HMS Hydraulic Machines & Systems Group plc

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

31 December 2017

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
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Registered office

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Nicosia 2404
Cyprus

The Board of Directors presents its consolidated management report together with the audited consolidated financial statements for the year ended 31 December 2017. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

Backlog and order intake. Backlog grew to RR 44.3 billion (+84% yoy). All the four business segments demonstrated growth, but the main driver was the oil & gas equipment and projects business segment. The significant growth in all segments was fully dedicated to the number of large integrated contracts signed and executed in the reporting period.

Order intake also hit the record and reached RR 65.5 billion (+61% yoy). All four business segments of the Group contributed to this growth, especially the oil and gas equipment and projects one. The main driver was an outstanding growth of large contracts portfolio. However, recurring business also demonstrated growth, of 3% yoy.

Group performance. Revenue increased by 7% yoy and amounted to RR 44.4 billion based on the contribution from the oil&gas equipment and projects business segment and the industrial pumps business segments, while the costs grew by 6% yoy.

Adjusted EBITDA was up by 7% yoy to RR 6.8 billion. Robust results of the compressors segment were the major contributor to the Group's adjusted EBITDA growth. Adjusted EBITDA margin demonstrated minor increase to 15.4% versus 15.3% in the previous year.

Recurring business grew by 7% yoy, where machine-building product sales increased by 8% yoy. Large projects' revenue advanced 5% yoy. Adjusted EBITDA from recurring business grew 2% yoy and large contracts hiked by 15% yoy.

Operating profit grew by 26% yoy to RR 4.6 billion from RR 3.6 billion. Operating margin increased to 10.3% from 8.7%. Profit for the period increased by 73% yoy to RR 2.1 billion from RR 1.2 billion.

Financial review. Working capital was down by 19% yoy to RR 7.7 billion from RR 9.6 billion in 2016. The sharp decrease of working capital was caused by a number of payments received from customers and delivery of equipment produced under large contracts. As a share of revenue, working capital dropped to 17% from 23% at 2016-end.

Capital expenditures grew by 28% yoy to RR 2.2 billion. The Group completed the second stage of the Localization project in 4Q 2017. Capital expenditures, excluding the localization project, were up by 42% yoy and reached RR 1.5 billion.

The Group generated positive operating cash flow of RR 5.2 billion that almost tripled compared to last year. Increased operating cash flow resulted in positive free cash flow of RR 3.1 billion.

Total debt decreased by 2% yoy to RR 16.0 billion from RR 16.3 billion. Net debt was down by 14% yoy to RR 11.4 billion. The Net debt-to-adjusted EBITDA LTM ratio was down to 1.7x compared to 2.1x last year due to lower Net debt combined with higher adjusted EBITDA in the reporting period.

Non-Financial Information

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

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

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

Non-Financial Information (continued)

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

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

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

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

Principal risks and uncertainties

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

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

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

Future developments

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

Research and development activities

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

In particular, the industrial pumps segment is engaged in the development and production of new series of overhung processing pumps, used in petrochemicals and gas refining industries as well as for transportation of liquefied petroleum gases, gas condensate and other liquids, and centrifugal processing pumps, intended for heavy usage in oil and gas treatment technological processes.

The oil&gas equipment and projects segment continues realization of its R&D project “development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents”. This project is being carried out in cooperation with Tyumen State University and the Institute of Biochemical Physics of the Russian Academy of Sciences.

Also, in 2017, the Group continued development of new technologies of associated and natural gas treatment and design of a next-generation product line of modular gas processing plants, and started organising their production.

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

In the compressors segment, under the import-substitution program, Kazancompressormash JSC, a subsidiary of the Group, projected, manufactured and put into operation a high-capacity compressor unit, intended for a main gas pipeline system. Besides, Kazancompressormash JSC, developed turbo-compressor units to operate as part of a helium concentrate membrane recovery unit on the Chayandinskoye oil, gas and condensate field. The projected and designed turbo-compressor units consist of three blocks: a gas transportation unit, a heavy condensate separator, and air-cooling units. The Group was the first company in the world to use two tandem double-sectional compression-barrels, the rotors of which are supported by active magnetic bearings.

Results

The Group's results for the year ended 31 December 2017 are set out on page 17 of the consolidated financial statements.

Dividends

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

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

At the Annual General Meeting, the Company's shareholders will consider a final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share, amounting to a total dividend of RR 800,226 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 2018.

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

At the Annual General Meeting in June 2017, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2016 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 576,746 thousand. This dividend was paid in June 2017.

In December 2016, an interim dividend in respect of the profit for the nine months ended 30 September 2016 of 3.41 Russian Roubles per ordinary share amounting to a total dividend of RR 384,764 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. These dividends were accounted for in shareholders' equity as an appropriation of retained earnings for the year ended 31 December 2016 and paid in June 2016.

Share capital

At 31 December 2017, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. 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 2017 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. Kirill V. Molchanov, Yuri N. Skrynnik and Andreas S. Petrou shall retire by rotation and will be entitled to run for re-election on the Company's Annual General Meeting.

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

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2017 and 31 December 2016 are shown below:

Director	31 December 2017	31 December 2016
Vladimir V. Lukyanenko	27.4%	27.4%
Artem V. Molchanov	6.6%	6.4%
Yury N. Skrynnik	3.4%	3.4%
Kirill V. Molchanov	2.4%	2.3%
Philippe Delpal	0.017%	0.017%

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

Events after the balance sheet date

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

The Board Committees

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

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet three to four times per year. Currently the audit committee is chaired by 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 and assesses the efficiency of the work of the Chair of the Board of Directors.

Remuneration Committee. The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by 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.

The Board Committees (continued)

Strategy and Investments Committee. In 2014, the Board of Directors established a Strategy and Investments Committee. The Committee is expected to meet at least once each year. Nikolai N. Yamburenko, Vladimir V. Lukyanenko, 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 Group's corporate governance practices are designed to ensure that the interests of all its stakeholders are given due consideration. The corporate affairs are governed by the memorandum and articles of association of the Company and the provisions of applicable Cyprus law. Although the Company is not subject to any mandatory corporate governance code in its home jurisdiction of Cyprus, nor required to observe the UK Corporate Governance Code, it has implemented various corporate governance measures. These include the appointment of two independent non-executive Directors to its Board of Directors and the establishment of an Audit Committee and a Remuneration Committee. Each of these Committees of the Board of Directors is chaired by an independent, non-executive Director. Under the Cyprus Companies Law, the directors have to declare the nature of their interest (either direct or indirect) in transactions at a meeting of the directors of the company. Under the articles of association of the Company, directors have no right to vote on a matter in which they have an interest even if the director has disclosed any interests in the transaction. The Group continues to review its corporate governance policies in line with international best practice.

Board and management remuneration

The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2017 amounted to RR 39,566 thousand (2016: RR 38,228 thousand). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 143,832 thousand for the year ended 31 December 2017 (2016: RR 115,755 thousand). See also Note 33.

Branches

The Company did not operate through any branches during the year ended 31 December 2017.

Treasury shares

The Group has in place a buy-back program, approved by the shareholders of HMS Hydraulic Machines & Systems Group plc, aimed at the accumulation of the GDRs fund for the long-term incentive program, covering the Group's key executives (Note 24). Under this program, a wholly-owned subsidiary of the Group from time to time purchases GDRs of the Company from the market.

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

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.

At 31 December 2017, the Company, via a wholly-owned subsidiary, is holding 1,033,887 (31 December 2016: 865,869) of its own GDRs with the total cost of RR 404,994 thousand (31 December 2016: RR 323,556 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 2018, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
24 April 2018

Directors' responsibility statement

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 16 to 63) give a true and fair view of the financial position of HMS Hydraulic Machines & Systems Group plc and its subsidiaries (together with the Company, the "Group") at 31 December 2017 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
24 April 2018

Kirill V. Molchanov
Director
24 April 2018

Deloitte.

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Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (the "Group"), which are presented in pages 16 to 63 and comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue and profit recognition on construction contracts	
The Group enters into construction projects, design and engineering projects and certain other long-term contracts. The recognition of revenue and profit on those contracts in accordance with 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. Recognition of revenue and profit on construction contracts is considered a key audit matter because of the significant judgments involved in assessing the costs to complete, stage of completion, variations to the contracts requested by customers and the factual or future possible claims against the Group for delays in deliveries. Refer to Note 3 "Summary of significant accounting policies" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.	Our audit procedures included obtaining an understanding of key controls around the process of accounting for construction contracts, as well as assessment whether the amounts recognised in the consolidated financial statements were in line with the Group's accounting policies and IAS 11. We performed detailed procedures in respect of individually significant contracts, including discussions with the individual project managers and directors, inspection of selected signed contracts. We also traced a sample of costs incurred to supporting documentation. We challenged management's assumptions related to the stage of completion of a project and estimates of project costs to complete by discussing and reviewing the correspondence files related to construction contracts with customers. We also considered the accuracy and consistency of relevant estimates made in previous years; corroborated the assumptions with the latest contractual information. We assessed the adequacy of provisions in respect of factual or anticipated customer claims with reference to contractual delivery schedules. We tested the appropriateness of the related disclosures provided in the consolidated financial statements.

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

Impairment assessment of goodwill

The Group has a material goodwill balance of RR 2,937,695 thousand at 31 December 2017. In prior periods, the Group had recognised goodwill impairment charges. Given continued challenging economic conditions in the Russian Federation, there is a risk of further impairment of goodwill. The recoverable amount of the cash generating units ("CGUs") is defined as the higher of fair value less costs to sell and value-in-use. Determination of the recoverable amount of the CGUs with allocated goodwill requires management to make significant estimates concerning operating cash flow projections, discount and long-term growth rates and other assumptions applied to each CGU. Refer to the Note 9 "Goodwill" as well as Note 4 "Critical accounting estimates and judgements in applying accounting policies" of the accompanying consolidated financial statements for further details.	In this area our audit procedures included: • obtaining an understanding of key controls around the impairment review processes; • analysing the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2017 and comparing the forecast performance to the Board approved long-term plans; • assessing forecasted revenues for the year ending 31 December 2018 against actual performance up to the date of this report, existing backlog (including revenues already contracted but not earned) and analysing respective variances; • with the assistance of our internal valuation specialists, assessing management's methodology used in calculating the discount rates applied, forecasted revenue growth rates and inflation rates embedded in cash flow forecasts and comparing the long-term growth rates for each cash generating unit to economic forecasts; • assessing the appropriateness of the sensitivities applied by management to the impairment testing model and whether the scenarios reflected reasonably possible changes in key assumptions. We performed further sensitivity analysis based on our understanding of the future prospects to identify whether these scenarios could give rise to further impairment; • checking the arithmetic accuracy of the impairment model; and • checking the adequacy of the disclosures in the consolidated financial statements with the requirements of accounting standards in respect of impairment testing and disclosure of the key judgements applied by management in the cash flow forecasts and impairment review.

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

Impairment assessment of property, plant and equipment	
The balance of property, plant and equipment at 31 December 2017 amounted to RR 14,563,544 thousand. As required by applicable accounting standards, at each reporting date management analyses existence of impairment indications in respect of the Group's property, plant and equipment. Whenever such indications exist, management performs impairment assessment and determines the recoverable amount of the 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 certain assets, the Group engages independent valuation specialists to determine the assets' fair value. We specifically focused on the impairment assessment of property, plant and equipment due to the degree of judgement involved in determining the recoverable amount for each asset. 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. 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. We tested the appropriateness of the related disclosures provided in the consolidated financial statements.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

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

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

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

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

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

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

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

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 20 June 2014 by the General Meeting of shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 17 April 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Other Legal Requirements (continued)

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

Other Matter

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

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

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

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

Limassol, 24 April 2018

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets:			
Property, plant and equipment	7	14,563,544	13,908,291
Other intangible assets	8	663,616	712,527
Goodwill	9	2,937,695	2,863,925
Investments in associates	10	84,829	88,724
Deferred income tax assets	25	377,902	366,057
Other long-term assets	14	20,541	29,040
Investment property	15	222,929	233,994
Total non-current assets		**18,871,056**	**18,202,558**
Current assets:			
Inventories	12	7,776,096	7,228,293
Trade and other receivables and other financial assets	13	16,915,052	14,021,896
Current income tax receivable		178,566	169,650
Cash and cash equivalents	11	4,620,601	2,989,691
Total current assets		**29,490,315**	**24,409,530**
TOTAL ASSETS		**48,361,371**	**42,612,088**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	23	48,329	48,329
Share premium	23	3,523,535	3,523,535
Treasury shares	23	(404,994)	(323,556)
Other reserves		122,730	122,730
Currency translation reserve		(652,109)	(607,393)
Retained earnings		7,073,645	6,348,279
Equity attributable to the shareholders of the Company		**9,711,136**	**9,111,924**
Non-controlling interests		**3,145,950**	**2,972,005**
TOTAL EQUITY		**12,857,086**	**12,083,929**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	13,065,129	12,770,486
Deferred income tax liability	25	1,617,238	1,579,152
Retirement benefit obligations	17	525,436	519,397
Provisions for liabilities and charges	22	116,835	151,359
Other long-term payables	21	204,394	162,984
Total non-current liabilities		**15,529,032**	**15,183,378**
Current liabilities:			
Trade and other payables	19	15,081,200	10,417,155
Short-term borrowings	16	2,977,261	3,565,875
Provisions for liabilities and charges	22	771,877	531,075
Retirement benefit obligations	17	67,314	72,621
Current income tax payable		72,610	53,278
Other taxes payable	20	1,004,991	704,777
Total current liabilities		**19,975,253**	**15,344,781**
TOTAL LIABILITIES		**35,504,285**	**30,528,159**
TOTAL EQUITY AND LIABILITIES		**48,361,371**	**42,612,088**

Approved for issue and signed on behalf of the Board of Directors on 24 April 2018.

Artem V. Molchanov Director	Kirill V. Molchanov Director

	Note	2017	2016
Revenue	26	44,422,177	41,582,388
Cost of sales	27	(32,535,607)	(30,798,509)
Gross profit		**11,886,570**	**10,783,879**
Distribution and transportation expenses	28	(1,784,967)	(1,699,610)
General and administrative expenses	29	(4,999,086)	(4,523,183)
Other operating expenses, net	30	(547,307)	(547,886)
Impairment of property, plant and equipment	7	-	(18,685)
Impairment of goodwill	9	-	(370,360)
Operating profit		**4,555,210**	**3,624,155**
Finance income	31	168,660	174,213
Finance costs	32	(1,775,092)	(1,905,206)
Share of results of associates	10	(331)	(257)
Profit before income tax		**2,948,447**	**1,892,905**
Income tax expense	25	(878,349)	(694,475)
Profit for the year		**2,070,098**	**1,198,430**
Profit attributable to:			
Shareholders of the Company		1,834,264	1,196,789
Non-controlling interests		235,834	1,641
Profit for the year		**2,070,098**	**1,198,430**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		(23,313)	8,390
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(69,526)	(1,164,504)
Currency translation differences of associates	10	(3,564)	(17,059)
Other comprehensive loss for the year		**(96,403)**	**(1,173,173)**
Total comprehensive income for the year		**1,973,695**	**25,257**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		1,768,256	106,559
Non-controlling interest		205,439	(81,302)
Total comprehensive income for the year		**1,973,695**	**25,257**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	23	**16.32**	**10.53**

The accompanying notes on pages 20 to 63 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		2,948,447	1,892,905
Adjustments for:			
Depreciation and amortisation	27-30	1,541,946	1,553,657
Loss from disposal of property, plant and equipment and intangible assets	30	45,822	9,053
Finance income	31	(168,660)	(174,213)
Finance costs	32	1,775,092	1,905,206
Change in retirement benefits obligations	17	36,248	90,479
Change in warranty provision	27	(48,908)	67,297
Change in provision for impairment of trade and other receivables and other financial assets	29	3,815	38,179
Change in provision for obsolete inventories	27	163,520	45,922
Change in provision for legal claims	30	195,830	55,408
Share-based compensation	24	93,218	35,917
Impairment of goodwill	9	-	370,360
Impairment of property, plant and equipment	7	-	18,685
Foreign exchange loss/(gain), net	30	72,300	65,031
Amortisation of government grants	27	(16,777)	(15,108)
Loss on revaluation of redemption liability	30	-	17,960
Change in provision for tax risks, other than income tax	29	14,984	13,096
Impairment of taxes receivable	30	6,204	101,948
Share of results of associates	10	331	257
Operating cash flows before working capital changes		**6,663,412**	**6,092,039**
Increase in inventories		(782,888)	(833,072)
Increase in trade and other receivables		(2,758,024)	(2,488,790)
Increase in current income tax receivable		(8,916)	(16,970)
Increase/(decrease) in taxes payable		247,774	(19,916)
Increase in accounts payable and accrued liabilities		4,177,130	1,708,380
Cash from operations		**7,538,488**	**4,441,671**
Income tax paid		(739,534)	(773,816)
Interest paid		(1,687,545)	(2,036,200)
Interest received		121,142	150,907
Decrease in restricted cash		-	25,792
Net cash from operating activities		**5,232,551**	**1,808,354**
Cash flows from investing activities			
Repayment of loans advanced		65,884	63,073
Loans advanced		(57,507)	(187,837)
Proceeds and expenses from sale of property, plant and equipment and intangible assets, net		12,215	20,190
Interest received		4,040	17,527
Purchase of property, plant and equipment, net of VAT		(1,921,001)	(1,566,691)
Acquisition of intangible assets, net of VAT		(238,225)	(134,138)
Net cash used in investing activities		**(2,134,594)**	**(1,787,876)**
Cash flows from financing activities			
Repayments of borrowings		(18,561,873)	(10,117,158)
Proceeds from borrowings		18,126,821	10,756,815
Proceeds from government grant		78,945	50,000
Payment for finance lease		(6,569)	(6,382)
Buy back of issued shares	23	(81,438)	(110,067)
Acquisition of non-controlling interest in subsidiaries	23	-	(346,900)
Dividends related to Long-term Incentive Program	24	(17,696)	-
Dividends paid to non-controlling shareholders of subsidiaries		(37,513)	(40,798)
Dividends paid to the shareholders of the Company	23	(961,510)	(579,863)
Net cash used in financing activities		**(1,460,833)**	**(394,353)**
Net increase/(decrease) in cash and cash equivalents		**1,637,124**	**(373,875)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(6,214)**	**(132,854)**
Cash and cash equivalents at the beginning of the year		**2,989,691**	**3,496,420**
Cash and cash equivalents at the end of the year		**4,620,601**	**2,989,691**

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2015		**48,329**	**3,523,535**	**(213,489)**	**(191,585)**	**476,312**	**6,180,042**	**9,823,144**	**3,325,643**	**13,148,787**
Profit 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**
Profit for the year		-	-	-	-	-	1,834,264	1,834,264	235,834	**2,070,098**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(21,292)	(21,292)	(2,021)	**(23,313)**
Currency translation differences		-	-	-	-	(41,152)	-	(41,152)	(28,374)	**(69,526)**
Currency translation differences of associates	10	-	-	-	-	(3,564)	-	(3,564)	-	**(3,564)**
Total comprehensive income/(loss) for the year		-	**-**	**-**	**-**	**(44,716)**	**1,812,972**	**1,768,256**	**205,439**	**1,973,695**
Buy back of issued shares	23	-	-	(81,438)	-	-	-	(81,438)	-	**(81,438)**
Share-based compensation	24	-	-	-	-	-	62,549	62,549	-	**62,549**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(31,494)	**(31,494)**
Dividends declared to the shareholders of the Company	23	-	-	-	-	-	(1,150,155)	(1,150,155)	-	**(1,150,155)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(81,438)**	**-**	**-**	**(1,087,606)**	**(1,169,044)**	**(31,494)**	**(1,200,538)**
Balance at 31 December 2017		**48,329**	**3,523,535**	**(404,994)**	**122,730**	**(652,109)**	**7,073,645**	**9,711,136**	**3,145,950**	**12,857,086**

1 General Information

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010. The Company's registered office is at 5 Alkaiou, 2404, Nicosia, Cyprus (before 22 March 2018, the Company's address of the registered office was 13 Karaiskaki, 3032, Limassol, Cyprus).

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

For the year ended 31 December 2017, the average number of employees of the Group was 14,865 (2016: 15,000).

At 31 December 2017 and 2016, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares, including shares in the form of GDRs. At 31 December 2017 and 2016, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Group

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

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

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

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

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

The Ukrainian economy proceeded with recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.1% (2016: 1.4%), stabilization of average inflation and national currency. 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 50% 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"). In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The National Bank of Ukraine expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.

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.

2 Operating Environment of the Group (continued)

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 2017, the revenue of Nasosenergomash PJSC approximated 6% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers (for the year ended 31 December 2016: 7% of consolidated revenue of the Group, two thirds of this amount being sales to Russian customers). As of the date these consolidated financial statements were authorised for issuance, neither sanctions, imposed by the US and EU, nor political environment in Ukraine have directly impacted operating activities of Nasosenergomash PJSC, however, the Group's management believes that certain customers of the Group may take conservative and cautious position when considering the purchase of products from EU and Ukraine. Due to these risks as well as due to high-level capacity utilisation of Nasosenergomash PJSC, the Group has realised the project aimed at building up the respective competencies within Russian subsidiaries of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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

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

At 31 December 2017 and 2016, the principal rates of exchange used for translating foreign currency balances were:

			Average rates for the year ended 31 December:	
	31 December 2017	**31 December 2016**	**2017**	**2016**
1 USD = RR	57.6002	60.6569	58.2982	66.8335
1 EUR = RR	68.8668	63.8111	66.0305	73.9924
1 UAH = RR	2.0496	2.2383	2.1933	2.6146
1 BYN = RR*	29.1013	30.9474	30.1790	33.5624

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.

3 Summary of Significant Accounting Policies (continued)

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

Intangible assets 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. 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.

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.

3 Summary of Significant Accounting Policies (continued)

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

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. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 2017, the Group recognised revenue from the application of the 'percentage-of-completion method' of RR 13,441,751 (2016: 12,709,673) (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.

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

(b) Provisions for claims received and legal proceedings

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

(c) 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 2017 would be either increase or decrease by RR 123,487 (2016: RR 117,502).

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

At 31 December 2017, the Group performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as well as performed mandatory annual impairment testing for the CGUs containing goodwill.

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

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

As a result of this analysis and testing, the Group concluded that no impairment charge was required at 31 December 2017 and for the year then ended.

(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.

(f) Retirement benefit obligations

The principal assumptions used in valuation of retirement benefit obligations are the discount rates used in determining the present value of post-employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 17). The Group's estimates for retirement benefit obligations are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Retirement benefit obligations are periodically adjusted based on updated actuarial assumptions.

(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 2017:

- *Amendments to IAS 7, Cash Flow*;
- *Amendments to IAS 12, Income Taxes;*
- *Annual Improvements to IFRS Standards 2014–2016 Cycle, Amendments to IFRS 12.*

The adoption of such amendments did not have a material impact on the Group's consolidated financial statements, except for the effects of amendments to IAS 7 as described below.

Amendments to IAS 7 Disclosure Initiative. The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings, disclosed in Note 16, and certain other financial liabilities (Notes 21, 23). A reconciliation between the opening and closing balances of these items is provided in respective notes. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosures described above, the application of these amendments has had no impact on the Group's consolidated financial statements.

New standards, amendments and interpretations. The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 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, IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle. The improvements consist of changes to the following standards: IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019*
Amendments to IFRS 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
Amendments to IFRS 9, Prepayment Features with Negative Compensation. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures. Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019*
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement. Clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	1 January 2019*
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
IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.	1 January 2019*
IFRS 9, Financial Instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2018
IFRS 16, Leases	1 January 2019
IFRS 17, Insurance contracts	1 January 2021*

5 New Standards, Amendments and Interpretations (continued)

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

- *Classification and measurement of financial assets.* All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The standard is effective from 1 January 2018 with early application permitted. The full impact of adopting IFRS 9 on the Group's consolidated financial statements in the year of adoption will depend on the financial instruments that the Group has during 2018 as well as on the economic conditions and judgments made as at the year end. The Group has elected not to restate comparatives on initial application of IFRS 9.

Based on a preliminary analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date, the management of the Group is expecting that the adoption of the new standard on 1 January 2018 will not have a significant impact on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations (continued)

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on the analysis of the Group's individual contracts' terms with customers and on the facts and circumstances that existed at 31 December 2017, the management of the Group does not expect that the application of IFRS 15 will have a significant impact on the Group's financial position and financial performance. In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15.

Management believes that other standards, amendments and interpretations which are to be adopted from 1 January 2018 will have no significant impact on the Group's consolidated financial statements of future periods. The impact on the consolidated financial statements of future periods of adoption of the pronouncements listed above, which are mandatory for the annual periods beginning on or after 1 January 2019, is currently assessed by management of the Group.

6 Subsidiaries

At 31 December 2017 and 2016, 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 2017 and 31 December 2016 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, % 2017	2016
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	100.00
Nizhnevartovskremservis CJSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Segment "Oil and gas equipment and projects"*				
HMS Neftemash JSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash JSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
Giprotyumenneftegaz PJSC*	Engineering services	Russia	45.34	45.34
Institute Rostovskiy Vodokanalproekt JSC*	Engineering services	Russia	85.70	85.70
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompessormash OJSC	Manufacture of compressors	Russia	89.86	89.86
NIITurbokompressor named after V.B.Shnepp JSC	Development of project documentation	Russia	98.39	98.39
Segment "Construction"*				
Tomskgazstroy PJSC*	Construction services	Russia	93.49	93.49

*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 JSC are presented within "Oil and gas equipment" segment since 1 January 2017, whereas previously these entities were included in "Engineering, procurement and construction" and "Industrial pumps" segments, respectively. Additionally, starting from 1 January 2017, "Engineering, procurement and construction" segment was renamed as "Construction" segment, and the "Oil and gas equipment" segment was renamed as "Oil and gas equipment and projects" segment (Note 35).

(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 2017						
Segment "Industrial pumps"						
Nasosenergomash PJSC	Ukraine	16.67	16.67	46,272	284,859	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	14,392	125,040	1,204
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(29,023)	(166,417)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	186,412	1,260,443	28,579
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(10,610)	1,204,575	7,147
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	46,751	406,968	583
Other subsidiaries with insignificant non-controlling interests	-	-	-	(18,360)	30,482	-

	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
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	(52,124)	1,217,114	3,156
Segment "Compressors"						
Kazankompessormash OJSC	Russia	10.14	5.73	5,574	360,177	493
Other subsidiaries with insignificant non-controlling interests	-	-	-	(18,915)	48,763	-

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

At 31 December 2017 and 2016, 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 2017				
Segment "Industrial pumps"				
Nasosenergomash PJSC	1,699,312	1,140,984	(660,315)	(470,876)
Plant Promburvod OJSC	168,964	140,123	(39,696)	(12,194)
Bobruisk Machine Building Plant OJSC	264,588	357,919	(203,884)	(805,205)
Dimitrovgradkhimmash JSC	1,906,806	1,226,146	(369,981)	(190,637)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	1,815,634	830,665	(236,104)	(206,616)
Segment "Compressors"				
Kazankompessormash OJSC	6,808,979	4,523,857	(5,877,028)	(1,441,851)
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)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	1,812,551	1,295,162	(668,707)	(212,488)
Segment "Compressors"				
Kazankompessormash OJSC	4,426,229	4,494,547	(4,560,855)	(807,464)

The summarised financial information about transactions and cash flows for the years ended 31 December 2017 and 2016 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 2017						
Segment "Industrial pumps"						
Nasosenergomash PJSC	2,481,071	277,621	77,688	179,810	(256,912)	8,091
Plant Promburvod OJSC	376,453	29,606	13,809	24,475	(17,051)	(2,807)
Bobruisk Machine Building Plant OJSC	841,541	(67,420)	(49,905)	(19,133)	(14,335)	24,988
Dimitrovgradkhimmash JSC	2,598,453	380,432	387,621	154,051	(100,171)	(51,128)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	1,150,348	(17,082)	(18,135)	75,694	135,718	(7,891)
Segment "Compressors"						
Kazankompessormash OJSC	9,012,202	464,411	461,500	422,900	(272,597)	(169,508)
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	83,689	(57,453)	(67,373)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	1,615,285	(104,853)	(80,123)	(87,423)	(113,641)	(6,424)
Segment "Compressors"						
Kazankompessormash OJSC	8,557,070	54,975	57,231	(244,243)	(104,011)	74,993

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

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2016	**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**
Additions	2,679	345,261	947,964	64,375	156,516	497,411	2,014,206
Transfers	-	338,882	185,297	-	4,270	(528,449)	-
Disposals	-	(25,914)	(97,565)	(26,905)	(44,006)	(3,799)	(198,189)
Translation to presentation currency	818	(34,045)	(79,876)	(1,957)	(6,891)	(2,498)	(124,449)
Balance at 31 December 2017	**1,466,130**	**9,883,453**	**8,395,648**	**321,090**	**1,049,375**	**1,019,426**	**22,135,122**
Accumulated depreciation and impairment							
Balance at 1 January 2016	**(7,993)**	**(1,887,739)**	**(3,063,476)**	**(207,455)**	**(581,447)**	**(9,751)**	**(5,757,861)**
Eliminated on disposals	-	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	-	-	(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)**
Eliminated on disposals	-	9,345	74,144	22,915	38,004	-	144,408
Depreciation expense	-	(343,333)	(726,409)	(29,982)	(135,148)	-	(1,234,872)
Impairment reversal	-	256	3,356	-	-	-	3,612
Translation to presentation currency	-	8,022	36,766	1,409	4,340	-	50,537
Balance at 31 December 2017	**(7,993)**	**(2,486,529)**	**(4,110,521)**	**(216,752)**	**(740,032)**	**(9,751)**	**(7,571,578)**
Carrying amount							
Carrying amount at 1 January 2016	**1,467,796**	**7,227,389**	**4,011,505**	**99,310**	**320,513**	**1,035,191**	**14,161,704**
Carrying amount at 31 December 2016	**1,454,640**	**7,098,450**	**3,941,450**	**74,483**	**292,258**	**1,047,010**	**13,908,291**
Carrying amount at 31 December 2017	**1,458,137**	**7,396,924**	**4,285,127**	**104,338**	**309,343**	**1,009,675**	**14,563,544**

At 31 December 2017, RR 233,062 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2016: RR 244,281), including RR 183,215 related to undrawn credit facilities (31 December 2016: RR 191,157) (Note 16).

At 31 December 2017, construction in progress includes capitalised expenses, related to the implementation of large investment project by the Group, for a total of RR 492,606 (31 December 2016: RR 366,374), 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 2017 was RR 55,716 (2016: RR 66,286). The capitalisation rate calculated using Group weighted average interest rate was 11.4%, except for borrowing costs related to the specific loan at interest rate of 5% (2016: the capitalisation rate using Group weighted average interest rate was 12.7%).

Construction-in-progress includes advances for capital expenditures for a total of RR 243,471 at 31 December 2017 (31 December 2016: RR 466,544).

At 31 December 2017, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 285,655 (31 December 2016: RR 324,899).

At 31 December 2017 and for the year then ended, the Group concluded that no impairment charge was required (Note 4). 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.

(in thousands of Russian Roubles, unless otherwise stated)

8 Other Intangible Assets

	Project documentation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
Balance at 1 January 2016	**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**
Additions	117,090	-	116,803	-	4,345	238,238
Disposals	(4,759)	-	(85,463)	-	(5,742)	(95,964)
Translation to presentation currency	5,615	24,087	(3,148)	-	(4)	26,550
Balance at 31 December 2017	**851,065**	**590,984**	**232,080**	**150,186**	**23,966**	**1,848,281**
Accumulated amortisation and impairment						
Balance at 1 January 2016	**(345,015)**	**(630,775)**	**(95,917)**	**(114,728)**	**(13,637)**	**(1,200,072)**
Amortisation on disposals	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)**
Amortisation on disposals	4,392	-	85,463	-	5,718	95,573
Amortisation expense	(131,340)	(56,315)	(82,223)	(20,167)	(5,964)	(296,009)
Translation to presentation currency	(7,385)	(11,990)	2,075	-	1	(17,299)
Balance at 31 December 2017	**(587,407)**	**(371,923)**	**(99,943)**	**(113,792)**	**(11,600)**	**(1,184,665)**
Carrying amount						
Carrying amount at 1 January 2016	**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**
Carrying amount at 31 December 2017	**263,658**	**219,061**	**132,137**	**36,394**	**12,366**	**663,616**

9 Goodwill

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

	2017	2016
Carrying amount at 1 January	**2,863,925**	**3,466,063**
Impairment loss	-	(370,360)
Effect of translation to presentation currency	73,770	(231,778)
Carrying amount at 31 December	**2,937,695**	**2,863,925**

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 2017	31 December 2016
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,004,767	930,997
Sibneftemash JSC	511,784	511,784
EPF “SIBNA” Inc. JSC	117,308	117,308
Dimitrovgradkhimmash JSC	64,027	64,027
Total carrying amount of goodwill	**2,937,695**	**2,863,925**

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill (continued)

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

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

	31 December 2017	31 December 2016
For Apollo Goessnitz GmbH CGU:		
Forecast period	8 years	8 years
Growth rate beyond 8 years	2.0%	2.0%
Pre-tax discount rate	13.4%	14.1%
For other CGUs:		
Forecast period	5-10 years	5-10 years
Growth rate beyond forecast period	4.0%	4.0%
Pre-tax discount rate	16.2%	17.4-17.6%

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

At 31 December 2016 and for the year then ended, 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:

	2017	2016
Carrying amount at 1 January	**88,724**	**106,040**
Share of after tax results of associates	(331)	(257)
Effect of translation to presentation currency	(3,564)	(17,059)
Carrying amount at 31 December	**84,829**	**88,724**

At 31 December 2017 and 2016, the Group owned a 47.69% interest in its associate VNIIAEN OJSC, located in Ukraine. VNIIAEN OJSC is a research and development centre, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

The table below summarises financial information of VNIIAEN OJSC:

	At 31 December 2017 and for the year then ended	At 31 December 2016 and for the year then ended
Total non-current assets	93,185	101,079
Total current assets	5,776	10,081
Total non-current liabilities	(5,520)	(6,224)
Total current liabilities	(5,935)	(9,263)
Revenue	63,665	67,241
Loss after tax	(695)	(530)
Other comprehensive loss	(8,168)	(36,310)

(in thousands of Russian Roubles, unless otherwise stated)

11 Cash and Cash Equivalents

	31 December 2017	31 December 2016
Cash on hand	2,587	2,007
RR denominated balances with banks	776,206	788,943
Foreign currency denominated balances with banks	354,822	317,071
RR denominated bank deposits	3,424,493	1,716,379
Foreign currency denominated bank deposits	54,179	116,392
Other cash equivalents	8,314	48,899
Total cash and cash equivalents	**4,620,601**	**2,989,691**

At 31 December 2017, the closing balance of short-term deposits denominated in foreign currencies comprised USD-denominated deposit of RR 37,973 (31 December 2016: nil) and UAH-denominated deposits of RR 16,206 (31 December 2016: RR 116,392).

12 Inventories

	31 December 2017	31 December 2016
Raw materials and supplies	3,567,204	3,321,090
Work in progress	3,077,326	2,676,819
Finished goods and goods for resale	1,131,566	1,230,384
Total inventories	**7,776,096**	**7,228,293**

Inventories are presented net of provision for obsolescence in amount of RR 532,530 at 31 December 2017 (31 December 2016: RR 375,201).

At 31 December 2017, inventories of RR 51,400 were pledged as collateral for certain borrowings (31 December 2016: RR 54,263) (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 2017	31 December 2016
Trade receivables	9,793,083	8,168,609
Less: provision for impairment of trade receivables	(346,628)	(350,854)
Short-term loans issued	88,991	116,770
Bank deposits	30,187	28,175
Other receivables	202,999	240,958
Less: provision for impairment of other receivables	(66,857)	(65,426)
Receivables due from customers for construction work (Note 18)	5,374,888	3,566,522
Financial assets, net	**15,076,663**	**11,704,754**
Prepayments and advances to suppliers and subcontractors	1,482,642	2,062,835
Less: provision for impairment of advances to suppliers and subcontractors	(21,753)	(22,696)
VAT receivable	339,445	247,179
Other taxes receivable	38,055	29,824
Non-financial assets, net	**1,838,389**	**2,317,142**
Total trade and other receivables and other financial assets	**16,915,052**	**14,021,896**

The VAT receivable balance comprises VAT related to export sales which is expected to be offset against VAT payable after appropriate confirmation is received from the tax authorities subsequent to the reporting date. Settlement of VAT receivables and payables is normally executed on net basis.

At 31 December 2017, the closing balance of bank deposits comprised USD-denominated deposit of RR 24,416 (31 December 2016: RR 18,414), EUR-denominated deposit of RR 4,821 (31 December 2016: RR 4,467), RUB-denominated deposits of RR 950 (31 December 2016: RR 5,294).

At 31 December 2017, trade receivables arising from certain sales contracts in the amount of RR 354,182 (31 December 2016: RR 265,263) were pledged as collateral for certain borrowings (Note 16).

At 31 December 2017, trade receivables of RR 346,628 (31 December 2016: RR 350,854) and other financial receivables of RR 66,857 (31 December 2016: RR 65,426) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties that are in unexpectedly difficult economic situations.

(in thousands of Russian Roubles, unless otherwise stated)

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

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 2016	**349,428**	**80,910**	**42,536**
Provision for receivables impairment	153,722	12,033	3,242
Unused amounts reversed	(121,584)	(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**
Provision for receivables impairment	84,577	6,856	1,433
Unused amounts reversed	(85,884)	(1,807)	(1,360)
Receivables written off during the year as uncollectible	(2,866)	(3,752)	(213)
Effect of translation to presentation currency	(53)	(185)	(803)
Foreign currency translation differences	-	319	-
At 31 December 2017	**346,628**	**66,857**	**21,753**

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 2017	31 December 2016
RR	13,979,310	11,008,264
EUR	426,321	319,812
USD	532,487	265,004
UAH	66,844	87,505
KZT	52,503	-
BYR	19,198	24,169
Financial assets, net	**15,076,663**	**11,704,754**

14 Other Long-term Assets

	31 December 2017	31 December 2016
Long-term loans issued	19,380	27,846
Financial assets	**19,380**	**27,846**
Other non-current assets	1,161	1,194
Non-financial assets	**1,161**	**1,194**
Total other long-term assets	**20,541**	**29,040**

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 2017 and 2016, the Group performed an 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 the impairment tests performed, the Group did not recognise any impairment of investment property at 31 December 2017 and 2016. 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 2017, the fair value of investment property approximates its carrying amount of RR 222,929 (31 December 2016: RR 233,994).

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings

	Interest rate	Denomi-nated in	31 December 2017	31 December 2016
Long-term unsecured loans and bonds:				
Unsecured bank loans	9.00% - 11.00%	RR	11,902,264	14,950,123
Bonds	10.75%	RR	2,992,865	-
Unsecured non-bank loans	5.00%	RR	500,000	500,000
Unsecured bank loans	EURIBOR+2.50%	EUR	-	13,362
			15,395,129	**15,463,485**
Less: current portion of long-term Borrowings			(2,330,000)	(2,692,999)
Total long-term borrowings			**13,065,129**	**12,770,486**
Short-term unsecured loans:				
Unsecured bank loans	9.90%	RR	186,000	539,418
Unsecured bank loans	3.75%	EUR	21,693	-
			207,693	**539,418**
Short-term secured bank loans:				
Secured loans	2.60% - 3.75%	EUR	261,143	262,433
Secured loans	9.10%	USD	48,803	50,225
Secured loans	12.00%	BYR	2,911	3,095
			312,857	**315,753**
Current portion of long-term borrowings			2,330,000	2,692,999
Interest payable			126,711	17,705
Total short-term borrowings			**2,977,261**	**3,565,875**

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

	31 December 2017	31 December 2016
RR	15,707,345	16,006,771
EUR	282,836	275,795
USD	49,181	50,669
BYN	3,028	3,126
Total borrowings	**16,042,390**	**16,336,361**

The table below details changes in the Group's borrowings:

Opening amount as at 1 January 2017	**16,336,361**
Cash flows:	
(Repayments of)/ proceeds from borrowings	(435,052)
Repayment of interest	(1,687,545)
Non-cash changes:	
Interest expense (Note 32)	1,724,554
Borrowing costs capitalised (Note 7)	55,716
Fees for early repayment of loans (Note 32)	48,000
Currency translation differences	19,546
Foreign exchange loss from borrowings, net (Note 32)	509
Other	(19,699)
Closing amount as at 31 December 2017	**16,042,390**

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

(in thousands of Russian Roubles, unless otherwise stated)

16 Borrowings (continued)

Assets pledged. At 31 December 2017, the Group pledged property, plant and equipment and inventories in total amount of RR 49,847 and RR 51,400 (31 December 2016: RR 53,123 and RR 54,263), respectively.

At 31 December 2017 and 2016, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 31 December 2017, the Group recognised trade receivables under these sales contracts in amount of RR 354,182 (31 December 2016: RR 265,263).

Breach of loan covenants. At 31 December 2017 and 2016, the unsecured non-bank loan in amount of RR 500,000 with initial maturity in 2018-2020 was presented within the current portion of long-term borrowings due to the breach of certain financial covenants related to operational performance of the large investment project, financed by this loan (Notes 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.

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 2017 and 2016:

	Russia and Belorussia		**Ukraine**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Discount rate	7.6%	8.5%	10.0%	9.7%
Inflation	4.4%	5.0%	8.6%	7.6%
Expected annual increase in salaries	5.5%	6.0%	10.6%	11.6%
Mortality tables	Russian Federation, 2010	Russian Federation, 2010	Russian Federation, 2010	Russian Federation, 2010

The following amounts were recognised in profit or loss:

	2017	**2016**
Service cost	(15,585)	34,684
Current service cost	*29,062*	*34,684*
*Past service cost**	*(44,647)*	*-*
Interest expense	51,734	58,037
Net actuarial loss/(gain) on other long-term employment benefit obligations	99	(2,242)
Net periodic benefit expense	**36,248**	**90,479**

(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 2016	**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**
Current service cost	26,394	2,668	29,062
Interest expense	49,467	2,267	51,734
Past service cost*	(44,647)	-	(44,647)
Benefits paid	(31,845)	(4,299)	(36,144)
Effect of translation to presentation currency	(22,685)	-	(22,685)
Remeasurements, including:	23,313	99	23,412
actuarial loss from changes in financial assumptions	*39,690*	*1,743*	*41,433*
experience gain	*(16,377)*	*(1,644)*	*(18,021)*
Present value of defined benefit obligations at 31 December 2017	**551,254**	**41,496**	**592,750**

*In October 2017, amendments to the Ukrainian national legislation related to professional pensions were issued. The Group has assessed the effect of these changes on the retirement benefit obligation of the Ukrainian subsidiary of the Group and this effect has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

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 2017	31 December 2016
Short-term	67,314	72,621
Long-term	525,436	519,397
Present value of defined benefit obligations at the end of the year	**592,750**	**592,018**

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

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

		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)

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.

(in thousands of Russian Roubles, unless otherwise stated)

17 Retirement Benefit Obligations (continued)

The weighted average duration of the defined benefit obligations was 8 years at 31 December 2017 and 2016.

The expected contributions under voluntary defined benefit pension programs in 2018 are expected to be approximately RR 54,487.

18 Construction Contracts

During 2017 and 2016, 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:

	2017	2016
Construction contracts revenue	13,441,751	12,709,673
Contract cost expensed	(10,163,499)	(10,040,096)
Gross margin	**3,278,252**	**2,669,577**

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 2017	31 December 2016
Aggregate amount of contract costs incurred	15,285,234	12,325,211
Aggregate amount of recognised profits	5,033,475	2,468,735
Aggregate amount of recognised losses	(75,554)	(63,122)
Less: Progress billings	(14,868,267)	(11,164,302)
Gross amount due from customers for contract work	**5,374,888**	**3,566,522**

Contracts with net amount owed by the Group	31 December 2017	31 December 2016
Aggregate amount of contract costs incurred	10,010,975	5,637,024
Aggregate amount of recognised profits	2,804,097	2,280,296
Aggregate amount of recognised losses	(10,930)	(53,423)
Less: Progress billings	(15,954,747)	(8,296,145)
Gross amount due to customers for contract work	**(3,150,605)**	**(432,248)**

	31 December 2017	31 December 2016
Advances from customers, related to construction contracts	388,039	31,556
Retentions	139,165	105,358

19 Trade and Other Payables

	31 December 2017	31 December 2016
Trade payables	6,992,938	5,777,979
Other payables	739,890	508,735
Financial trade and other payables	**7,732,828**	**6,286,714**
Advances from customers	3,027,123	2,627,225
Payables due to customers for construction work (Note 18)	3,150,605	432,248
Wages and salaries payable	1,170,644	1,070,968
Other non-financial payables	**7,348,372**	**4,130,441**
Total trade and other payables	**15,081,200**	**10,417,155**

20 Other Taxes Payable

	31 December 2017	31 December 2016
VAT	665,844	391,808
Social funds contribution	213,393	206,163
Personal income tax	90,262	70,111
Property tax	20,550	22,420
Land tax	10,800	10,240
Transport tax	2,909	1,759
Other taxes	1,233	2,276
Total other taxes payable	**1,004,991**	**704,777**

(in thousands of Russian Roubles, unless otherwise stated)

21 Other Long-term Payables

	31 December 2017	31 December 2016
Deferred income related to Government grant 1	106,776	120,164
Deferred income related to Government grant 2	93,000	33,000
Other deferred income	3,885	4,897
Long-term deferred income	**203,661**	**158,061**
Finance lease liability	733	4,923
Total other long-term payables	**204,394**	**162,984**

Government grant 1. During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech equipment for metering of extracted oil and gas at the oilfields. The project is being implemented together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash JSC received funds in amount of RR 150,000 from the Federal budget for realisation of this project; additionally, own funds were invested by the Group in amount of RR 150,000. At 31 December 2017, under this project, the long-term liability in amount of RR 106,776 (31 December 2016: RR 120,164) and other short-term payables in amount of RR 11,864 (31 December 2016: RR 13,352) were recognised as deferred income. The grant is subject to certain conditions set for the period till 2020 inclusive, including amounts of own investments, volume of production produced by the results of development, number of jobs created and safeguarded, and the number of students involved in the execution of the project. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with the required conditions. At 31 December 2017, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

Government grant 2. During the year ended 31 December 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000. Such subsidies are provided for the development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents. Under the grant, during 2016-2018, Sibneftemash JSC is entitled to receive funds in amount of RR 170,000 from the Federal budget for realisation of this project; additionally, not less than RR 170,000 should be invested by the Group. During 2017, the Group obtained grants in amount of RR 60,000 (2016: RR 50,000) and also invested its own funds in amount of RR 60,000 (2016: RR 50,000) to the project. At 31 December 2017, under this project, the long-term liability in amount of RR 93,000 was recognised as deferred income (31 December 2016: RR 33,000). At 31 December 2017, the requirement of own investments to the project was fully complied with by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

22 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2016	**314,865**	**269,410**	**-**
Additional provisions	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**
Additional provisions	350,258	316,369	96,329
Unused amounts reversed	(120,312)	(120,539)	(18,528)
Provision used during the period	(278,854)	(8,279)	(9,464)
Effect of translation to presentation currency	(183)	(519)	-
At 31 December 2017	**331,443**	**475,836**	**81,433**

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 2017, the closing balance of the warranty provision comprised a short-term portion of RR 214,608 and a long-term portion of RR 116,835 (31 December 2016: RR 229,175 and RR 151,359, respectively).

Provision for legal claims. The balance at 31 December 2017 is expected to be utilised by the end of 2018. 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.

(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 2016	**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)**
Movements during 2017	-	-	-	-	(81,438)
At 31 December 2017	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(404,994)**

At 31 December 2017 and 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.

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

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.

At 31 December 2017, the Company, via a wholly-owned subsidiary, is holding 1,033,887 (31 December 2016: 865,869) of its own GDRs with the total cost of RR 404,994 (31 December 2016: RR 323,556). 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 2017 of 6.83 Russian Roubles per ordinary share, amounting to a total dividend of RR 800,226, 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 2018.

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

At the Annual General Meeting in June 2017, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2016 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 576,746. This dividend was paid in June 2017.

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

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. This dividend was paid in June 2016.

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

	2017	2016
Profit for the year attributable to ordinary shareholders	1,834,264	1,196,789
Weighted average number of ordinary shares outstanding (thousands)	112,413	113,667
Basic and diluted earnings per ordinary share (expressed in RR per share)	**16.32**	**10.53**

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.

As the scenario, the Program's Fund is equal to 5% of the Company's share capital in the form of GDRs, subject to 100% achievement of the KPIs. The actual size of the Fund can range from zero to 6% depending on the KPI's accomplishment.

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

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

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

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

The detailed information on awards outstanding at 31 December 2017 and 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	-	107,790
2017	31 December 2019	17	1,907,980	-	178,035

For the year ended 31 December 2017, the Group recognised share-based compensation expense of RR 107,147 (2016: 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 93,218 (2016: RR 35,917) and the respective personal income tax effect of RR 13,929 (2016: RR 5,367). The Group also recognised related social security contributions expense of RR 16,393 (2016: RR 6,316).

For the year ended 31 December 2017, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 30,669 (2016: RR 7,077) and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings for the year amounted to RR 62,549 (2016: RR 28,840).

(in thousands of Russian Roubles, unless otherwise stated)

25 Income Taxes

Income tax expense for the year ended 31 December 2017 and 2016 included:

	2017	2016
Current tax	875,030	651,052
In respect of the current period	*794,294*	*651,052*
*In respect of prior years**	*80,736*	-
Deferred tax	3,319	43,423
Total income tax expense	**878,349**	**694,475**

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

	2017	2016
Profit before income tax	**2,948,447**	**1,892,905**
Income tax expense calculated at 20% (2016: 20%)	(589,689)	(378,581)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of the difference in tax rates in countries other than the Russian Federation	27,164	3,264
Share-based compensation expense	6,134	1,415
Dividend withholding tax provision	1,381	(10,000)
Current tax in respect of prior years*	(80,736)	-
Effect of tax on intragroup dividends received	(73,649)	(63,656)
Tax losses for which no deferred income tax asset was recognised	(61,969)	(39,852)
Change in retirement benefits obligations, social expenditures and charity non-deductible for tax purposes	(12,038)	(21,447)
Impairment of taxes receivable	(1,241)	(20,390)
Impairment of goodwill	-	(74,072)
Other non-deductible expenses not subject to tax	(93,706)	(91,156)
Total income tax expense	**(878,349)**	**(694,475)**

*During 2017, Russian tax authorities conducted tax audits of some subsidiaries of the Group for prior years, which led to the recognition of current tax of prior years in amount of RR 80,736. Out of this total, the amount of RR 61,752 relates to certain tax decisions, which the management is going to challenge in the Court of Arbitration of the Russian Federation.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

25 Income Taxes (continued)

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

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

	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)**

At 31 December 2017, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 12,460,294 (31 December 2016: RR 12,222,838) 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 8,926 (2016: RR 4,402) and recognized deferred tax asset in the amount of RR 13,661 on the loss incurred by its certain subsidiaries in 2017 (2016: RR 52,119).

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.

(in thousands of Russian Roubles, unless otherwise stated)

26 Revenue

	2017	2016
Sales of oil and gas equipment	21,681,520	15,948,838
Sales of pumps	12,819,030	12,984,242
Sales of compressor equipment	5,443,085	8,445,724
Revenue from construction and design and engineering services	2,167,966	2,462,497
Sales of other services and goods	2,310,576	1,741,087
Total revenue	**44,422,177**	**41,582,388**

27 Cost of Sales

	2017	2016
Materials and components	22,036,096	20,171,610
Labour costs	5,116,171	4,626,857
Social taxes	1,411,853	1,291,999
Construction, design and engineering and other services of subcontractors	1,365,142	2,172,921
Depreciation and amortisation	1,307,360	1,339,837
Utilities	483,795	489,693
Change in provision for obsolete inventories	163,520	45,922
Change in retirement benefits obligations	27,103	67,661
Change in work in progress and finished goods	(522,937)	(463,059)
Change in warranty provision	(48,908)	67,297
Amortisation of government grants	(16,777)	(15,108)
Other expenses	1,213,189	1,002,879
Total cost of sales	**32,535,607**	**30,798,509**

28 Distribution and Transportation Expenses

	2017	2016
Transportation expenses	616,415	577,198
Labour costs	528,207	483,523
Insurance	160,254	41,090
Social taxes	120,161	110,263
Lease expense	56,688	67,412
Advertising	46,910	34,184
Material expenses	41,412	36,088
Entertaining costs and business trip expenses	40,006	38,582
Customs duties	25,189	10,955
Depreciation and amortisation	17,186	18,504
Agency services	17,017	170,931
Telecommunication services	16,547	15,957
Products certification	15,855	29,215
Change in retirement benefits obligations	644	1,592
Other expenses	82,476	64,116
Total distribution and transportation expenses	**1,784,967**	**1,699,610**

(in thousands of Russian Roubles, unless otherwise stated)

29 General and Administrative Expenses

	2017	2016
Labour costs	2,765,751	2,534,067
Social taxes	578,127	523,445
Taxes and duties	227,606	212,510
Depreciation and amortisation	206,955	184,404
Bank services	202,009	153,416
Consulting and other professional fees	117,591	90,666
Insurance	110,912	48,234
Entertaining costs and business trip expenses	103,919	98,920
Property, plant and equipment repair and maintenance	83,630	82,542
Stationary and office maintenance	75,852	77,819
Security	69,254	64,385
Lease expense	45,570	47,027
Auditors' remuneration	36,034	33,544
Telecommunications services	30,204	32,047
Training and recruitment	19,532	14,421
Change in provision for tax risks, other than income tax	14,984	13,096
Change in retirement benefits obligations	8,501	21,226
Change in provision for impairment of trade and other receivables and other financial assets	3,815	38,179
Change in provision for VAT receivable	-	(5,496)
Other expenses	298,840	258,731
Total general and administrative expenses	**4,999,086**	**4,523,183**

The auditors' remuneration stated above includes fees for the audit of the Group's consolidated financial statements in amount of RR 18,546 (2016: RR 17,003), fees for statutory audit services of the Group parent and subsidiaries in amount of RR 7,954 (2016: RR 8,441) and fees for other assurance services in amount of RR 9,534 (2016: RR 8,100) charged by the Group's audit firm and by the auditors of the subsidiaries of the Group.

Consulting and other professional fees include tax services charged by the Group's audit firm in amount of RR 180 (2016: 195) and other consultancy services charged by the Group's audit firm and by the auditors of the subsidiaries of the Group in amount of RR 2,745 for the year ended 31 December 2017 (2016: RR 1,600).

30 Other Operating Expenses, net

	2017	2016
Change in provision for legal claims	195,830	55,408
Charity, social expenditures	126,132	185,312
Foreign exchange loss, net	72,300	65,031
Loss from disposal of property, plant and equipment and intangible assets	45,822	9,053
Fines and late payment interest under contracts	42,340	59,940
Loss/(gain) on purchase/sale of foreign currency, net	17,857	(2,087)
Depreciation of social assets	10,445	10,912
Impairment of taxes receivable	6,204	101,948
Loss on revaluation of redemption liability (Note 37)	-	17,960
Other expenses, net	30,377	44,409
Total other operating expenses, net	**547,307**	**547,886**

31 Finance Income

	2017	2016
Interest income	167,296	194,122
Foreign exchange gain/(loss) from deposits, net	1,364	(19,909)
Total finance income	**168,660**	**174,213**

(in thousands of Russian Roubles, unless otherwise stated)

32 Finance Costs

	2017	2016
Interest expense	1,724,554	2,008,927
Fees for early repayment of loans	48,000	-
Finance lease expenses	2,029	1,097
Foreign exchange loss/(gain) from borrowings, net	509	(104,818)
Total finance costs	**1,775,092**	**1,905,206**

33 Balances and Transactions with Related Parties

At 31 December 2017, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares (31 December 2016: 71.51%), including shares in the form of GDRs. At 31 December 2017 and 2016, the Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

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

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

The table below contains the disclosure by group of related parties with which the 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 2017**		**31 December 2016**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	2,429	-	788	-
Accounts payable	2,485	147,313	6,160	164,222

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

Transactions with related parties	**2017**		**2016**	
	Associates	**Other**	**Associates**	**Other**
Sales of goods and finished products	4,636	-	8,571	9,894
Other income	2,424	-	2,142	684
Purchase of intangible assets	(29,114)	-	(27,979)	-
Rent expense	(12,571)	-	(12,037)	-
Purchase of raw materials	(10,539)	-	(6,963)	-
Development costs expensed	(9,233)	-	(14,995)	-
Purchase of services	(9,064)	-	(10,197)	-

Key management compensation

Key management compensation amounted to RR 440,209 for the year ended 31 December 2017 (2016: RR 371,533) 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 368,784 (2016: RR 344,009) as well as share-based compensation of RR 71,425 (2016: RR 27,524). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 39,566 (2016: RR 38,228) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 143,832 for the year ended 31 December 2017 (2016: RR 115,755), including share-based compensation of RR 19,477 (2016: RR 7,505).

For the year ended 31 December 2017, dividends of RR 27,847 were accrued and paid by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (2016: RR 36,086).

34 Contingencies and Commitments

(i) Legal proceeding

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. At 31 December 2017, management concluded that possible risk related with various claims and legal proceedings amounted to RR 213,627 (31 December 2016: there was no material possible risk). All probable legal risks are provided for (Note 22).

(ii) Tax legislation

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

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

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

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

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

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

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. At 31 December 2017, the provision accrued amounted to RR 81,433 (31 December 2016: RR 13,096). At 31 December 2017, management concluded that there were no matters where practice concerning payments of taxes is unclear (31 December 2016: possible tax exposure was approximately RR 27 million, before any fines and interest).

(iii) Environmental matters

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

(iv) Insurance policies

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

(in thousands of Russian Roubles, unless otherwise stated)

34 Contingencies and Commitments (continued)

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 31 December 2017, commitments for purchase of the services amounted to RR 42,879 (31 December 2016: RR 86,179).

At 31 December 2017, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 285,655 (31 December 2016: RR 324,899).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. At 31 December 2017, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement. 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 2017, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement. 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 2017 and 2016, the Group was in compliance with all its loan covenants, except for the breach of certain financial covenants on a non-bank loan of RR 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.

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

	31 December 2017	31 December 2016
1	HMS Livhydromash JSC	HMS Livhydromash JSC
2	Livnynasos JSC	Livnynasos JSC
3	Nasosenergomash PJSC	Nasosenergomash PJSC
4	HYDROMASHSERVICE JSC	HYDROMASHSERVICE JSC
5	Plant Promburvod OJSC	Plant Promburvod OJSC
6	Bobruisk Machine Building Plant OJSC	Bobruisk Machine Building Plant OJSC
7	Dimitrovgradkhimmash JSC	Dimitrovgradkhimmash JSC
8	Apollo Goessnitz GmbH	Apollo Goessnitz GmbH
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

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

1	HMS Neftemash JSC	HMS Neftemash JSC
2	Sibneftemash JSC	Sibneftemash JSC
3	EPF "SIBNA" Inc. JSC	EPF "SIBNA" Inc. JSC
4	Trade House Sibneftemash LLC	Trade House Sibneftemash LLC
5	Giprotyumenneftegaz PJSC	Giprotyumenneftegaz PJSC
6	Institute Rostovskiy Vodokanalproekt JSC	Institute Rostovskiy Vodokanalproekt JSC

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

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

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

1	HMS Group Management LLC	HMS Group Management LLC
2	HMS Group JSC	HMS Group JSC
3	Hydromashkomplekt LLC	Hydromashkomplekt LLC
4	HMS Hydraulic Machines & Systems Group plc	HMS Hydraulic Machines & Systems Group plc
5	H.M.S. FINANCE LIMITED	H.M.S. FINANCE LIMITED
6	H.M.S. CAPITAL LIMITED	H.M.S. CAPITAL LIMITED
7	CMPC LLC	CMPC LLC
8	HMS New Urengoy-Property LLC	-
9	HMS Tyumen-Property LLC	-

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 JSC are presented within "Oil and gas equipment" segment since 1 January 2017, whereas previously these entities were included in the "Engineering, procurement and construction" and "Industrial pumps" segments, respectively. Additionally, starting from 1 January 2017, the "Engineering, procurement and construction" segment was renamed as the "Construction" segment, and the "Oil and gas equipment" segment was renamed as the "Oil and gas equipment and projects" segment. Following this change in composition of its reportable segments, the Group has restated the corresponding items of segment information for the year ended 31 December 2016.

Geographically, management considers non-current assets by their location and revenue based on the location of the Group's customers.

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, compressors, oil and gas construction and the other products and services.

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

Management of the Group assesses the performance of operating segments based on a measure of Adjusted EBITDA, which is derived from the management report.

For this purpose, Adjusted EBITDA is defined as operating profit/(loss) adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, 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.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2017 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	16,634,919	21,196,981	5,542,990	1,044,614	2,673	-	**44,422,177**
Intersegment revenue	852,631	339,428	3,587,292	180	1,691,992	-	**6,471,523**
Adjusted EBITDA	3,147,701	2,592,432	1,142,823	(75,057)	(65,976)	96,790	**6,838,713**

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

The restated 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 and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	15,605,878	16,636,298	8,652,639	683,008	4,565	-	**41,582,388**
Intersegment revenue	1,114,561	130,214	47,533	1,125	1,582,178	-	**2,875,611**
Adjusted EBITDA	2,791,005	2,961,152	618,598	(39,835)	99,236	(60,953)	**6,369,203**

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

	2017						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**3,147,701**	**2,592,432**	**1,142,823**	**(75,057)**	**(65,976)**	**96,790**	**6,838,713**
Depreciation and amortisation	(756,129)	(298,799)	(406,787)	(48,680)	(31,551)	-	**(1,541,946)**
Non-monetary items[(1)]	(170,426)	(187,612)	(40,460)	(17,368)	62	-	**(415,804)**
Amortisation of government grants (Note 27)	-	16,777	-	-	-	-	**16,777**
Other operating (expenses)/ income, net[(2)]	(219,588)	(14,471)	(108,590)	55,004	(52,939)	(1,946)	**(342,530)**
Operating profit/(loss), IFRS	**2,001,558**	**2,108,327**	**586,986**	**(86,101)**	**(150,404)**	**94,844**	**4,555,210**
Finance income							168,660
Finance costs							(1,775,092)
Share of results of associate							(331)
							2,948,447

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, 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.

	2016 (restated)						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**2,791,005**	**2,961,152**	**618,598**	**(39,835)**	**99,236**	**(60,953)**	**6,369,203**
Depreciation and amortisation	(719,751)	(342,953)	(405,858)	(59,590)	(25,505)	-	**(1,553,657)**
Non-monetary items[(1)]	(199,446)	(109,233)	(85,294)	78,634	(4,767)	-	**(320,106)**
Other operating (expenses)/ income, net[(2)]	(388,219)	15,376	(55,476)	(41,040)	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	**1,464,904**	**2,153,982**	**71,970**	**(61,831)**	**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.

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

In 2016 revenue from any single customer did not exceed 10% of the Group's consolidated revenue.

(in thousands of Russian Roubles, unless otherwise stated)

35 Segment Information (continued)

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

	Consolidated revenue for 2017	Consolidated revenue for 2016	Non-current assets at 31 December 2017[(1)]	Non-current assets at 31 December 2016[(1)]
Total revenue/ non-current assets	44,422,177	41,582,388	18,387,784	17,718,737
Including				
Russia	41,167,219	37,942,892	15,369,468	14,719,694
Iraq	676,832	36,766	-	-
Kazakhstan	661,171	315,832	-	-
Belorussia	287,372	272,031	379,569	408,785
Ukraine	282,724	375,752	1,059,123	1,052,076
Germany	281,568	822,593	1,579,624	1,538,182
Italy	268,700	17,259	-	-
Turkmenistan	49,756	353,693	-	-
China	-	444,732	-	-
Others	746,835	1,000,838	-	-

[(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.

(a) Market risk

(i) Foreign exchange risk

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. 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 2017			31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	1,153,324	(560,462)	592,862	845,067	(538,812)	306,255
EUR	196,109	(828,120)	(632,011)	129,836	(531,334)	(401,498)
RR	400,636	(708,699)	(308,063)	508,152	(590,346)	(82,194)

At 31 December 2017, 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 94,858 lower/higher (31 December 2016: profit for the year would have been RR 49,001 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables.

At 31 December 2017, if RR had strengthened/weakened by 20% against the Euro with all other variables held constant, profit for the year would have been RR 101,122 higher/lower (31 December 2016: profit for the year would have been RR 64,240 higher/lower), mainly as a result of foreign exchange gains/losses on translation of Euro denominated trade payables.

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

Certain Group subsidiaries with functional currencies other than Russian rouble hold RR-denominated financial assets and liabilities. At 31 December 2017, if respective functional currencies of such subsidiaries had strengthened/weakened by 20% against the RR with all other variables held constant, profit for the year would have been RR 49,290 higher/lower (31 December 2016: profit for the year would have been RR 13,151 higher/lower), mainly as a result of foreign exchange gains/losses on translation of RR denominated trade receivables and borrowings.

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

(ii) Interest rate risk

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

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

At 31 December 2017, 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 106,123 lower/higher (31 December 2016: RR 140,081 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 2017	31 December 2016
Trade and other receivables (Note 13, 14)		
- Trade receivables	9,446,455	7,817,755
- Other financial receivables	5,649,588	3,914,845
Cash and cash equivalents (Note 11)		
- Bank balances	4,618,014	2,987,684
- Cash on hand	2,587	2,007
Total on-balance sheet exposure	**19,716,644**	**14,722,291**
Total maximum exposure to credit risk	**19,716,644**	**14,722,291**

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.

(in thousands of Russian Roubles, unless otherwise stated)

36 Financial Risk Management (continued)

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

Agency	Rating	31 December 2017	31 December 2016
S&P's[2]	AA- – A	137,446	160,220
Expert RA[4]	A+ – A	391	-
Expert RA[4]	BBB+	3,272	-
National Rating Agency[7]	A+	218,712	147,622
Fitch[3]	BBB- – B-	53,071	151,610
Fitch[3]	AA- - A	39,348	-
Moody's[1]	Ba1 – B2	4,039,289	2,373,118
S&P's[2]	BBB+ – B-	80,296	50,574
Moody's[1]	less than B3	880	1,173
Expert-rating[5]	uaAAA	2,150	3,030
IBI-Rating[6]	uaBBB+	40,782	97,364
Other	-	2,377	2,973
Total		**4,618,014**	**2,987,684**

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

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.

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

	31 December 2017		31 December 2016	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Not overdue and not impaired	**8,061,667**	**5,618,193**	**6,649,763**	**3,866,382**
Total past due but not impaired, including:	**1,384,788**	**31,395**	**1,167,992**	**48,463**
- less than 60 days overdue	898,513	5,433	525,890	35,742
- 61 to 180 days overdue	227,773	8,215	403,950	4,010
- 181 to 365 days overdue	105,435	3,480	118,302	3,432
- over 365 days overdue	153,067	14,267	119,850	5,279
Individually impaired (gross), including:	**346,628**	**66,857**	**350,854**	**65,426**
- not overdue	13,624	2,012	7,046	-
- less than 60 days overdue	-	-	114	16
- 61 to 180 days overdue	9,484	-	580	2,799
- 181 to 365 days overdue	4,292	-	45,533	6,023
- over 365 days overdue	319,228	64,845	297,581	56,588
Less provision for impairment	**(346,628)**	**(66,857)**	**(350,854)**	**(65,426)**
Total	**9,446,455**	**5,649,588**	**7,817,755**	**3,914,845**

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 2017 is RR 15,096,043 (31 December 2016: RR 11,732,600).

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 2017	42	12,708,666	82%
At 31 December 2016	35	8,706,932	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 2017 and 2016:

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

		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	-	-	-

(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 2017 and 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 2017 and 2016, the Group had the following unutilised credit lines:

	31 December 2017	**31 December 2016**
Committed	385,172	3,169,562
Uncommitted	10,822,268	5,519,822
Total unutilised credit lines	**11,207,440**	**8,689,384**

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 2017	**31 December 2016**
Liquidity ratio	1.48	1.59
Current assets	29,490,315	24,409,530
Current liabilities	19,975,253	15,344,781

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 2017 and 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 2017	**31 December 2016**
Long-term borrowings	13,065,129	12,770,486
Short-term borrowings	2,977,261	3,565,875
Total debt	**16,042,390**	**16,336,361**
Cash and cash equivalents	(4,620,601)	(2,989,691)
Net debt	**11,421,789**	**13,346,670**
Equity attributable to the shareholders of the Company	9,711,136	9,111,924
Non-controlling interests	3,145,950	2,972,005
Total capital	**12,857,086**	**12,083,929**
Gearing ratio	**89%**	**110%**

37 Fair Value of Financial Instruments

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

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

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

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

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

37 Fair Value of Financial Instruments (continued)

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). At 31 December 2017, the fair value of bonds was RR 153,535 higher than their carrying amounts. The fair value of borrowings was based on Level 2 inputs. At 31 December 2017, the fair value of borrowings was RR 155,293 higher than their carrying amounts (31 December 2016: the fair value of borrowings was RR 287,285 higher than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

38 Subsequent Events

Borrowings. Subsequent to the statement of financial position date, the interest rates for certain long-term and short-term borrowings amounting to approximately RR 9.1 billion were decreased from 9.25%-11.00% per annum to 8.5%-8.95% per annum based on the revisions of loan agreements and the refinancing existing credit lines at lower interest rates.

Additionally, subsequent to the statement of financial position date, the Group increased its debt approximately by RR 1.4 billion due to its operating needs.

Treasury shares. In April 2018, 43,000 GDRs of the Company representing 0.18% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 23,454.