired is disclosed in Note 36.

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

	31 December 2016	31 December 2015
RR	11,008,264	8,142,816
EUR	319,812	349,507
USD	265,004	743,919
UAH	87,505	7,407
BYR	24,169	28,314
Financial assets, net	**11,704,754**	**9,271,963**

14 Other Long-term Assets

	31 December 2016	31 December 2015
Long-term loans issued	27,846	31,763
Long-term bank deposits	-	4,230
Financial assets	**27,846**	**35,993**
Other non-current assets	1,194	7,451
Non-financial assets	**1,194**	**7,451**
Total other long-term assets	**29,040**	**43,444**

(in thousands of Russian Roubles, unless otherwise stated)

15 Investment Property

In February 2014, the Group received certain buildings and land plots with an estimated fair value of RR 286,370 as repayment for certain loans from Trest Sibkomplektmontazhnaladka OJSC, a former subsidiary of the Group, sold in December 2013. As the Group plans to hold these assets to earn rentals or for capital appreciation, these assets are accounted for as investment property.

At 31 December 2015 and 2016, the Group performed impairment test of the investment property, determining a fair value of investment property less costs to sell, calculated by reference to the market of relevant assets. Based on the results of performed impairment tests, the Group did not recognise any impairment of investment property at 31 December 2016 (31 December 2015: impairment loss of RR 19,341). The fair value of investment property was determined using observed prices for sales of similar assets in principal market (Level 3 of the fair value hierarchy). At 31 December 2016, the fair value of investment property approximates its carrying amount of RR 233,994. At 31 December 2015 the carrying amount of the investment property after recognition of the impairment loss was RR 244,247.

16 Borrowings

	Interest rate	Denominated in	31 December 2016	31 December 2015
Long-term unsecured loans and bonds:				
Unsecured bank loans	9.95% - 14.30%	RR	14,950,123	11,986,069
Unsecured non-bank loans	5.00%	RR	500,000	500,000
Unsecured bank loans	EURIBOR+2.50%	EUR	13,362	2,093,316
Bonds 1	10.10%	RR	-	591,998
			15,463,485	**15,171,383**
Less: current portion of long-term borrowings			(2,692,999)	(3,953,845)
Total long-term borrowings			**12,770,486**	**11,217,538**
Short-term unsecured loans:				
Unsecured bank loans	11.85% - 13.30%	RR	539,418	160,000
			539,418	**160,000**
Short-term secured bank loans:				
Secured loans	EURIBOR+2.86% - EURIBOR+2.91%	EUR	262,433	318,796
Secured loans	10.00% - 10.70%	USD	50,225	61,474
Secured loans	23.00%	BYR	3,095	3,895
Secured loans	14.85%	RR	-	130,021
			315,753	**514,186**
Current portion of long-term borrowings			2,692,999	3,953,845
Interest payable			17,705	38,595
Total short-term borrowings			**3,565,875**	**4,666,626**

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

	31 December 2016	31 December 2015
RR	16,006,771	13,405,777
EUR	275,795	2,412,964
USD	50,669	61,474
BYR	3,126	3,949
Total borrowings	**16,336,361**	**15,884,164**

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings (continued)

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

Assets pledged. At 31 December 2016, the Group pledged property, plant and equipment and inventories in total amount of RR 53,123 and RR 54,263 (31 December 2015: RR 202,657, RR 54,309), respectively.

At 31 December 2016 and 2015, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2016, the Group recognised trade receivables under these sales contracts in amount of RR 265,263 (31 December 2015: RR 322,490).

Breach of loan covenants. At 31 December 2016, the unsecured non-bank loan in amount of RR 500,000 with initial maturity in 2018-2020 was presented within current portion of long-term borrowings due to the breach of certain financial covenants related to operational performance of the large investment project, financed by this loan (Notes 34, 36).

The creditor had not requested early repayment of the loan as of the date when these consolidated financial statements were authorised for issuance. Management is in the process of renegotiating the terms of the loan agreement with the creditor and expects that a revised loan agreement will be in place in the second quarter of 2017.

17 Retirement Benefit Obligations

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

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

The following assumptions were used for the actuarial assessment at 31 December 2016 and 2015:

	Russia and Belorussia		**Ukraine**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Discount rate	8.5%	9.7%	9.7%	9.6%
Inflation	5.0%	7.0%	7.6%	7.6%
Expected annual increase in salaries	6.0%	8.0%	11.6%	10.6%
Mortality tables	Russian Federation, 2010	Russian Federation, 2010	Russian Federation, 2010	USSR, 1985-1986

The following amounts were recognised in profit or loss:

	2016	**2015**
Service cost	34,684	40,941
Current service cost	*34,684*	*21,083*
Past service cost and gain from curtailment of plans	-	*19,858*
Interest expense	58,037	55,331
Net actuarial gain on other long-term employment benefit obligations	(2,242)	(1,765)
Net periodic benefit expense	**90,479**	**94,507**

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

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

	Post-employment payments	Other long-term payments	Total
Present value of defined benefit obligations at 1 January 2015	**405,242**	**39,791**	**445,033**
Current service cost	18,946	2,137	21,083
Interest expense	51,984	3,347	55,331
Past service cost and gain from curtailment of plans	19,858	-	19,858
Benefits paid	(34,899)	(3,027)	(37,926)
Effect of translation to presentation currency	(24,001)	-	(24,001)
Remeasurements, including:	158,400	(1,765)	156,635
actuarial loss from changes in demographic assumptions	*41,590*	*(4,449)*	*37,141*
actuarial gain from changes in financial assumptions	*127,953*	*5,218*	*133,171*
experience loss/(gain)	*(11,143)*	*(2,534)*	*(13,677)*
Present value of defined benefit obligations at 31 December 2015	**595,530**	**40,483**	**636,013**
Current service cost	32,563	2,121	34,684
Interest expense	55,472	2,565	58,037
Benefits paid	(33,654)	(2,166)	(35,820)
Effect of translation to presentation currency	(90,263)	-	(90,263)
Remeasurements, including:	(8,391)	(2,242)	(10,633)
actuarial loss from changes in demographic assumptions	*4,151*	*2,193*	*6,344*
actuarial gain from changes in financial assumptions	*(31,413)*	*(1,224)*	*(32,637)*
experience loss/(gain)	*18,871*	*(3,211)*	*15,660*
Present value of defined benefit obligations at 31 December 2016	**551,257**	**40,761**	**592,018**

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 2016	31 December 2015
Short-term	72,621	69,538
Long-term	519,397	566,475
Present value of defined benefit obligations at the end of the year	**592,018**	**636,013**

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

		31 December 2016	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(51,886)	55,544
Inflation	1.0%	25,604	(21,947)
Expected annual increase in salaries	1.0%	19,495	(19,495)

		31 December 2015	
		Impact on defined benefit obligation: Increase/(decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	(57,241)	59,741
Inflation	1.0%	27,019	(27,019)
Expected annual increase in salaries	1.0%	21,362	(21,362)

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 2016 (31 December 2015: 7 years).

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

The expected contributions under voluntary defined benefit pension programs in 2017 are expected to be approximately RR 59,980.

For the year ended 31 December 2016, mandatory social contributions to state defined contribution plans amounted to RR 1,843,680 (2015: RR 1,858,444).

18 Construction Contracts

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

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

	2016	2015
Construction contracts revenue	12,709,673	12,749,301
Contract cost expensed	(10,040,096)	(8,879,302)
Gross margin	**2,669,577**	**3,869,999**

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

Contracts with net amount owing to the Group	31 December 2016	31 December 2015
Aggregate amount of contract costs incurred	12,325,211	7,262,995
Aggregate amount of recognised profits	2,468,735	2,192,571
Aggregate amount of recognised losses	(63,122)	(42,488)
Less: Progress billings	(11,164,302)	(7,238,440)
Gross amount due from customers for contract work	**3,566,522**	**2,174,638**

Contracts with net amount owed by the Group	31 December 2016	31 December 2015
Aggregate amount of contract costs incurred	5,637,024	7,619,601
Aggregate amount of recognised profits	2,280,296	4,139,611
Aggregate amount of recognised losses	(53,423)	(6,196)
Less: Progress billings	(8,296,145)	(12,790,200)
Gross amount due to customers for contract work	**(432,248)**	**(1,037,184)**

	31 December 2016	31 December 2015
Advances from customers, related to construction contracts	31,556	-
Retentions	105,358	80,758

19 Trade and Other Payables

	31 December 2016	31 December 2015
Trade payables	5,777,979	3,268,065
Other payables	508,735	193,346
Financial trade and other payables	**6,286,714**	**3,461,411**
Advances from customers	2,627,225	2,765,720
Payables due to customers for construction work (Note 18)	432,248	1,037,184
Wages and salaries payable	1,070,968	1,191,425
Other non-financial payables	**4,130,441**	**4,994,329**
Total trade and other payables	**10,417,155**	**8,455,740**

20 Other Taxes Payable

	31 December 2016	31 December 2015
VAT	391,808	468,723
Social funds contribution	206,163	212,785
Personal income tax	70,111	62,149
Property tax	22,420	17,527
Land tax	10,240	11,438
Transport tax	1,759	2,767
Other taxes	2,276	1,870
Total other taxes payable	**704,777**	**777,259**

(in thousands of Russian Roubles, unless otherwise stated)

21 Other Long-term Payables

At 31 December 2016, other long-term payables include payables related to government grants in the amount of RR 158,061 (31 December 2015: RR 133,552). At 31 December 2016, other long-term payables also include payables related to a finance lease liability in the amount of RR 4,923 (31 December 2015: nil).

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. During 2015, the Group obtained government grant in amount of RR 55,000. At 31 December 2016, under this project, the long-term liability in amount of RR 120,164 (31 December 2015: RR 133,552) and other short-term payables in amount of RR 13,352 (31 December 2015: RR 14,839) were recognised as deferred income. The grant is subject to certain conditions set for the period till 2020 inclusive, including amounts of own investments, volume of production produced by the results of development, number of jobs created and safeguarded, number of students involved in the execution of the project. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with the required conditions. At 31 December 2016, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

During the year ended 31 December 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000. Such subsidies are for the development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents. Under the grant, during 2016-2018, Sibneftemash JSC is entitled to receive funds in amount of RR 170,000 from the Federal budget for realisation of this project; additionally, not less than RR 170,000 should be invested by the Group. During 2016, the Group obtained a government grant in amount of RR 50,000 and also invested its own funds in amount of RR 50,000 to the project. At 31 December 2016, under this project, the long-term liability in amount of RR 33,000 was recognised as deferred income. At 31 December 2016, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

22 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2015	**216,123**	**52,070**	**137,107**
Additional provisions	266,353	257,230	-
Unused amounts reversed	(61,587)	(7,207)	-
Provision used during the period	(107,160)	(33,034)	(137,107)
Effect of translation to presentation currency	1,136	351	-
At 31 December 2015	**314,865**	**269,410**	**-**
Additional provisions	246,266	157,082	13,096
Unused amounts reversed	(43,140)	(101,674)	-
Provision used during the period	(135,829)	(29,737)	-
Effect of translation to presentation currency	(1,628)	(6,277)	-
At 31 December 2016	**380,534**	**288,804**	**13,096**

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 2016, the closing balance of the warranty provision comprised a short-term portion of RR 229,175 and a long-term portion of RR 151,359 (31 December 2015: RR 182,000 and RR 132,865, respectively).

Provision for legal claims. The balance at 31 December 2016 is expected to be utilised by the end of 2017. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Provision for tax risks. Provision for tax risks was accrued in accordance with decisions of the tax authorities which were received by subsidiaries of the Group as a result of field tax inspections for prior periods. During 2015, the provision for tax risks was fully utilised as the Group's subsidiaries made respective tax payments and redeemed the liabilities in full.

(in thousands of Russian Roubles, unless otherwise stated)

23 Share Capital, Other Equity Items and Earnings per Share

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

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand	Treasury shares, RR thousand
At 1 January 2015	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(201,205)**
Movements during 2015	-	-	-	-	(12,284)
At 31 December 2015	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(213,489)**
Movements during 2016	-	-	-	-	(110,067)
At 31 December 2016	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(323,556)**

At 31 December 2016 and 2015, 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.

Non-controlling interest. In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH at the price of EUR 4.1 million (Note 37). The share purchase transaction was legally completed in February 2016 in amount of RR 346,900, including transaction costs of RR 2,181. As a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100% and the Group's non-controlling interest decreased by RR 309,246.

Effect of the Group restructuring on non-controlling interest. During 2016, a Group subsidiary entered into the share purchase agreement with Tomskgazstroy PJSC to acquire additional ordinary shares. As a result, the Group's effective share in Tomskgazstroy PJSC increased from 80.78% to 93.49% and non-controlling interest increased by RR 78,990 (Note 6). The effect of this transaction was presented in the consolidated statement of changes in equity as the effect of the Group restructuring on non-controlling interest.

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

During 2016, 431,455 GDRs of the Company representing 1.84% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 110,067.

During 2015, 70,526 GDRs of the Company representing 0.30% of its issued share capital (after applying the new ratio retrospectively) were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 12,284.

At 31 December 2016, the Company, via a wholly-owned subsidiary, is holding 865,869 (31 December 2015: 434,414 after applying the new ratio retrospectively) of its own GDRs with the total cost of RR 323,556 (31 December 2015: RR 213,489). 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 2016 of 5.12 Russian Roubles per ordinary share, amounting to a total dividend of RR 599,877, 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 2017.

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

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

In December 2015, an interim dividend in respect of the profit for the nine months ended 30 September 2015 of 3.25 Russian Roubles per ordinary share amounting to a total dividend of RR 374,380 was approved by the Board of Directors of the Company. This dividend was paid in December 2015.

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.

(in thousands of Russian Roubles, unless otherwise stated)

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

For the years ended 31 December 2016 and 2015, earnings per share are calculated as follows:

	2016	2015
Profit for the year attributable to ordinary shareholders	1,196,789	1,884,619
Weighted average number of ordinary shares outstanding (thousands)	113,667	115,370
Basic and diluted earnings per ordinary share (expressed in RR per share)	**10.53**	**16.34**

24 Share-based Payments

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

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

- the Group meets EBITDA and profit for the year attributable to the shareholders of the Company targets established at the beginning of each year;
- the plan participants hold their employment within the Group for 3 years starting from the beginning of the respective award year.

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

The 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 at 1 January 2016.

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

The detailed information on awards outstanding at 31 December 2016 is as follows:

Award year	Vesting date	Expected number of Program participants at the vesting date	Number of shares granted	Exercise price, RR	Fair value at grant date
2016	31 December 2018	17	2,073,590	-	107,751

For the year ended 31 December 2016, the Group recognised share-based compensation expense of RR 41,284 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 35,917 and the respective personal income tax effect of RR 5,367. The Group also recognised related social security contributions expense of RR 6,316.

For the year ended 31 December 2016, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 7,077 and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings amounted to RR 28,840.

(in thousands of Russian Roubles, unless otherwise stated)

25 Income Taxes

Income tax expense for the year ended 31 December 2016 and 2015 included:

	2016	2015
Current tax	651,052	951,173
Deferred tax	43,423	(84,884)
Total income tax expense	**694,475**	**866,289**

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

	2016	2015
Profit before income tax	**1,892,905**	**2,630,464**
Income tax expense calculated at 20% (2015: 20%)	(378,581)	(526,093)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax losses for which no deferred income tax asset was recognised	(39,852)	(87,403)
Effect of the difference in tax rates in countries other than the Russian Federation	3,264	(12,509)
Effect of tax on intragroup dividends received	(63,656)	(39,143)
Dividend withholding tax provision	(10,000)	(20,000)
Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes	(21,447)	(12,177)
Impairment of goodwill	(74,072)	-
Impairment of taxes receivable	(20,390)	-
Other non-deductible expenses not subject to tax	(89,741)	(168,964)
Total income tax expense	**(694,475)**	**(866,289)**

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), 28.3% (German tax legislation) and 12.5% (Cypriot tax legislation), accordingly.

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

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

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

	1 January 2016	Credited/(charged) to profit or loss	Translation to presentation currency	31 December 2016
Deferred tax liabilities				
Property, plant and equipment	(1,372,894)	43,722	(1,966)	(1,331,138)
Intangible assets	(204,606)	51,713	16,704	(136,189)
Short-term borrowings	(59)	59	-	-
Trade and other receivables and other financial assets	-	(471,580)	(7,688)	(479,268)
Trade and other payables	27,145	(27,145)	-	-
Long-term borrowings	(5,794)	1,630	-	(4,164)
Withholding tax provision	(20,000)	(10,000)	-	(30,000)
	(1,576,208)	**(411,601)**	**7,050**	**(1,980,759)**
Deferred tax assets				
Inventories	151,320	257,862	(7,971)	401,211
Trade and other receivables and other financial assets	3,622	(3,622)	-	-
Cash and cash equivalents	14	(2)	-	12
Other long-term assets	13,495	(2,441)	-	11,054
Share of results of associates	9,857	3,459	-	13,316
Other long-term payables	56,710	(4,956)	-	51,754
Trade and other payables	-	29,556	(227)	29,329
Long-term provisions for liabilities and charges	59,648	10,825	(12,071)	58,402
Loss carried forward	9,829	47,758	-	57,587
Other taxes payable	13,663	(2,760)	-	10,903
Finance lease liability	-	908	-	908
Short-term borrowings	-	99	(99)	-
Short-term provisions for liabilities and charges	104,370	31,492	(2,674)	133,188
	422,528	**368,178**	**(23,042)**	**767,664**
Total net deferred tax liability	**(1,153,680)**	**(43,423)**	**(15,992)**	**(1,213,095)**

(in thousands of Russian Roubles, unless otherwise stated)

25 Income Taxes (continued)

	1 January 2015	Credited/(charged) to profit or loss	Translation to presentation currency	31 December 2015
Deferred tax liabilities				
Property, plant and equipment	(1,503,709)	144,089	(13,274)	(1,372,894)
Intangible assets	(255,790)	64,539	(13,355)	(204,606)
Short-term borrowings	-	(47)	(12)	(59)
Finance lease liability	(25,833)	25,701	132	-
Trade and other payables	(148,026)	175,316	(145)	27,145
Long-term borrowings	-	(5,640)	(154)	(5,794)
Withholding tax provision	-	(20,000)	-	(20,000)
	(1,933,358)	**383,958**	**(26,808)**	**(1,576,208)**
Deferred tax assets				
Inventories	142,732	10,823	(2,235)	151,320
Trade and other receivables and other financial assets	373,295	(369,592)	(81)	3,622
Cash and cash equivalents	11	3	-	14
Other long-term assets	433	13,103	(41)	13,495
Share of results of associates	7,500	2,357	-	9,857
Other long-term payables	18,366	38,021	323	56,710
Long-term provisions for liabilities and charges	38,100	23,018	(1,470)	59,648
Loss carried forward	77,103	(67,274)	-	9,829
Other taxes payable	3,706	9,957	-	13,663
Short-term borrowings	1,680	(1,680)	-	-
Short-term provisions for liabilities and charges	54,303	50,942	(875)	104,370
Long-term borrowings	8,752	(8,752)	-	-
	725,981	**(299,074)**	**(4,379)**	**422,528**
Total net deferred tax liability	**(1,207,377)**	**84,884**	**(31,187)**	**(1,153,680)**

At 31 December 2016, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 12,222,838 (31 December 2015: RR 11,688,576) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

During the reporting period, the Group utilised its deferred tax asset in relation to loss carried forward from the previous years in amount of RR 4,402 (2015: RR 67,274) and recognized deferred tax asset in the amount of RR 52,119 on the loss incurred by its certain subsidiaries in 2016 (2015: nil).

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

26 Revenue

	2016	**2015**
Sales of oil and gas equipment	15,948,838	15,621,935
Sales of pumps	12,984,242	12,856,592
Sales of compressor equipment	8,445,724	3,826,975
Revenue from construction and design and engineering services	2,462,497	2,828,587
Sales of other services and goods	1,741,087	2,162,348
Total revenue	**41,582,388**	**37,296,437**

27 Cost of Sales

	2016	**2015**
Materials and components	20,171,610	16,520,303
Labour costs	4,626,857	4,607,105
Construction and design, engineering and other services of subcontractors	2,172,921	1,135,175
Depreciation and amortisation	1,339,837	1,280,525
Social taxes	1,291,999	1,320,976
Utilities	489,693	432,465
Change in retirement benefits obligations	67,661	73,115
Change in warranty provision	67,297	97,606
Change in provision for obsolete inventories	45,922	87,289
Change in work in progress and finished goods	(463,059)	(648,346)
Other expenses	987,771	876,377
Total cost of sales	**30,798,509**	**25,782,590**

(in thousands of Russian Roubles, unless otherwise stated)

28 Distribution and Transportation Expenses

	2016	2015
Transportation expenses	577,198	436,880
Labour costs	483,523	439,507
Agency services	170,931	101,662
Social taxes	110,263	102,414
Lease expense	67,412	72,556
Insurance	41,090	28,238
Entertaining costs and business trip expenses	38,582	38,460
Material expenses	36,088	32,167
Advertising	34,184	26,742
Products certification	29,215	14,648
Depreciation and amortisation	18,504	20,198
Telecommunication services	15,957	15,013
Customs duties	10,955	9,590
Change in retirement benefits obligations	1,592	1,659
Other expenses	64,116	38,261
Total distribution and transportation expenses	**1,699,610**	**1,377,995**

29 General and Administrative Expenses

	2016	2015
Labour costs	2,534,067	2,506,276
Social taxes	523,445	525,130
Taxes and duties	212,510	204,850
Depreciation and amortisation	184,404	179,971
Bank services	153,416	164,720
Audit and consultancy services	124,210	209,773
Entertaining costs and business trip expenses	98,920	96,715
Property, plant and equipment repair and maintenance	82,542	71,429
Stationary and office maintenance	77,819	74,095
Security	64,385	63,857
Insurance	48,234	43,974
Lease expense	47,027	49,344
Change in provision for impairment of trade and other receivables and other financial assets	38,179	112,237
Telecommunications services	32,047	31,408
Change in retirement benefits obligations	21,226	19,733
Training and recruitment	14,421	17,249
Change in provision for tax risks, other than income tax	13,096	-
Change in provision for VAT receivable	(5,496)	-
Other expenses	258,731	232,466
Total general and administrative expenses	**4,523,183**	**4,603,227**

During the year ended 31 December 2016, the Company incurred fees of RR 2,208 for statutory audit services (2015: RR 2,371). In addition, audit and consultancy services stated above include fees of RR 125 (2015: RR 40) for tax consultancy services and RR 1,348 (2015: RR 1,132) for other assurance services charged by the Company's statutory auditor.

30 Other Operating Expenses, net

	2016	2015
Charity, social expenditures	185,312	143,231
Impairment of taxes receivable	101,948	-
Foreign exchange loss/(gain), net	65,031	(72,636)
Fines and late payment interest under contracts	59,940	59,076
Change in provision for legal claims	55,408	250,023
Loss on revaluation of redemption liability (Note 37)	17,960	136,392
Depreciation of social assets	10,912	10,623
Loss from disposal of property, plant and equipment and intangible assets	10,758	9,856
(Gain)/loss on purchase/sale of foreign currency, net	(2,087)	13,622
Impairment reversal of property, plant and equipment	(1,705)	(6,160)
Other expenses, net	44,409	79,870
Total other operating expenses, net	**547,886**	**623,897**

(in thousands of Russian Roubles, unless otherwise stated)

31 Finance Income

	2016	2015
Interest income	194,122	146,689
Foreign exchange (loss)/gain from deposits, net	(19,909)	45,906
Total finance income	**174,213**	**192,595**

32 Finance Costs

	2016	2015
Interest expense	2,008,927	1,803,616
Finance lease expenses	1,097	136
Foreign exchange (gain)/loss from borrowings, net	(104,818)	343,150
Finance expenses related to redemption liability (Note 37)	-	11,505
Gain from redemption of bonds (Note 16)	-	(71,487)
Total finance costs	**1,905,206**	**2,086,920**

33 Balances and Transactions with Related Parties

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

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

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

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

Balances with related parties	**31 December 2016**		**31 December 2015**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	788	-	3,412	10,538
Accounts payable	6,160	164,222	3,959	252,170

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

Transactions with related parties	**2016**		**2015**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	8,571	9,894	13,208	33,659
Other income	2,142	684	2,247	439
Purchase of intangible assets	(27,979)	-	(19,270)	-
Development costs expensed	(14,995)	-	-	-
Rent expense	(12,037)	-	(11,467)	-
Purchase of services	(10,197)	-	(33,311)	-
Purchase of raw materials	(6,963)	-	(8,846)	-
Interest expense	-	-	-	(143)

Key management compensation

Key management compensation amounted to RR 371,533 for the year ended 31 December 2016 (2015: RR 444,256) 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 344,009 (2015: 444,256) as well as share-based compensation of RR 27,524 (2015: nil). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 38,228 (2015: RR 32,644) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 108,250 for the year ended 31 December 2016 (2015: RR 137,753), including share-based compensation of RR 7,505 (2015: nil).

33 Balances and Transactions with Related Parties (continued)

For the year ended 31 December 2016, dividends of RR 36,086 were accrued and paid by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (2015: RR 45,280).

34 Contingencies and Commitments

(i) Legal proceeding

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. The management believes that resolution of such matters will not have a material adverse effect on the Group's financial performance and liquidity based on information currently available. All probable legal risks are provided for.

(ii) Tax legislation

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

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

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

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

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

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

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. At 31 December 2016, the provision accrued amounted to RR 13,096 (31 December 2015: nil). With regard to matters where practice concerning payments of taxes is unclear, management estimated possible tax exposure to be approximately RR 27 million at 31 December 2016, before any fines and interest (31 December 2015: RR 44 million).

(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.

34 Contingencies and Commitments (continued)

(iv) Insurance policies

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

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 31 December 2016, commitments for purchase of the services amounted to RR 86,179 (31 December 2015: RR 177,157).

At 31 December 2016, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 324,899 (31 December 2015: RR 172,792).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. At 31 December 2016, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement. Also refer to Note 21.

During the year ended 31 December 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000 for development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents. At 31 December 2016, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement. Also refer to Note 21.

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

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including Net debt/EBITDA ratio and certain other requirements. At 31 December 2016, the Group was in compliance with all its loan covenants, except for the breach of certain financial covenants on non-bank loan of RR 500,000 (Notes 16, 36).

35 Segment Information

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

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

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

The **first** operating segment **"Industrial pumps"** includes following significant subsidiaries:

	31 December 2016	31 December 2015
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	Nasosenergomash PJSC	Nasosenergomash PJSC
4	HYDROMASHSERVICE JSC	HYDROMASHSERVICE JSC
5	Plant Promburvod OJSC	Plant Promburvod OJSC
6	HMS-Promburvod CJSC (liquidated in December 2016)	HMS-Promburvod CJSC
7	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
8	Dimitrovgradkhimmash JSC	Dimitrovgradkhimmash JSC
9	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
10	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
11	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

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

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

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

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

1	Tomskgazstroy PJSC	Tomskgazstroy PJSC
2	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC

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

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

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

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.

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

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

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

Due to the change in the internal management and reporting structure effective 1 January 2017, the results of the Group's subsidiaries Giprotyumenneftegaz PJSC and Institute Rostovskiy Vodokanalproekt OJSC since 1 January 2017 will be presented within "Oil and gas equipment" segment, whereas previously these entities were included in "Engineering, procurement and construction" and "Industrial pumps" segments, respectively. Additionally, starting from 1 January 2017, "Engineering, procurement and construction" segment will be renamed as "Construction" segment, and "Oil and gas equipment" segment will be renamed as "Oil and gas equipment and projects" segment. Because such changes occurred after the period end, they have not been reflected in the segment information herein, but will be reflected for the first time in the reporting for 2017.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2016 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	15,609,524	15,018,307	8,652,639	2,297,353	4,565	-	**41,582,388**
Intersegment revenue	1,114,561	125,690	47,533	-	1,582,178	-	**2,869,962**
Adjusted EBITDA	2,755,328	3,031,637	618,598	(74,643)	99,236	(60,953)	**6,369,203**

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2015 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	16,262,748	15,154,817	3,265,753	2,606,124	6,995	-	**37,296,437**
Intersegment revenue	1,662,094	63,266	917,337	10,603	1,383,414	-	**4,036,714**
Adjusted EBITDA	4,098,065	3,246,107	315,410	179,541	(367,136)	(25,559)	**7,446,428**

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

	2016						
	Industrial pumps	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**2,755,328**	**3,031,637**	**618,598**	**(74,643)**	**99,236**	**(60,953)**	**6,369,203**
Depreciation and amortisation	(715,353)	(176,869)	(405,858)	(230,072)	(25,505)	-	**(1,553,657)**
Non-monetary items[(1)]	(199,701)	(108,019)	(85,294)	77,675	(4,767)	-	**(320,106)**
Other operating (expenses)/ income, net[(2)]	(388,851)	30,799	(55,476)	(55,831)	494	(13,375)	**(482,240)**
Impairment of property, plant and equipment (Note 7)	(18,685)	-	-	-	-	-	**(18,685)**
Impairment of goodwill (Note 9)	-	(370,360)	-	-	-	-	**(370,360)**
Operating profit/(loss), IFRS	**1,432,738**	**2,407,188**	**71,970**	**(282,871)**	**69,458**	**(74,328)**	**3,624,155**
Finance income							174,213
Finance costs							(1,905,206)
Share of results of associate							(257)
Profit before income tax, IFRS							**1,892,905**

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
[(2)] Other operating (expenses)/income, net include other operating income and expenses as per Note 30, excluding depreciation of social assets and provision for legal claims.

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

	2015						
	Industrial pumps	Oil and gas equipment	Compressors	EPC	All other segments	Intersegment transactions	Total
Adjusted EBITDA	**4,098,065**	**3,246,107**	**315,410**	**179,541**	**(367,136)**	**(25,559)**	**7,446,428**
Depreciation and amortisation	(615,899)	(162,072)	(411,439)	(256,156)	(45,751)	-	**(1,491,317)**
Non-monetary items[(1)]	(234,955)	(343,007)	(1,629)	(94,968)	(6,255)	-	**(680,814)**
Other operating (expenses)/ income, net[(2)]	(273,128)	(230,202)	(59,651)	170,617	(2,554)	29,349	**(365,569)**
Impairment of property, plant and equipment and investment property (Note 7,15)	(106,374)	-	-	(277,098)	-	-	**(383,472)**
Operating profit/(loss), IFRS	**2,867,709**	**2,510,826**	**(157,309)**	**(278,064)**	**(421,696)**	**3,790**	**4,525,256**
Finance income							192,595
Finance costs							(2,086,920)
Share of results of associate							(467)
Profit before income tax, IFRS							**2,630,464**

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
[(2)] Other operating (expenses)/income, net include other operating income and expenses as per Note 30, excluding depreciation of social assets and provision for legal claims.

In 2016 revenue from any single customer did not exceed 10% of the Group's consolidated revenue. The management believes that the Group's sales are not subject to concentration risk.

	2015					
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment**	**Compressors**	**EPC**	**All other segments**	**Total**
Total revenue,	16,262,748	15,154,817	3,265,753	2,606,124	6,995	37,296,437
Including						
Promgazmash LLC	12,676	4,169,351	-	-	-	4,182,027
Rospan International CJSC	-	3,884,695	-	-	-	3,884,695
Others (each<10% of total revenue)	16,250,072	7,100,771	3,265,753	2,606,124	6,995	29,229,715

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 2016	Consolidated revenue for 2015	Non-current assets at 31 December 2016[(1)]	Non-current assets at 31 December 2015[(1)]
Total revenue/ non-current assets	41,582,388	37,296,437	17,718,737	18,856,294
Including				
Russia	37,942,892	32,817,024	14,719,694	14,869,824
Germany	822,593	517,238	1,538,182	2,034,126
China	444,732	684,552	-	-
Ukraine	375,752	125,443	1,052,076	1,386,944
Turkmenistan	353,693	247,582	-	-
Kazakhstan	315,832	631,780	-	-
Belorussia	272,031	305,502	408,785	565,400
Iraq	36,766	1,198,125	-	-
Other	1,018,097	769,191	-	-

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

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

36 Financial Risk Management

Financial risk factors

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

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

(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 and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

The table below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2016 and 2015. 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 2016			31 December 2015		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	394,535	(79,210)	315,325	917,824	(158,554)	759,270
EUR	116,881	(311,664)	(194,783)	525,926	(2,298,645)	(1,772,719)
Total	**511,416**	**(390,874)**	**120,542**	**1,443,750**	**(2,457,199)**	**(1,013,449)**

At 31 December 2016, if RR had strengthened/weakened by 20% against the US dollar with all other variables held constant, profit for the year would have been RR 50,452 lower/higher (31 December 2015: profit for the year would have been RR 121,483 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and cash.

At 31 December 2016, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, profit for the year would have been RR 31,165 higher/lower (31 December 2015: profit for the year would have been RR 283,635 higher/lower), mainly as a result of foreign exchange gains/losses on translation of Euro denominated trade payables.

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

(ii) Interest rate risk

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

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

At 31 December 2016, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been RR 140,081 lower/higher (31 December 2015: RR 129,430 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, 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 2016	31 December 2015
Trade and other receivables (Note 13, 14)		
- Trade receivables	7,817,755	6,956,455
- Other financial receivables	3,914,845	2,351,501
Cash and cash equivalents (Note 11)		
- Bank balances (incl. restricted cash)	2,987,684	3,520,426
- Cash on hand	2,007	1,786
Total on-balance sheet exposure	**14,722,291**	**12,830,168**
Total maximum exposure to credit risk	**14,722,291**	**12,830,168**

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. All the bank balances are neither past due nor impaired.

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

Agency	Rating	31 December 2016	31 December 2015
S&P's[2]	AA- – A	160,220	268,284
Expert RA[4]	A+ – A	147,622	52,619
Fitch[3]	BBB- – B-	151,610	1,674,681
Moody's[1]	Ba1 – B2	2,373,118	961,830
S&P's[2]	BBB+ – B-	50,574	395,670
Moody's[1]	less than B3	1,173	1,020
Expert-rating[5]	uaAAA	3,030	127,128
IBI-Rating[6]	uaBBB+	97,364	-
Other	-	2,973	39,194
Total		**2,987,684**	**3,520,426**

[1] International rating agency Moody's Investor Service.
[2] International rating agency Standard & Poor's.
[3] International rating agency Fitch.
[4] National Russian rating agency Expert RA.
[5] National Ukrainian rating agency Expert-rating.
[6] National Ukrainian rating agency IBI-Rating.

Trade and other financial receivables. 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 Group commercial department reviews ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large buyers of industrial equipment and oil and gas companies, which have similar credit risk profile to the Group. The Group does not analyse its customers by classes for credit risk management purposes.

Analysis of credit quality of trade and other accounts receivable is as follows:

	31 December 2016		31 December 2015	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Not overdue and not impaired	**6,649,763**	**3,866,382**	**5,829,517**	**2,335,678**
Total past due but not impaired, including:	**1,167,992**	**48,463**	**1,126,938**	**15,823**
- less than 60 days overdue	525,890	35,742	531,925	5,952
- 61 to 180 days overdue	403,950	4,010	447,752	1,485
- 181 to 365 days overdue	118,302	3,432	117,288	2,368
- over 365 days overdue	119,850	5,279	29,973	6,018
Individually impaired (gross), including:	**350,854**	**65,426**	**349,428**	**80,910**
- not overdue	7,046	-	11,252	3,830
- less than 60 days overdue	114	16	143	1,113
- 61 to 180 days overdue	580	2,799	18,337	9,535
- 181 to 365 days overdue	45,533	6,023	60,631	4,461
- over 365 days overdue	297,581	56,588	259,065	61,971
Less provision for impairment	**(350,854)**	**(65,426)**	**(349,428)**	**(80,910)**
Total	**7,817,755**	**3,914,845**	**6,956,455**	**2,351,501**

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) at 31 December 2016 is RR 11,732,600 (31 December 2015: RR 9,307,956).

Credit risk concentration

Date	Number of counterparties with aggregated receivables balances above RR 50,000	Aggregate amount of receivables balances	% of the gross amount of trade and other receivables
At 31 December 2016	35	8,706,932	72%
At 31 December 2015	32	7,052,337	72%

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.

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

(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 2016 and 2015:

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2016**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans[1]	15,836,361	4,881,767	8,604,218	6,008,674	-
Non-bank loan[2]	500,000	500,000	-	-	-
Trade accounts payable	5,777,979	5,777,979	-	-	-
Other financial payables	508,735	508,735	-	-	-

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2015**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bonds[1]	617,177	626,107	-	-	-
Bank loans[1]	14,766,987	5,652,960	4,594,267	7,778,434	-
Other loan[1]	500,000	25,000	25,000	549,855	-
Trade accounts payable	3,268,065	3,268,065	-	-	-
Other financial payables	520,105	520,105	-	-	-

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

[2] Expected cash flows of the loan are presented net of interest payments as it is payable on demand due to the breach of certain covenants, stipulated by this loan, at 31 December 2016 (Notes 16, 34).

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

In the recent years, the Group has been extensively expanding its business by raising external finance. The Group uses credit facilities in major multinational and Russian banks. Availability of open credit lines together with long-term borrowings gives the Group the possibility to balance credit portfolio and decrease risk of adverse fluctuations of financial markets. At 31 December 2016 and 2015, the Group had the following unutilised credit lines:

	31 December 2016	31 December 2015
Committed	3,169,562	2,916,665
Uncommitted	5,519,822	2,676,414
Total unutilised credit lines	**8,689,384**	**5,593,079**

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

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

	31 December 2016	31 December 2015
Liquidity ratio	1.59	1.49
Current assets	24,409,530	22,213,555
Current liabilities	15,344,781	14,889,655

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

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

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

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

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

The Group controls capital by calculating a gearing ratio. This ratio is calculated as the net debt divided by total capital. The net debt includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity attributable to the shareholders of the Company and non-controlling shareholders in the consolidated statement of financial position. In 2016, 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 2016	31 December 2015
Long-term borrowings	12,770,486	11,217,538
Short-term borrowings	3,565,875	4,666,626
Total debt	**16,336,361**	**15,884,164**
Cash and cash equivalents	(2,989,691)	(3,496,420)
Net debt	**13,346,670**	**12,387,744**
Equity attributable to the shareholders of the Company	9,111,924	9,823,144
Non-controlling interest	2,972,005	3,325,643
Total capital	**12,083,929**	**13,148,787**
Gearing ratio	**110%**	**94%**

37 Fair Value of Financial Instruments

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

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

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

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

37 Fair Value of Financial Instruments (continued)

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). At 31 December 2015, the fair value of bonds was RR 2,979 lower than their carrying amounts. The fair value of borrowings was based on Level 2 inputs. At 31 December 2016, the fair value of borrowings was RR 287,285 higher than their carrying amounts (31 December 2015: the fair value of borrowings was RR 36,853 lower than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

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

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

At 31 December 2015, the present value of the redemption liability under the option agreement amounted to RR 326,759, being the RUB equivalent of the option exercise price of EUR 4.1 million. During the year ended 31 December 2016, the increase in redemption liability in relation to changes in underlying assumptions of RR 17,960 was recognised in other operating expenses, net as a loss (2015: RR 136,392) (Note 30). During the year ended 31 December 2015, the increase in redemption liability in relation to the discounting effect of RR 11,505 was recognised in finance expenses (Note 32).

38 Subsequent Events

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

Borrowings. Subsequent to the statement of financial position date, certain long-term and short-term borrowings in a total amount of approximately RR 6.5 billion were refinanced with bank loans and bonds (see above) with longer maturity dates and lower interest rates. Additionally, the Group repaid certain long-term and short-term loans utilising its own funds in a total amount of approximately RR 0.8 billion.

In February 2017, the Group signed a new credit facility agreement in amount of RR 800 million with maturity in 2020. The credit line will be utilised for general corporate needs, including refinancing existing credit lines at lower interest rates.

On the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the interest rate for certain long-term unsecured loan amounting to RR 688,163 was decreased from 12.5% per annum to 11.2% per annum starting April 2017.

Treasury shares. In February-April 2017, 37,693 GDRs of the Company representing 0.16% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 16,216.