HMS Hydraulic Machines & Systems Group plc

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

31 December 2020

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Board of Directors

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

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

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

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

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

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

Mr. Vyacheslav G. Tsoy
Non-executive Director

Mr. Andreas S. Petrou
Non-executive Director

Board support

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

Company Secretary

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Registered office

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The Board of Directors presents its consolidated management report together with the audited consolidated financial statements for the year ended 31 December 2020. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

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

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

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

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

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

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

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

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

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

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

Definitions to Non-IFRS financial measures

Adjusted EBITDA is defined as operating profit/(loss) adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expenses, allowances and provisions (including allowance for obsolete inventory, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, warranty provision, provision for legal claims, tax provision and other provisions).

EBITDA Margin is calculated as Adjusted EBITDA divided by Revenue.

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

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

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

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

Backlog represents a portfolio of signed uncompleted contracts.

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

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

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

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

Non-Financial Information

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

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

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

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

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

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

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

Principal risks and uncertainties

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

The Group’s contingencies are disclosed in Note 31 to the consolidated financial statements.

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

Future developments

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

Research and development activities

The Group is undertaking a number of research and development projects and actively participating in the government-initiated process of import substitution in all its main business segments.

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

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

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

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

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

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

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

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

Results

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

Dividends

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

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

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

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

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

At the Annual General Meeting in June 2019, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2018 of 5.97 Russian Roubles per ordinary share amounting to a total dividend of RR 675,897 thousand. These dividends were paid in July 2019.

Share capital

At 31 December 2020, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 20 of the consolidated financial statements.

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

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

The role of the Board of Directors

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

Members of the Board of Directors

The members of the Board of Directors at 31 December 2020 and at the date of this report are shown on page 1.

In accordance with the Company's Articles of Association one third of Directors or, if their number is not three or a multiple of three, then the number nearest one-third shall retire by rotation and are entitled to run for re-election. Giorgio Veronesi, Ezio Vergani and Andreas S. Petrou shall retire by rotation and will be entitled to run for re-election on the Company's Annual General Meeting.

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

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2020 and 31 December 2019 are shown below:

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

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

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 36 to the consolidated financial statements.

The Board Committees

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

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

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

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

Corporate governance

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

Board and management remuneration

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

Branches

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

Treasury shares

The Group has in place a buy-back program, approved by the shareholders of HMS Hydraulic Machines & Systems Group plc, aimed at the accumulation of the GDRs fund for the Long-term Incentive Program, covering the Group's key executives (Note 21). Under this program, a wholly-owned subsidiary of the Group from time to time purchases GDRs of the Company from the market.

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

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

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

In May 2019, 414,718 GDRs of the Company representing 1.77% of its issued share capital with the total cost of RR 167,804 thousand were transferred to the participants under the Long-term Incentive Program (Note 20, 21).

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2021, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
21 April 2021

Directors' responsibility statement

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 16 to 63) give a true and fair view of the financial position of HMS Hydraulic Machines & Systems Group plc and its subsidiaries (together with the Company, the "Group") at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board

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

Deloitte.

INVESTORS IN PEOPLE | Platinum Until 2020

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Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (the "Group"), which are presented in pages 16 to 63 and comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Deloitte.

Independent Auditor's Report (Continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

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

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

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 testing of goodwill

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

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

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

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

In this area our audit procedures included the following:

- obtaining an understanding of key controls around the impairment review processes;
- analysing the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2020 and comparing the forecast performance to the Board approved long-term plans;
- assessing forecasted revenues for the year ending 31 December 2021 against actual performance up to the date of this report, existing backlog (including revenues already contracted but not earned) and analysing respective variances;
- with the assistance of our internal valuation specialists, assessing management's methodology used in calculating the discount rates applied, forecasted revenue growth rates and inflation rates embedded in cash flow forecasts and comparing the long-term growth rates for each cash generating unit to economic forecasts;
- assessing the appropriateness of the sensitivities applied by management to the impairment testing models and whether the scenarios reflect reasonably possible changes in key assumptions. We performed further sensitivity analysis based on our understanding of the future prospects to identify whether these scenarios could give rise to further impairment;
- verifying the arithmetic accuracy of the impairment model; and
- checking the adequacy of the disclosures in the consolidated financial statements with the requirements of accounting standards in respect of impairment testing and disclosure of the key judgements applied by management in the cash flow forecasts and impairment review.

The above procedures were completed in a satisfactory manner.

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Reporting on other information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 20 June 2014 by the General Meeting of shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 7 years.

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)

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 April 2021 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

Deloitte.

Independent Auditor's Report (continued)

To the Members of HMS Hydraulic Machines & Systems Group Plc

Other Matter

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

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

....
Andreas Georgiou
Certified Public Accountant and Registered Auditor
for and on behalf of

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

Limassol, 21 April 2021

(in thousands of Russian Roubles, unless otherwise stated)

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

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

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

(in thousands of Russian Roubles, unless otherwise stated)

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

(in thousands of Russian Roubles, unless otherwise stated)

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

(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2018		**48,329**	**3,523,535**	**(461,630)**	**122,730**	**123,918**	**7,847,636**	**11,204,518**	**3,386,155**	**14,590,673**
Profit/(loss) for the year		-	-	-	-	-	(93,932)	(93,932)	244,562	**150,630**
Other comprehensive (loss)/income										
Remeasurement of post-employment benefit obligations	15	-	-	-	-	-	(38,163)	(38,163)	(26,510)	**(64,673)**
Currency translation differences		-	-	-	-	(170,652)	-	(170,652)	29,283	**(141,369)**
Currency translation differences of associates		-	-	-	-	1,856	-	1,856	-	**1,856**
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**-**	**(168,796)**	**(132,095)**	**(300,891)**	**247,335**	**(53,556)**
Buy back of issued shares	20	-	-	(25,649)	-	-	-	(25,649)	-	**(25,649)**
Share-based compensation	21	-	-	-	-	-	97,240	97,240	-	**97,240**
Transfer of GDRs under Long-term Incentive Program	20,21	-	-	167,804	(60,014)	-	(107,790)	-	-	**-**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(63,537)	**(63,537)**
Dividends declared to the shareholders of the Company	20	-	-	-	-	-	(675,897)	(675,897)	-	**(675,897)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**142,155**	**(60,014)**	**-**	**(686,447)**	**(604,306)**	**(63,537)**	**(667,843)**
Balance at 31 December 2019		**48,329**	**3,523,535**	**(319,475)**	**62,716**	**(44,878)**	**7,029,094**	**10,299,321**	**3,569,953**	**13,869,274**
(Loss)/profit for the year		-	-	-	-	-	(971,996)	(971,996)	155,705	**(816,291)**
Other comprehensive income/(loss)										
Remeasurement of post-employment benefit obligations	15	-	-	-	-	-	(7,547)	(7,547)	2,226	**(5,321)**
Currency translation differences		-	-	-	-	691,326	-	691,326	1,779	**693,105**
Currency translation differences of associates		-	-	-	-	(21)	-	(21)	-	**(21)**
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**691,305**	**(979,543)**	**(288,238)**	**159,710**	**(128,528)**
Buy back of issued shares	20	-	-	(1,705)	-	-	-	(1,705)	-	**(1,705)**
Share-based compensation	21	-	-	-	-	-	53,261	53,261	-	**53,261**
Transfer of GDRs under Long-term Incentive Program	20,21	-	-	288,125	66,676	-	(354,801)	-	-	**-**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(56,084)	**(56,084)**
Dividends declared to the shareholders of the Company	20	-	-	-	-	-	(391,942)	(391,942)	-	**(391,942)**
Effect of the Group restructuring on non-controlling interest	6	-	-	-	-	-	154,905	154,905	(154,905)	**-**
Total transactions with owners, recognised directly in equity		**-**	**-**	**286,420**	**66,676**	**-**	**(538,577)**	**(185,481)**	**(210,989)**	**(396,470)**
Balance at 31 December 2020		**48,329**	**3,523,535**	**(33,055)**	**129,392**	**646,427**	**5,510,974**	**9,825,602**	**3,518,674**	**13,344,276**

1 General Information

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010. The Company's registered office is at 5 Alkaiou, 2404, Nicosia, Cyprus.

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

For the year ended 31 December 2020, the average number of employees of the Group was 13,053 (2019: 14,026).

At 31 December 2020 and 2019, H.M.S. Technologies Ltd., the ultimate controlling parent of the Company, held 71.51% of the Company's shares, including shares in the form of GDRs. Since 6 March 2019, HMS Holding JSC, a newly incorporated Russian entity, 100% subsidiary of H.M.S. Technologies Ltd., became the immediate parent of the Company, holding 71.51% of the Company's shares, as a result of ownership structure change. The Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Operating Environment of the Group

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

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March-April 2020, oil prices dropped significantly, which resulted in immediate weakening of Russian Rouble against major currencies.

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

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

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

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

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

Ukraine's operating environment. In the recent years, Ukraine has been in a political and economic turmoil. This resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity and volatility of financial markets. Stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, cooperation with the International Monetary Fund, yet further economic and political developments, are currently difficult to predict.

2 Operating Environment of the Group (continued)

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

At 31 December 2020 and 2019, the principal rates of exchange used for translating foreign currency balances were:

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

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

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

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

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

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

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

Land and construction in progress are not depreciated.

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

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

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

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

Financial assets. The Group classifies financial assets in the following measurement categories:
- those to be measured subsequently at amortised cost,
- those to be measured at fair value through profit or loss (FVTPL),
- those to be measured at fair value through other comprehensive income (FVTOCI).

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

The carrying amount of the asset is reduced through the use of an ECL allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'.

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

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

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

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

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

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

The Group recognises 12-month ECL for cash and cash equivalents. The low credit risk exemption has been applied to cash and cash equivalents which are held with banks with investment grade ratings (BBB or above) and are short-term in nature. The carrying amount of cash and cash equivalents is reduced through the use of an ECL allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Past service costs are recognised immediately in profit and loss.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Contract liability represents the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer. For any individual contract, either a contract asset or a contract liability is presented on a net basis.

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

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

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

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

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

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

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

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

The Group recognises revenue from construction projects, design and engineering projects and certain other long-term contracts over time, using the input method. The use of this method requires the Group to estimate revenue based on proportion of costs incurred to total expected cost. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the year ended 31 December 2020, the Group recognised revenue from such contracts in amount of RR 21,666,020 (2019: RR 21,563,310) (Note 23).

In addition, receivables and contract assets related to construction contracts and certain other contracts, under which the revenue is recognised over time, are subject to credit risk. In other words, although some revenue continues to be contractually bound, the customer can still be unable to pay in time. Where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, any allowance against the amount due is recognised as an expense.

(b) Provisions for claims received and legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, resolution of current legal proceedings or other claims outstanding as well as potential claims which may rise from current or completed contracts would not have a material adverse effect on the result of operations or financial position of the Group. There are no probable or possible legal risks which have not been recorded or disclosed in these consolidated financial statements. Refer to Note 19 and 31.

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

At 31 December 2020, the Group performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as well as performed mandatory annual impairment testing for the CGUs containing goodwill.

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

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

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

(d) Tax legislation

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

(e) Deferred income tax asset recognition

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

(in thousands of Russian Roubles, unless otherwise stated)

5 New Standards, Amendments and Interpretations

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

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

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

New standards, amendments and interpretations. The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 and which the Group has not early adopted (items marked with * have not been endorsed by the EU; the Group will only be able to apply new standards and interpretations when they are endorsed by the EU):

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

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

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries

At 31 December 2020 and 2019, HMS Hydraulic Machines & Systems Group plc, parent company of the Group, held directly a 100% share in HMS Group JSC, a company registered in Russia and controlling directly or indirectly all other subsidiaries of the Group.

Details of the Group's material subsidiaries at 31 December 2020 and 31 December 2019 are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of effective ownership interest held by the Group at 31 December, % 2020	2019
Segment "Industrial pumps"				
HMS Livhydromash JSC	Manufacture of pumps	Russia	100.00	100.00
Livnynasos JSC	Manufacture of pumps	Russia	100.00	100.00
NASOSENERGOMASH Sumy JSC	Manufacture of pumps	Ukraine	90.61	90.61
HYDROMASHSERVICE JSC	Trading company	Russia	100.00	100.00
Plant Promburvod OJSC	Manufacture of pumps	Belorussia	51.38	51.38
Bobruisk Machine Building Plant OJSC	Manufacture of pumps	Belorussia	56.95	56.95
Dimitrovgradkhimmash JSC	Manufacture of pumps and oil & gas equipment	Russia	51.00	51.00
Apollo Goessnitz GmbH	Manufacture of pumps	Germany	100.00	100.00
Nizhnevartovskremservis JSC	Manufacture of pumps and provision of repair services	Russia	100.00	100.00
Segment "Oil and gas equipment and projects"				
HMS Neftemash JSC	Manufacture of oil and gas equipment	Russia	100.00	100.00
Sibneftemash JSC	Manufacture of oil and gas equipment	Russia	98.60	98.60
Giprotyumenneftegaz PJSC	Engineering services	Russia	45.34	45.34
Institute Rostovskiy Vodokanalproekt JSC	Engineering services	Russia	85.70	85.70
EPF "SIBNA" Inc. JSC	Manufacture of oil and gas equipment	Russia	94.29	94.29
Segment "Compressors"				
Kazankompressormash JSC	Manufacture of compressors	Russia	89.86	89.86
CIPS LLC	Project engineering	Russia	100.00	89.86
NIITurbokompressor named after V.B.Shnepp JSC	Development of project documentation	Russia	98.39	98.39
Segment "Construction"				
Tomskgazstroy PJSC	Construction services	Russia	93.49	93.49

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

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

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

	Place of incorporation and operation	Proportion of non-controlling interest,%	Proportion of non-controlling interest's voting rights held,%	Profit/(loss) attributable to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2020						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	Ukraine	9.39	9.39	(15,230)	221,969	-
Plant Promburvod OJSC	Belorussia	48.62	48.62	17,630	147,874	197
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(84,365)	(372,259)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	174,797	1,640,911	50,135
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	29,363	1,333,873	4,830
Segment "Compressors"						
Kazankompressormash JSC	Russia	10.14	5.73	64,352	561,074	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	(30,842)	(14,768)	-
Year ended 31 December 2019						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	Ukraine	9.39	9.39	7,873	242,097	1
Plant Promburvod OJSC	Belorussia	48.62	48.62	4,370	134,797	319
Bobruisk Machine Building Plant OJSC	Belorussia	43.05	43.05	(106,544)	(299,026)	-
Dimitrovgradkhimmash JSC	Russia	49.00	49.00	214,828	1,517,030	44,505
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	Russia	54.66	48.99	70,368	1,306,743	16,125
Segment "Compressors"						
Kazankompressormash JSC	Russia	10.14	5.73	4,036	449,136	-
CIPS LLC	Russia	10.14	-	52,857	208,204	-
Other subsidiaries with insignificant non-controlling interests	-	-	-	(3,226)	10,972	-

At 31 December 2020 and 2019, the summarised financial information about financial position of these subsidiaries, presented before inter-company eliminations and consolidation adjustments, including goodwill on acquisitions, was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Balance at 31 December 2020				
Segment "Industrial pumps"				
NASOSENERGOMASH Sumy JSC	4,786,456	1,602,204	(3,312,908)	(712,735)
Plant Promburvod OJSC	201,635	149,907	(37,546)	(9,832)
Bobruisk Machine Building Plant OJSC	196,943	302,892	(126,815)	(1,237,765)
Dimitrovgradkhimmash JSC	2,839,968	1,054,469	(346,056)	(199,581)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	2,854,253	835,045	(1,038,200)	(210,843)
Segment "Compressors"				
Kazankompressormash JSC	12,440,702	5,474,866	(9,948,242)	(2,432,474)
Balance at 31 December 2019				
Segment "Industrial pumps"				
NASOSENERGOMASH Sumy JSC	3,900,234	1,666,311	(2,384,796)	(604,450)
Plant Promburvod OJSC	180,013	141,104	(33,395)	(10,456)
Bobruisk Machine Building Plant OJSC	228,368	346,026	(227,103)	(1,041,919)
Dimitrovgradkhimmash JSC	2,517,378	1,152,129	(385,009)	(188,517)
Segment "Oil and gas equipment and projects"				
Giprotyumenneftegaz PJSC	2,571,884	817,260	(779,913)	(218,597)
Segment "Compressors"				
Kazankompressormash JSC	11,534,519	5,722,012	(9,740,614)	(3,085,277)
CIPS LLC	6,022,314	1,208,507	(4,808,616)	(368,316)

(in thousands of Russian Roubles, unless otherwise stated)

6 Subsidiaries (continued)

The summarised financial information about transactions and cash flows for the years ended 31 December 2020 and 2019 of these subsidiaries before inter-company eliminations was as follows:

	Revenue	Profit/ (loss)	Total compre-hensive income/ (loss)*	Net cash inflow/ (outflow) from operating activities	Net cash inflow/ (outflow) from investing activities	Net cash inflow/ (outflow) from financing activities
Year ended 31 December 2020						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	3,656,095	(162,137)	(214,282)	(339,191)	(182,188)	470,106
Plant Promburvod OJSC	425,211	36,263	27,320	53,258	(26,732)	(591)
Bobruisk Machine Building Plant OJSC	495,083	(195,977)	(170,117)	(38,561)	(6,535)	50,389
Dimitrovgradkhimmash JSC	3,150,324	356,729	355,808	600,968	(46,428)	(102,657)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	2,489,081	53,718	59,536	236,815	(91,912)	(9,420)
Segment "Compressors"						
Kazankompressormash JSC	13,974,503	1,194,903	1,188,574	2,496,808	697,888	(891,908)
CIPS LLC	4,442,707	(50,022)	(50,022)	2,254,917	(135,163)	(558,283)
Year ended 31 December 2019						
Segment "Industrial pumps"						
NASOSENERGOMASH Sumy JSC	4,569,851	83,814	269,067	6,536	(168,992)	6,056
Plant Promburvod OJSC	402,478	8,989	(15,724)	(8,818)	(8,416)	2,166
Bobruisk Machine Building Plant OJSC	753,026	(247,498)	(194,108)	77,101	(14,387)	(58,506)
Dimitrovgradkhimmash JSC	3,025,941	438,116	401,475	(56,989)	(74,335)	(84,946)
Segment "Oil and gas equipment and projects"						
Giprotyumenneftegaz PJSC	2,239,250	128,541	113,692	184,268	(46,177)	(31,935)
Segment "Compressors"						
Kazankompressormash JSC	12,604,916	40,036	44,017	1,078,522	(785,822)	850,291
CIPS LLC	5,092,468	521,568	521,568	163,491	(607,970)	-

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

(in thousands of Russian Roubles, unless otherwise stated)

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2019	**1,475,203**	**10,323,031**	**9,700,033**	**335,167**	**1,336,437**	**1,281,009**	**24,450,880**
Additions	590	72,796	584,170	19,651	164,761	266,638	1,108,606
Transfers	32	108,008	853,393	-	10,229	(971,662)	-
Acquisitions through business combinations	76,850	309,568	348,041	1,536	15,207	3,315	754,517
Disposals	(5,239)	(17,977)	(137,851)	(15,362)	(46,216)	(3,680)	(226,325)
Translation to presentation currency	(3,707)	(40,095)	(46,416)	(603)	(28,076)	2,071	(116,826)
Balance at 31 December 2019	**1,543,729**	**10,755,331**	**11,301,370**	**340,389**	**1,452,342**	**577,691**	**25,970,852**
Additions	-	29,304	467,676	17,803	108,306	209,444	832,533
Reclassification from intangible assets	-	-	-	-	-	65,294	65,294
Transfers	-	25,159	190,960	-	6,907	(223,026)	-
Disposals	(4,789)	(114,495)	(128,751)	(25,762)	(29,861)	(2,326)	(305,984)
Translation to presentation currency	9,538	86,403	79,826	(381)	74,163	16	249,565
Balance at 31 December 2020	**1,548,478**	**10,781,702**	**11,911,081**	**332,049**	**1,611,857**	**627,093**	**26,812,260**
Accumulated depreciation and impairment							
Balance at 1 January 2019	**(7,993)**	**(2,885,256)**	**(5,055,831)**	**(219,244)**	**(889,480)**	**(9,751)**	**(9,067,555)**
Eliminated on disposals	-	15,561	124,074	15,289	43,264	-	198,188
Depreciation expense	-	(396,339)	(1,024,467)	(31,393)	(179,515)	-	(1,631,714)
Translation to presentation currency	-	11,292	32,803	674	18,036	-	62,805
Balance at 31 December 2019	**(7,993)**	**(3,254,742)**	**(5,923,421)**	**(234,674)**	**(1,007,695)**	**(9,751)**	**(10,438,276)**
Eliminated on disposals	-	39,788	106,751	25,752	29,207	-	201,498
Depreciation expense	-	(400,652)	(1,137,699)	(30,499)	(183,319)	-	(1,752,169)
Impairment charge	-	(66)	(12,751)	-	(1,119)	-	(13,936)
Translation to presentation currency	-	(32,611)	(43,454)	346	(49,379)	-	(125,098)
Balance at 31 December 2020	**(7,993)**	**(3,648,283)**	**(7,010,574)**	**(239,075)**	**(1,212,305)**	**(9,751)**	**(12,127,981)**
Carrying amount							
Carrying amount at 1 January 2019	**1,467,210**	**7,437,775**	**4,644,202**	**115,923**	**446,957**	**1,271,258**	**15,383,325**
Carrying amount at 31 December 2019	**1,535,736**	**7,500,589**	**5,377,949**	**105,715**	**444,647**	**567,940**	**15,532,576**
Carrying amount at 31 December 2020	**1,540,485**	**7,133,419**	**4,900,507**	**92,974**	**399,552**	**617,342**	**14,684,279**

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

The amount of borrowing costs capitalised, directly attributable to implementation of large investment projects by the Group, during the year ended 31 December 2019 was RR 18,291. The capitalisation rate calculated using Group weighted average interest was 9%.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

8 Other Intangible Assets

	Project documen-tation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
Balance at 1 January 2019	**410,152**	**1,829,106**	**439,511**	**43,406**	**28,154**	**2,750,329**
Additions	499,809	-	199,193	-	17,720	716,722
Acquisitions through business Combinations	-	-	524	-	-	524
Disposals	(16,047)	(80,795)	(198,450)	-	(8,050)	(303,342)
Translation to presentation currency	4,854	(48,252)	292	-	510	(42,596)
Balance at 31 December 2019	**898,768**	**1,700,059**	**441,070**	**43,406**	**38,334**	**3,121,637**
Additions	209,944	-	217,233	-	26,875	454,052
Reclassification to property, plant and equipment	(65,294)	-	-	-	-	(65,294)
Disposals	(74,135)	(181,900)	(213,658)	-	(7,940)	(477,633)
Translation to presentation currency	(269)	101,751	7,005	-	(17)	108,470
Balance at 31 December 2020	**969,014**	**1,619,910**	**451,650**	**43,406**	**57,252**	**3,141,232**
Accumulated amortisation and impairment						
Balance at 1 January 2019	**(95,186)**	**(489,606)**	**(205,697)**	**(18,281)**	**(13,747)**	**(822,517)**
Amortisation on disposals	16,017	80,795	198,450	-	8,050	303,312
Amortisation expense	(75,617)	(295,154)	(245,951)	(2,313)	(8,226)	(627,261)
Translation to presentation currency	(4,017)	32,244	(1,196)	-	(556)	26,475
Balance at 31 December 2019	**(158,803)**	**(671,721)**	**(254,394)**	**(20,594)**	**(14,479)**	**(1,119,991)**
Amortisation on disposals	68,587	181,900	213,658	-	7,940	472,085
Amortisation expense	(129,609)	(298,411)	(223,329)	(2,199)	(13,346)	(666,894)
Translation to presentation currency	961	(79,015)	(4,987)	-	8	(83,033)
Balance at 31 December 2020	**(218,864)**	**(867,247)**	**(269,052)**	**(22,793)**	**(19,877)**	**(1,397,833)**
Carrying amount						
Carrying amount at 1 January 2019	**314,966**	**1,339,500**	**233,814**	**25,125**	**14,407**	**1,927,812**
Carrying amount at 31 December 2019	**739,965**	**1,028,338**	**186,676**	**22,812**	**23,855**	**2,001,646**
Carrying amount at 31 December 2020	**750,150**	**752,663**	**182,598**	**20,613**	**37,375**	**1,743,399**

9 Goodwill

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

9 Goodwill (continued)

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

10 Right-of-use Assets and Lease Liabilities

	Land	Buildings	Plant and equipment	Other	Total
Cost					
Balance at 1 January 2019	**-**	**-**	**115,973**	**16,198**	**132,171**
Additions	13,936	62,113	28,234	-	104,283
Acquisition through business Combination	-	-	-	2,413	2,413
Termination of lease agreements	-	-	(13,020)	-	(13,020)
Translation to presentation currency	-	-	(10,968)	(2,063)	(13,031)
Balance at 31 December 2019	**13,936**	**62,113**	**120,219**	**16,548**	**212,816**
Additions	21,073	2,827	1,062	-	24,962
Termination of lease agreements	(4,773)	-	(21,727)	(20,899)	(47,399)
Translation to presentation currency	28	126	23,177	4,351	27,682
Balance at 31 December 2020	**30,264**	**65,066**	**122,731**	**-**	**218,061**
Accumulated depreciation and impairment					
Balance at 1 January 2019	**-**	**-**	**(10,287)**	**(3,766)**	**(14,053)**
Eliminated on termination of lease agreements	-	-	1,851	-	1,851
Depreciation expense	(4,104)	(5,453)	(12,081)	(5,112)	(26,750)
Translation to presentation currency	(162)	(215)	439	688	750
Balance at 31 December 2019	**(4,266)**	**(5,668)**	**(20,078)**	**(8,190)**	**(38,202)**
Eliminated on termination of lease agreements	4,773	-	11,727	14,521	31,021
Depreciation expense	(3,283)	(6,080)	(9,412)	(3,553)	(22,328)
Translation to presentation currency	59	115	(2,737)	(2,778)	(5,341)
Balance at 31 December 2020	**(2,717)**	**(11,633)**	**(20,500)**	**-**	**(34,850)**
Carrying amount					
Carrying amount at 1 January 2019	**-**	**-**	**105,686**	**12,432**	**118,118**
Carrying amount at 31 December 2019	**9,670**	**56,445**	**100,141**	**8,358**	**174,614**
Carrying amount at 31 December 2020	**27,547**	**53,433**	**102,231**	**-**	**183,211**

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

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

At 31 December 2020, lease liabilities were measured on a present value basis using the interest rates implicit in the lease agreements, except to certain lease agreements for which the lessee's incremental borrowing rate was used.

For the year ended 31 December 2020, lease expenses for short-term leases and leases of low-value assets in amount of RR 181,338 (2019: RR 174,565) (Notes 24, 25, 26) were recognised in the consolidated statement of profit or loss and other comprehensive income and were not included in the measurement of lease liabilities.

For the year ended 31 December 2020, total cash outflows for leases contracts recognised as right-of-use assets amounted to RR 53,222, of which RR 17,317 was included in interest paid (2019: RR 44,220, of which RR 16,986 was included in interest paid).

11 Cash and Cash Equivalents

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

(in thousands of Russian Roubles, unless otherwise stated)

11 Cash and Cash Equivalents (continued)

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

12 Inventories

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

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

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

13 Trade and Other Receivables and Other Financial Assets

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

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

At 31 December 2020, the closing balance of bank deposits comprised EUR-denominated deposit of RR 6,350 and UAH-denominated deposit of RR 3. At 31 December 2019, the closing balance of bank deposits comprised USD-denominated deposit of RR 10,522, EUR-denominated deposit of RR 4,854, UAH-denominated deposits of RR 206.

At 31 December 2020, trade receivables arising from certain sales contracts in the amount of RR 1,089,538 (31 December 2019: RR 862,766) were pledged as collateral for certain borrowings (Note 14).

(in thousands of Russian Roubles, unless otherwise stated)

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

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

	ECL allowance for trade receivables	ECL allowance for other financial receivables	Allowance for impairment of non-financial assets
At 1 January 2019	**276,504**	**53,380**	**30,417**
ECL allowance and allowance for impairment of receivables	93,647	6,892	7,174
Unused amounts reversed	(16,199)	(560)	(667)
Receivables written off during the year as uncollectible	(9,734)	(453)	(2,460)
Effect of translation to presentation currency	184	123	36
Foreign currency translation differences	(19)	(1,804)	-
At 31 December 2019	**344,383**	**57,578**	**34,500**
ECL allowance and allowance for impairment of receivables	82,592	5,004	5,689
Unused amounts reversed	(7,966)	(22,940)	(1,272)
Receivables written off during the year as uncollectible	(38,682)	(7,373)	(377)
Effect of translation to presentation currency	1,919	15	5
Foreign currency translation differences	64	2,120	-
At 31 December 2020	**382,310**	**34,404**	**38,545**

The creation and release of ECL allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets have been included in 'general and administrative expenses' (Note 26). Amounts charged to the ECL allowance for trade and other receivables and other financial assets and allowance for impairment of non-financial assets are generally written off when there is no expectation of recovering additional cash.

Information related to aging of receivables with the corresponding ECL allowance is disclosed in Note 33.

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

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

(in thousands of Russian Roubles, unless otherwise stated)

14 Borrowings

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

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

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

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

Bonds 1. In July 2020, HYDROMASHSERVICE JSC, the Group's subsidiary, issued RR 3.0 billion of bonds. The maturity of the bonds is 10 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 8.15% is set for the first 6 coupon periods. Subsequent coupon rates are to be determined in July 2023. HMS Group JSC, HMS Neftemash JSC and Sibneftemash JSC issued guarantees in respect of these bonds.

Bonds 2. In October 2020, HYDROMASHSERVICE JSC, the Group's subsidiary, issued RR 3.0 billion of bonds. The maturity of the bonds is 10 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 7.95% is set for the first 6 coupon periods. Subsequent coupon rates are to be determined in September 2023. HMS Group JSC, HMS Neftemash JSC and Sibneftemash JSC issued guarantees in respect of these bonds.

Bonds 3. In February 2017, HYDROMASHSERVICE JSC, the Group's subsidiary, issued RR 3.0 billion of bonds. The maturity of the bonds is 10 years with a 3-year put option and semi-annual coupon periods. Coupon rate of 10.75% was set for the first six coupon periods. HMS Group JSC, HMS Neftemash JSC, HMS Livhydromash JSC and Sibneftemash JSC issued guarantees in respect of these bonds. In February 2020, the bonds were fully redeemed by the Group.

Assets pledged. At 31 December 2020, the Group pledged property, plant and equipment and inventories in total amount of RR 40,356 and RR 609,079 (31 December 2019: RR 66,137 and RR 460,853), respectively.

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

(in thousands of Russian Roubles, unless otherwise stated)

15 Retirement Benefit Obligations

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

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

The following assumptions were used for the actuarial assessment at 31 December 2020 and 2019:

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

The following amounts were recognised in profit or loss:

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

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

	Post-employment payments	**Other long-term payments**	**Total**
Present value of defined benefit obligations at 1 January 2019	**497,490**	**38,331**	**535,821**
Current service cost	26,655	523	27,178
Interest expense	50,383	840	51,223
Past service cost and gain from curtailment of plans, net	(8,039)	15,528	7,489
Benefits paid	(32,765)	(1,811)	(34,576)
Effect of translation to presentation currency	12,250	-	12,250
Remeasurements, including:	64,673	10,084	74,757
actuarial loss from changes in demographic assumptions	*8,308*	*139*	*8,447*
*actuarial loss from changes in financial assumptions**	*50,041*	*3,138*	*53,179*
experience loss	*6,324*	*6,807*	*13,131*
Present value of defined benefit obligations at 31 December 2019	**610,647**	**63,495**	**674,142**
Current service cost	28,408	6,523	34,931
Interest expense	49,353	3,361	52,714
Past service cost and gain from curtailment of plans, net	(11,742)	-	(11,742)
Benefits paid	(35,015)	(5,040)	(40,055)
Effect of translation to presentation currency	2,589	-	2,589
Remeasurements, including:	5,321	6,172	11,493
actuarial loss from changes in demographic assumptions	*6,136*	*5,946*	*12,082*
*actuarial loss from changes in financial assumptions**	*37,909*	*1,227*	*39,136*
experience gain	*(38,724)*	*(1,001)*	*(39,725)*
Present value of defined benefit obligations at 31 December 2020	**649,561**	**74,511**	**724,072**

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

(in thousands of Russian Roubles, unless otherwise stated)

15 Retirement Benefit Obligations (continued)

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

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

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

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

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

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

The weighted average duration of the defined benefit obligations was 8 years at 31 December 2020 and 2019.

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

16 Trade and Other Payables

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

17 Other Taxes Payable

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

(in thousands of Russian Roubles, unless otherwise stated)

18 Other Long-term Payables

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

Government grant 1. During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech equipment for metering of extracted oil and gas at the oilfields. The project is being implemented together with Tyumen State University. Under the grant, during 2013-2015, HMS Neftemash JSC received funds in amount of RR 150,000 from the Federal budget for realisation of this project; additionally, own funds were invested by the Group in amount of RR 150,000. At 31 December 2020, under this project, the long-term liability in amount of RR 59,504 (31 December 2019: RR 74,380) and other short-term payables in amount of RR 14,876 (31 December 2019: RR 14,876) were recognised as deferred income. The grant was subject to certain conditions stipulated by the agreement and set for the period till 2020 inclusive. During this period, the Group complied with the required conditions.

Government grant 2. During the year ended 31 December 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000. Such subsidies are provided for the development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase the production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents. Under the grant, during 2016-2018, Sibneftemash JSC received funds in amount of RR 170,000 from the Federal budget for realisation of this project; additionally, own funds were invested by the Group in amount of RR 200,204. At 31 December 2020, under this project, the long-term liability in amount of RR 96,254 (31 December 2019: RR 110,601) and other short-term payables in amount of RR 24,432 (31 December 2019: RR 25,603) were recognised as deferred income. The grant is subject to certain conditions set for the period till 2023. At each reporting date, management assesses whether there is a reasonable assurance that the Group is able to comply with the required conditions. At 31 December 2020, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

Government grant 3. During the year ended 31 December 2019, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 68,092 for executing a project relating to the development of intelligent mobile secondary reference metrology complex, which will allow to reduce costs of hydrocarbons' extraction. The project is being implemented together with Tyumen State University. During 2020, the Group obtained grants in amount of RR 28,092 (2019: RR 40,000) and also invested its own funds in amount of RR 19,102 (2019: RR 61,749) to the project. At 31 December 2020, under this project, the long-term liability in amount of RR 62,418 (31 December 2019: RR 40,000) was recognised as deferred income. The grant is subject to certain conditions set for the period till 2023 inclusive, including amounts of own investments and volume of production produced by the results of development. At 31 December 2020, management believes that the Group will be able to comply with the conditions stipulated by the agreement.

19 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2019	**466,128**	**441,873**	**-**
Additional provisions	464,378	68,260	-
Unused amounts reversed	(101,691)	(101,126)	-
Provision used during the period	(366,229)	(246,951)	-
Effect of translation to presentation currency	(789)	(2,094)	-
Business combinations	-	83,100	-
At 31 December 2019	**461,797**	**243,062**	**-**
Additional provisions	550,383	103,646	9,898
Unused amounts reversed	(99,027)	(19,659)	-
Provision used during the period	(334,733)	(98,167)	-
Effect of translation to presentation currency	598	163	-
At 31 December 2020	**579,018**	**229,045**	**9,898**

(in thousands of Russian Roubles, unless otherwise stated)

19 Provisions for Liabilities and Charges (continued)

Warranty provision. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. At 31 December 2020, the closing balance of the warranty provision comprised a short-term portion of RR 350,819 and a long-term portion of RR 228,199 (31 December 2019: RR 306,988 and RR 154,809, respectively).

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

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

20 Share Capital, Other Equity Items and Earnings per Share

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

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand	Treasury shares, RR thousand
At 1 January 2019	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(461,630)**
Movements during 2019	-	-	-	-	142,155
At 31 December 2019	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(319,475)**
Movements during 2020	-	-	-	-	286,420
At 31 December 2020	**117,163,427**	**0.01**	**48,329**	**3,523,535**	**(33,055)**

At 31 December 2020 and 2019, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

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

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

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

In May 2019, 414,718 GDRs of the Company representing 1.77% of its issued share capital with the total cost of RR 167,804 were transferred to the participants under the Long-term Incentive Program (Note 21).

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

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

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

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

At the Annual General Meeting in June 2019, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2018 of 5.97 Russian Roubles per ordinary share amounting to a total dividend of RR 675,897. These dividends were paid in July 2019.

(in thousands of Russian Roubles, unless otherwise stated)

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

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

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

For the years ended 31 December 2020 and 2019, loss per share are calculated as follows:

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

21 Share-based Payments

LTIP 2016-2018. In March 2016, the Board of Directors of the Company approved a Long-term Incentive Program (the “Program”) for the Group’s key executives.

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

- the Group meets EBITDA and profit for the year attributable to the shareholders of the Company targets established at the beginning of each year;

- the plan participants hold their employment within the Group for 3 years starting from the beginning of the respective award year.

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

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

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

The service period of the first award started on 1 January 2016. Award 2016 fully vested at 31 December 2018 and was transferred to the participants in May 2019 (Note 20).

The grant date of the second award is 8 December 2016, and the service period of the second award started on 1 January 2017. Award 2017 fully vested at 31 December 2019 and was transferred to the participants during May-September 2020 (Note 20).

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

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

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

For the year ended 31 December 2020, the Group recognised share-based compensation expense of RR 67,727 (2019: RR 136,258) in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including the allocation of fair value of GDRs calculated at grant date to the reporting period of RR 58,921 (2019: RR 118,544) and the respective personal income tax effect of RR 8,806 (2019: RR 17,714). The Group also recognised related social security contributions expense of RR 10,362 (2019: RR 20,847).

For the year ended 31 December 2020, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 5,660 (2019: RR 21,304) and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings for the year amounted to RR 53,261 (2019: RR 97,240).

(in thousands of Russian Roubles, unless otherwise stated)

21 Share-based Payments (continued)

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

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

The Group accounts for this New Program as an equity-settled share-based payment transaction under IFRS 2, Share-based Payments, starting from 16 September 2019, being the grant date for the first award of the Program. The service period of the first award started on 1 January 2019. As the Group obtained a loss attributable to shareholders of the Company for the year ended 31 December 2019, the Group did not recognise any share-based compensation expense in respect of Award 2019.

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

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

22 Income Taxes

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

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

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

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

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 18% (Ukrainian tax legislation), 18% (Belorussian tax legislation), 29.65% (German tax legislation) and 12.5% (Cypriot tax legislation), accordingly.

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

(in thousands of Russian Roubles, unless otherwise stated)

22 Income Taxes (continued)

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

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

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

	1 January 2019	Credited/ (charged) to profit or loss	Translation to presentation currency	Business combination	31 December 2019
Deferred tax liabilities					
Property, plant and equipment	(1,197,973)	106,855	3,490	(104,377)	(1,192,005)
Intangible assets	(351,660)	5,545	5,017	(105)	(341,203)
Right-of-use assets	(9,141)	(12,927)	347	(483)	(22,204)
Trade and other receivables, other financial assets and contract assets	(51,489)	(456,786)	(5,809)	946	(513,138)
Short-term borrowings	-	(95)	-	-	(95)
Trade and other payables and contract liabilities	(580,128)	429,123	1,938	(411)	(149,478)
Other long-term payables	(14,430)	14,430	-	-	-
Long-term borrowings	(761)	761	-	-	-
Withholding tax provision	(35,000)	30,000	-	-	(5,000)
	(2,240,582)	**116,906**	**4,983**	**(104,430)**	**(2,223,123)**
Deferred tax assets					
Inventories	578,103	(54,715)	(12)	1,013	524,389
Cash and cash equivalents	13	-	-	-	13
Other long-term assets	12,171	(9,106)	320	-	3,385
Share of results of associates	12,410	(244)	-	-	12,166
Other long-term payables	-	4,441	-	-	4,441
Long-term provisions for liabilities and charges	54,975	790	1,535	-	57,300
Loss carried forward	151,114	283,332	(2,237)	13,861	446,070
Other taxes payable	22,237	(14,373)	-	-	7,864
Lease liabilities	4,963	80	(583)	253	4,713
Short-term provisions for liabilities and charges	198,457	(35,263)	185	10,620	173,999
	1,034,443	**174,942**	**(792)**	**25,747**	**1,234,340**
Total net deferred tax liability	**(1,206,139)**	**291,848**	**4,191**	**(78,683)**	**(988,783)**

At 31 December 2020, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 15,641,032 (31 December 2019: RR 14,405,721) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In accordance with tax legislation of Russian Federation taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2020 to 2021 tax losses carried forward cannot exceed 50 percent of taxable profits. During the reporting period, the Group utilised its deferred tax asset in relation to loss carried forward from the previous years in amount of RR 8,253 (2019: RR 42,046) and recognised deferred tax asset in the amount of RR 295,476 on the loss incurred by its certain subsidiaries in 2020 (2019: RR 323,141). At 31 December 2020, the Group's unrecognised deferred tax asset in relation to loss carried forward amounted to RR 482,741 (31 December 2019: RR 283,092).

(in thousands of Russian Roubles, unless otherwise stated)

22 Income Taxes (continued)

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

23 Revenue

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

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

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

The Group had not recognised revenue from contracts with customers for the year ended 31 December 2020 and 2019, which is related to performance obligations that were satisfied in the prior periods.

The Group's revenue recognised for the year ended 31 December 2020 includes RR 1,862,127 (2019: RR 1,242,323) that was included in the opening contract liabilities.

24 Cost of Sales

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

25 Distribution and Transportation Expenses

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

(in thousands of Russian Roubles, unless otherwise stated)

26 General and Administrative Expenses

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

The auditors' remuneration stated above includes fees for the audit of the Group's consolidated financial statements in amount of RR 21,518 (2019: RR 20,324), fees for statutory audit services of the Group parent and subsidiaries in amount of RR 12,035 (2019: RR 10,078) and fees for other assurance services in amount of RR 7,967 (2019: RR 8,209) charged by the Group's audit firm and by the auditors of the subsidiaries of the Group.

Consulting and other professional fees include tax services charged by the Group's audit firm in amount of RR 227 (2019: RR 198) and other consultancy services charged by the Group's audit firm and by the auditors of the subsidiaries of the Group in amount of RR 5,458 for the year ended 31 December 2020 (2019: RR 3,314).

27 Other Operating Expenses, net

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

28 Finance Income

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

(in thousands of Russian Roubles, unless otherwise stated)

29 Finance Costs

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

30 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding.

Joint venture category of related parties includes a trading company registered in Kazakhstan. For the year ended 31 December 2020 and 2019 its financial result was not material for the application of equity accounting.

Other category of related parties comprises individuals who are the ultimate owners of shares in the Company, who are also key management of the Group, and other key managers as well as the companies controlled by those individuals.

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

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

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

At 31 December 2020 and 2019, the Group owned a 47.69% interest in its associate VNIIAEN OJSC, located in Ukraine. VNIIAEN OJSC is a research and development centre, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

Key management compensation

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

30 Balances and Transactions with Related Parties (continued)

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

31 Contingencies and Commitments

(i) Legal proceeding

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. At 31 December 2020, management concluded that possible risk related with various claims and legal proceedings amounted to RR 139,296 (31 December 2019: RR 125,983). All probable legal risks are provided for (Note 19).

(ii) Tax legislation

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

The Russian and Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

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

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

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

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

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. At 31 December 2020, the Group accrued uncertain income tax positions as a component of income tax payable of RR 29,712 (31 December 2019: RR 14,971).

(iii) Environmental matters

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

(iv) Insurance policies

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

(in thousands of Russian Roubles, unless otherwise stated)

31 Contingencies and Commitments (continued)

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 31 December 2020, commitments for purchase of the services amounted to RR 31,998 (31 December 2019: RR 31,933).

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

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

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including Net debt/EBITDA (earnings before interest, taxes, depreciation, and amortisation) ratio and certain other requirements. At 31 December 2020, the Group was in compliance with all its loan covenants. At 31 December 2019, the Group was in compliance with all its loan covenants, except for the breach of certain financial covenants on a non-bank loan of RR 222,222.

32 Segment Information

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

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

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

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

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

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

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

1	Kazankompressormash JSC	Kazankompressormash JSC
2	NIITurbokompressor named after V.B.Shnepp JSC	NIITurbokompressor named after V.B.Shnepp JSC
3	CIPS LLC	CIPS LLC

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

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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

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

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

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

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

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

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

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

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2020 is as follows:

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

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2019 is as follows:

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

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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

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

(1) Non-monetary items consist of defined benefits scheme expenses, allowances and provisions (allowance for obsolete inventories, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, warranty provision, provision for legal claims, tax provision and other provisions).
(2) Other operating (expenses)/income, net include other operating income and expenses as per Note 27, excluding depreciation of social assets and provision for legal claims.

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

(1) Non-monetary items consist of defined benefits scheme expenses, allowances and provisions (allowance for obsolete inventories, ECL allowance for trade and other receivables, cash and cash equivalents and other financial assets and allowance for impairment of non-financial assets, unused vacation provision, warranty provision, provision for legal claims, tax provision and other provisions).
(2) Other operating (expenses)/income, net include other operating income and expenses as per Note 27, excluding depreciation of social assets and provision for legal claims.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

32 Segment Information (continued)

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

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

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

33 Financial Risk Management

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2020 and 2019. In this table, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them:

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

Certain Group subsidiaries with functional currencies other than Russian rouble hold RR-denominated financial assets and liabilities. At 31 December 2020, if respective functional currencies of such subsidiaries had strengthened/weakened by 20% against the RR with all other variables held constant, loss for the year would have been RR 201,986 lower/higher (31 December 2019: profit for the year would have been RR 124,267 higher/lower), mainly as a result of foreign exchange gains/losses on translation of RR denominated borrowings.

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

(ii) Interest rate risk

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

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on bank loans (Note 14). The Group does not have significant interest-bearing assets.

At 31 December 2020, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, loss before income tax for the year would have been RR 148,621 higher/lower (31 December 2019: profit before income tax for the year would have been RR 189,973 lower/higher), as a result of higher/lower interest expense on variable interest liabilities.

(b) Credit risk

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

	31 December 2020	**31 December 2019**
Trade and other receivables		
- Trade receivables	12,110,503	15,715,997
- Other financial receivables	259,675	358,772
Contract assets	6,201,354	8,058,877
Cash and cash equivalents (Note 11)		
- Bank balances	10,358,961	9,949,623
- Cash on hand	1,627	2,495
Total on-balance sheet exposure	**28,932,120**	**34,085,764**
Total maximum exposure to credit risk before ECL allowance	**29,418,083**	**34,514,286**

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. The Group assessed credit risk for bank balances and concluded that effect was not material to the financial statement.

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

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

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

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

Trade and other financial receivables, contract assets. The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with the terms of goods supply and payments. The credit quality of the Group's significant customers is monitored on an ongoing basis.

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

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

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

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

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less ECL allowance) at 31 December 2020 was RR 12,370,178 (31 December 2019: RR 16,074,769).

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

Credit risk concentration

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

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

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

(c) Liquidity risk

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

The tables below give information on the contractual repayment dates of the Group's financial liabilities with regard to expected cash flows at 31 December 2020 and 2019:

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

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

[1] As the amounts included in the table are the contractual undiscounted cash flows, including future interest, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings and lease liabilities. Maturity classification of the bonds was based on a 3-year put option.

[2] Expected cash flows of the loan are presented net of interest payments as it is payable on demand due to the breach of certain covenants, stipulated by this loan, at 31 December 2019 (Notes 31).

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

33 Financial Risk Management (continued)

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

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

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

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

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

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

The Group controls capital by calculating a gearing ratio. This ratio is calculated as the net debt divided by total capital. The net debt includes all of the long-term and short-term borrowings and lease liabilities carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity attributable to the shareholders of the Company and non-controlling shareholders in the consolidated statement of financial position. In 2020 and 2019, the Group's strategy has been to maintain the gearing ratio at a level not exceeding 200%.

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

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

34 Fair Value of Financial Instruments

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

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

(in thousands of Russian Roubles, unless otherwise stated)

34 Fair Value of Financial Instruments (continued)

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

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of issued bonds is based on quoted market prices (Level 1 of the fair value hierarchy). At 31 December 2020, the fair value of bonds was RR 208,395 higher than their carrying amounts (31 December 2019: the fair value of bonds was RR 1,074 higher than their carrying amounts). The fair value of borrowings was based on Level 2 inputs. At 31 December 2020, the fair value of borrowings was RR 317,379 higher than their carrying amounts (31 December 2019: the fair value of borrowings was RR 180,836 higher than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

35 Reconciliation of liabilities arising from financing activities

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

	Borrowings	Dividends declared to the shareholders of the Company	Dividends declared by the Group's subsidiaries	Lease liabilities	Total liabilities from financing activities
Opening amount at 1 January 2019	**19,360,217**	**427,962**	**9,741**	**97,960**	**19,895,880**
Cash flows:					
Proceeds from borrowings, net	4,875,631	-	-	-	**4,875,631**
Repayment of interest	(1,776,254)	-	-	(16,986)	**(1,793,240)**
Dividends paid to the shareholders of the Company	-	(1,103,859)	-	-	**(1,103,859)**
Dividends paid to non-controlling shareholders of subsidiaries	-	-	(60,950)	-	**(60,950)**
Lease payments	-	-	-	(27,234)	**(27,234)**
Non-cash changes:					
Interest expense (Note 29)	1,764,173	-	-	-	**1,764,173**
Borrowing costs capitalised (Note 7)	18,291	-	-	-	**18,291**
Currency translation differences	(83,946)	-	4	(11,819)	**(95,761)**
Foreign exchange loss from borrowings, net (Note 29)	3,362	-	-	-	**3,362**
Dividends declared to the shareholders of the Company	-	675,897	-	-	**675,897**
Dividends declared to non-controlling shareholders of subsidiaries	-	-	63,537	-	**63,537**
Non-cash additions	-	-	-	101,608	**101,608**
Interest expenses on lease liabilities	-	-	-	17,072	**17,072**
Other	(1,023)	-	(7,229)	-	**(8,252)**
Closing amount at 31 December 2019	**24,160,451**	**-**	**5,103**	**160,601**	**24,326,155**
Cash flows:					
Repayment of borrowings, net	(2,351,144)	-	-	-	**(2,351,144)**
Repayment of interest, net of factoring interest payments	(1,819,504)	-	-	(17,317)	**(1,836,821)**
Dividends paid to the shareholders of the Company	-	(391,942)	-	-	**(391,942)**
Dividends paid to non-controlling shareholders of subsidiaries	-	-	(55,162)	-	**(55,162)**
Lease payments	-	-	-	(35,905)	**(35,905)**
Non-cash changes:					
Interest expense (Note 29)	1,848,057	-	-	-	**1,848,057**
Currency translation differences	163,917	-	(33)	19,057	**182,941**
Foreign exchange loss from borrowings, net (Note 29)	368	-	-	-	**368**
Dividends declared to the shareholders of the Company	-	391,942	-	-	**391,942**
Dividends declared to non-controlling shareholders of subsidiaries	-	-	56,084	-	**56,084**
Non-cash additions	-	-	-	29,735	**29,735**
Interest expenses on lease liabilities	-	-	-	17,317	**17,317**
Other	(835)	-	(726)	-	**(1,561)**
Closing amount at 31 December 2020	**22,001,310**	**-**	**5,266**	**173,488**	**22,180,064**

36 Subsequent Events

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

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