HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Financial Information (unaudited)

30 June 2019

Contents

Deloitte.

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Independent Auditor's report on Review of consolidated condensed interim financial information

To the Board of Directors of HMS Hydraulic Machines & Systems Group Plc

Introduction

We have reviewed the accompanying consolidated condensed interim financial information of HMS Hydraulic Machines & Systems Group Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which is presented in pages 3 to 25 and comprises the consolidated condensed interim statement of financial position as at 30 June 2019, and the consolidated condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and other explanatory information.

Board of Directors' responsibilities

The Group's Board of Directors is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

Auditor's responsibility

Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review. This report, including the conclusion, has been prepared for and only for the Company. We do not, in giving this conclusion, accept or assume responsibility for any other purpose to any other person to whose knowledge this report may come to.

Scope of review

We conducted our review In accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independent Auditor's Report on Review of consolidated condensed interim financial information (continued)

To the Board of Directors of HMS Hydraulic Machines & Systems Group Plc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

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

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

Limassol, 24 September 2019

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 June 2019	31 December 2018
ASSETS			
Non-current assets:			
Property, plant and equipment	4	15,862,833	15,492,896
Other intangible assets	5	1,760,488	1,898,781
Goodwill	6	3,395,229	3,092,257
Right-of-use assets	8	182,915	-
Investments in associates		91,156	93,265
Deferred income tax assets		606,249	424,004
Other long-term assets		36,478	26,004
Investment property		191,555	196,480
Total non-current assets		**22,126,903**	**21,223,687**
Current assets:			
Inventories	10	10,314,303	9,088,680
Trade and other receivables and other financial assets	11	10,700,444	12,267,843
Contract assets		8,964,913	4,611,700
Current income tax receivable		302,708	257,409
Cash and cash equivalents	9	4,360,876	6,295,159
Total current assets		**34,643,244**	**32,520,791**
TOTAL ASSETS		**56,770,147**	**53,744,478**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		48,329	48,329
Share premium		3,523,535	3,523,535
Treasury shares	16	(319,475)	(461,630)
Other reserves		62,716	122,730
Currency translation reserve		(226,755)	123,918
Retained earnings		6,734,325	7,847,636
Equity attributable to the shareholders of the Company		**9,822,675**	**11,204,518**
Non-controlling interests		**3,465,469**	**3,386,155**
TOTAL EQUITY		**13,288,144**	**14,590,673**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	12	15,234,240	18,198,084
Deferred income tax liability		1,684,988	1,622,627
Retirement benefit obligations		533,184	468,324
Provisions for liabilities and charges	15	154,856	168,687
Lease liabilities	8	146,228	-
Other long-term payables		339,195	432,915
Total non-current liabilities		**18,092,691**	**20,890,637**
Current liabilities:			
Trade and other payables	13	16,514,666	13,224,940
Contract liabilities		2,301,827	1,843,380
Short-term borrowings	12	4,586,526	1,162,133
Provisions for liabilities and charges	15	800,559	709,252
Retirement benefit obligations		70,450	67,497
Current income tax payable		53,709	57,684
Lease liabilities	8	21,439	-
Other taxes payable	14	1,040,136	1,198,282
Total current liabilities		**25,389,312**	**18,263,168**
TOTAL LIABILITIES		**43,482,003**	**39,153,805**
TOTAL EQUITY AND LIABILITIES		**56,770,147**	**53,744,478**

Approved for issue and signed on behalf of the Board of Directors on 24 September 2019.

Artem V. Molchanov
Director

Kirill V. Molchanov
Director

The accompanying notes on pages 7 to 25 are an integral part of this consolidated condensed interim financial information.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	28	23,418,770	20,343,362
Cost of sales	20	(18,984,664)	(14,664,211)
Gross profit		**4,434,106**	**5,679,151**
Distribution and transportation expenses	21	(950,863)	(933,106)
General and administrative expenses	22	(2,753,440)	(2,585,497)
Other operating expenses, net	23	(122,408)	(104,131)
Operating profit		**607,395**	**2,056,417**
Finance income	24	88,905	71,003
Finance costs	25	(838,117)	(771,782)
Share of results of associates		11	(275)
(Loss)/profit before income tax		**(141,806)**	**1,355,363**
Income tax expense	18	(31,392)	(394,561)
(Loss)/profit for the period		**(173,198)**	**960,802**
(Loss)/profit attributable to:			
Shareholders of the Company		(336,198)	894,215
Non-controlling interests		163,000	66,587
(Loss)/profit for the period		**(173,198)**	**960,802**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations		(45,969)	78,131
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(358,157)	449,661
Currency translation differences of associates		1,910	6,817
Other comprehensive (loss)/income for the period		**(402,216)**	**534,609**
Total comprehensive (loss)/income for the period		**(575,414)**	**1,495,411**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(718,265)	1,362,160
Non-controlling interests		142,851	133,251
Total comprehensive (loss)/income for the period		**(575,414)**	**1,495,411**
Basic and diluted (loss)/earnings per ordinary share for (loss)/profit attributable to the ordinary shareholders (RR per share)	16	**(3.01)**	**7.99**

The accompanying notes on pages 7 to 25 are an integral part of this consolidated condensed interim financial information.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Cash flows from operating activities			
(Loss)/profit before income tax		(141,806)	1,355,363
Adjustments for:			
Depreciation and amortisation	20-23	1,111,679	866,228
Gain from disposal of property, plant and equipment and intangible assets	23	(19,714)	(9,119)
Finance income	24	(88,905)	(71,003)
Finance costs	25	838,117	771,782
Share-based compensation	17	59,272	76,434
Change in retirement benefits obligations	20-23	44,709	41,890
Change in warranty provision	20	(11,374)	107,503
Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets	22	9,624	16,932
Change in provision for obsolete inventories	20	(3,810)	23,393
Foreign exchange loss/(gain), net	23	34,091	(3)
Amortisation of government grants	20	(7,895)	(22,723)
Change in provision for legal claims	23	(3,712)	3,982
Share of results of associates		(11)	275
Operating cash flows before working capital changes		**1,820,265**	**3,160,934**
Increase in inventories		(1,271,009)	(849,846)
Decrease/(increase) in trade and other receivables		1,816,587	(5,646,998)
(Increase)/decrease in contract assets		(4,353,213)	4,319,423
(Increase)/decrease in income tax receivable		(45,299)	1,070
(Decrease)/increase in other taxes payable		(182,570)	384,367
Increase in accounts payable and accrued liabilities		2,214,171	270,108
Increase/(decrease) in contract liabilities		458,447	(909,814)
Cash from operations		**457,379**	**729,244**
Income tax paid		(189,721)	(760,609)
Interest paid		(843,676)	(786,234)
Interest received		106,252	68,744
Net cash used in operating activities		**(469,766)**	**(748,855)**
Cash flows from investing activities			
Repayment of loans advanced		5,262	72,578
Loans advanced		(15,543)	(36,626)
Interest received		11	834
Proceeds from sale of property, plant and equipment and intangible assets, net of VAT		31,718	20,938
Purchase of property, plant and equipment, net of VAT		(620,259)	(650,392)
Acquisition of intangible assets, net of VAT		(179,503)	(141,868)
Acquisition of subsidiaries	7	(669,998)	-
Net cash used in investing activities		**(1,448,312)**	**(734,536)**
Cash flows from financing activities			
Repayments of borrowings		(710,699)	(10,572,752)
Proceeds from borrowings		1,234,008	12,947,948
Buy back of issued shares	16	(25,649)	(23,454)
Proceeds from received grant		-	40,000
Repayment of the lease liabilities principal		(14,758)	(3,164)
Dividends paid to non-controlling shareholders of subsidiaries		(29,156)	(45,065)
Dividends related to Long-term Incentive Program	17	(15,292)	(20,390)
Dividends paid to the shareholders of the Company	16	(427,962)	(573,409)
Net cash from financing activities		**10,492**	**1,749,714**
Net (decrease)/increase in cash and cash equivalents		**(1,907,586)**	**266,323**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(26,697)**	**26,270**
Cash and cash equivalents at the beginning of the period		**6,295,159**	**4,620,601**
Cash and cash equivalents at the end of the period		**4,360,876**	**4,913,194**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2017		**48,329**	**3,523,535**	**(404,994)**	**122,730**	**(652,109)**	**7,073,645**	**9,711,136**	**3,145,950**	**12,857,086**
Profit for the period		-	-	-	-	-	894,215	894,215	66,587	**960,802**
Other comprehensive income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	62,743	62,743	15,388	**78,131**
Currency translation differences		-	-	-	-	398,385	-	398,385	51,276	**449,661**
Currency translation differences of associates		-	-	-	-	6,817	-	6,817	-	**6,817**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**405,202**	**956,958**	**1,362,160**	**133,251**	**1,495,411**
Buy back of issued shares	16	-	-	(23,454)	-	-	-	(23,454)	-	**(23,454)**
Share-based compensation	17	-	-	-	-	-	49,248	49,248	-	**49,248**
Dividends declared to the shareholders of the Company	16	-	-	-	-	-	(763,451)	(763,451)	-	**(763,451)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(54,758)	**(54,758)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**(23,454)**	**-**	**-**	**(714,203)**	**(737,657)**	**(54,758)**	**(792,415)**
Balance at 30 June 2018		**48,329**	**3,523,535**	**(428,448)**	**122,730**	**(246,907)**	**7,316,400**	**10,335,639**	**3,224,443**	**13,560,082**
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**
(Loss)/profit for the period		-	-	-	-	-	(336,198)	(336,198)	163,000	**(173,198)**
Other comprehensive (loss)/income										
Remeasurement of post-employment benefit obligations		-	-	-	-	-	(31,394)	(31,394)	(14,575)	**(45,969)**
Currency translation differences		-	-	-	-	(352,583)	-	(352,583)	(5,574)	**(358,157)**
Currency translation differences of associates		-	-	-	-	1,910	-	1,910	-	**1,910**
Total comprehensive (loss)/income for the period		**-**	**-**	**-**	**-**	**(350,673)**	**(367,592)**	**(718,265)**	**142,851**	**(575,414)**
Buy back of issued shares	16	-	-	(25,649)	-	-	-	(25,649)	-	**(25,649)**
Share-based compensation	17	-	-	-	-	-	37,968	37,968	-	**37,968**
Transfer of GDRs under LTIP	16,17	-	-	167,804	(60,014)	-	(107,790)	-	-	**-**
Dividends declared to the shareholders of the Company	16	-	-	-	-	-	(675,897)	(675,897)	-	**(675,897)**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(63,537)	**(63,537)**
Total transactions with owners, recognised directly in equity		**-**	**-**	**142,155**	**(60,014)**	**-**	**(745,719)**	**(663,578)**	**(63,537)**	**(727,115)**
Balance at 30 June 2019		**48,329**	**3,523,535**	**(319,475)**	**62,716**	**(226,755)**	**6,734,325**	**9,822,675**	**3,465,469**	**13,288,144**

1 General Information

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

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

At 30 June 2019, HMS Holding JSC, 100% subsidiary of H.M.S. Technologies Ltd., held 71.51% of the Company’s shares. The Company does not have an ultimate controlling party above H.M.S. Technologies Ltd.

2 Basis of Preparation

This consolidated condensed interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), Interim financial reporting, as adopted by the European Union (“the EU”). The consolidated condensed interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the EU and the Cyprus Companies Law, Cap. 113.

The accompanying consolidated condensed interim financial information reflects management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group.

3 Accounting Policies and Critical Accounting Estimates and Judgments

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, as described in those annual consolidated financial statements, except for the adoption of the new standards effective as of 1 January 2019.

The initial application of the new accounting standard IFRS 16 “Leases” has given rise to changes in accounting methods, and these are described below. The initial application of other accounting standards and interpretations had no material effect on the consolidated condensed interim financial information.

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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

(in thousands of Russian Roubles, unless otherwise stated)

3 Accounting Policies and Critical Accounting Estimates and Judgments (continued)

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

- not to apply requirements of the standard to leases for which the lease term ends within 12 months of the date of initial application and account for those leases in the same way as short-term leases;

- the accounting for operating leases of low-value assets as at 1 January 2019 as leases in which the underlying asset has a low value.

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

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

Items of the consolidated statement of financial position	At 31 December 2018	Effect of adoption of IFRS 16	At 1 January 2019
Property, plant and equipment (Note 4), including	**15,492,896**	**(109,571)**	**15,383,325**
Cost	24,572,648	(121,768)	24,450,880
Accumulated depreciation	(9,079,752)	12,197	(9,067,555)
Other intangible assets (Note 5), including	**1,898,781**	**(8,547)**	**1,890,234**
Cost	2,723,154	(10,403)	2,712,751
Accumulated depreciation	(824,373)	1,856	(822,517)
Right-of-use assets (Note 8)	**-**	**118,118**	**118,118**
Other long-term payables	432,915	(82,853)	350,062
Non-current lease liabilities (Note 8)	**-**	**82,853**	**82,853**
Trade and other payables (Note 13)	13,224,940	(15,107)	13,209,833
Current lease liabilities (Note 8)	**-**	**15,107**	**15,107**

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

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.

Critical accounting estimates and judgments. 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.

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

The Group recognises revenue from construction projects, design and engineering projects and certain other long-term contracts over time, using the input method. The use of this method requires the Group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. For the six months ended 30 June 2019, the Group recognised revenue from such contracts in amount of RR 10,978,179 (for the six months ended 30 June 2018: RR 7,113,439) (Note 19).

(in thousands of Russian Roubles, unless otherwise stated)

3 Accounting Policies and Critical Accounting Estimates and Judgments (continued)

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

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

At 30 June 2019, the Group performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as of that date. As a result of analysis performed by the Group, no additional impairment has been recognized at 30 June 2019.

4 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
Balance at 1 January 2018	**1,466,130**	**9,883,453**	**8,395,648**	**321,090**	**1,049,375**	**1,019,426**	**22,135,122**
Additions	886	42,614	246,096	17,529	80,922	298,458	686,505
Transfers	-	10,558	482,523	1,610	5,868	(500,559)	-
Disposals	-	(2,838)	(30,462)	(14,233)	(29,818)	(6,138)	(83,489)
Translation to presentation currency	4,383	96,841	190,495	3,958	45,609	5,150	346,436
Balance at 30 June 2018	**1,471,399**	**10,030,628**	**9,284,300**	**329,954**	**1,151,956**	**816,337**	**23,084,574**
Balance at 1 January 2019 (Note 3)	**1,475,203**	**10,323,031**	**9,700,033**	**335,167**	**1,336,437**	**1,281,009**	**24,450,880**
Additions	91	12,605	222,740	11,716	76,427	317,677	641,256
Transfers	32	7,407	64,126	-	7,411	(78,976)	-
Business combination (Note 7)	76,850	308,427	348,041	1,536	15,207	4,456	754,517
Disposals	-	(7,447)	(106,386)	(7,926)	(29,917)	(876)	(152,552)
Translation to presentation currency	(4,126)	(61,859)	(94,682)	(1,445)	(35,688)	(2,797)	(200,597)
Balance at 30 June 2019	**1,548,050**	**10,582,164**	**10,133,872**	**339,048**	**1,369,877**	**1,520,493**	**25,493,504**
Accumulated depreciation and impairment							
Balance at 1 January 2018	**(7,993)**	**(2,486,529)**	**(4,110,521)**	**(216,752)**	**(740,032)**	**(9,751)**	**(7,571,578)**
Eliminated on disposals	-	2,590	26,378	12,561	25,980	-	67,509
Depreciation expense	-	(183,439)	(429,278)	(16,665)	(69,430)	-	(698,812)
Translation to presentation currency	-	(28,442)	(95,299)	(2,511)	(26,123)	-	(152,375)
Balance at 30 June 2018	**(7,993)**	**(2,695,820)**	**(4,608,720)**	**(223,367)**	**(809,605)**	**(9,751)**	**(8,355,256)**
Balance at 1 January 2019 (Note 3)	**(7,993)**	**(2,885,256)**	**(5,055,831)**	**(219,244)**	**(889,480)**	**(9,751)**	**(9,067,555)**
Eliminated on disposals	-	5,736	95,765	7,926	27,878	-	137,305
Depreciation expense	-	(195,855)	(495,611)	(16,130)	(85,921)	-	(793,517)
Translation to presentation currency	-	18,905	51,167	1,009	22,015	-	93,096
Balance at 30 June 2019	**(7,993)**	**(3,056,470)**	**(5,404,510)**	**(226,439)**	**(925,508)**	**(9,751)**	**(9,630,671)**
Carrying amount							
Carrying amount at 1 January 2018	**1,458,137**	**7,396,924**	**4,285,127**	**104,338**	**309,343**	**1,009,675**	**14,563,544**
Carrying amount at 30 June 2018	**1,463,406**	**7,334,808**	**4,675,580**	**106,587**	**342,351**	**806,586**	**14,729,318**
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 30 June 2019	**1,540,057**	**7,525,694**	**4,729,362**	**112,609**	**444,369**	**1,510,742**	**15,862,833**

At 30 June 2019, RR 198,069 of the Group's property, plant and equipment had been pledged as security for certain borrowings (31 December 2018: RR 237,952), including RR 124,789 related to undrawn credit facilities (31 December 2018: RR 141,568) (Note 12). Construction-in-progress includes advances for capital expenditures for a total of RR 142,480 at 30 June 2019 (31 December 2018: RR 562,623).

(in thousands of Russian Roubles, unless otherwise stated)

4 Property, Plant and Equipment (continued)

At 30 June 2019, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 253,008 (31 December 2018: RR 467,347).

5 Other Intangible Assets

	Project documen-tation, development costs and patents	Customer relationships and order backlog	Software licenses and websites	Trademarks	Licenses and certificates	Total
Cost						
Balance at 1 January 2018	**851,065**	**590,984**	**232,080**	**150,186**	**23,966**	**1,848,281**
Additions	76,750	-	61,794	-	5,118	143,662
Disposals	(418,493)	-	(36,529)	(106,780)	(2,429)	(564,231)
Translation to presentation currency	26,996	19,680	11,661	-	5	58,342
Balance at 30 June 2018	**536,318**	**610,664**	**269,006**	**43,406**	**26,660**	**1,486,054**
Balance at 1 January 2019 (Note 3)	**410,152**	**1,791,528**	**439,511**	**43,406**	**28,154**	**2,712,751**
Additions	100,433	-	81,852	-	6,462	188,747
Business combination (Note 7)	-	-	524	-	-	524
Disposals	(69)	-	(75,572)	-	(3,919)	(79,560)
Translation to presentation currency	(6,920)	(36,497)	(7,044)	-	(26)	(50,487)
Balance at 30 June 2019	**503,596**	**1,755,031**	**439,271**	**43,406**	**30,671**	**2,771,975**
Accumulated amortisation and impairment						
Balance at 1 January 2018	**(587,407)**	**(371,923)**	**(99,943)**	**(113,792)**	**(11,600)**	**(1,184,665)**
Amortisation on disposals	417,760	-	36,472	106,780	2,429	563,441
Amortisation expense	(62,700)	(28,975)	(57,022)	(10,084)	(3,527)	(162,308)
Translation to presentation currency	(15,773)	(10,864)	(5,914)	-	(3)	(32,554)
Balance at 30 June 2018	**(248,120)**	**(411,762)**	**(126,407)**	**(17,096)**	**(12,701)**	**(816,086)**
Balance at 1 January 2019 (Note 3)	**(95,186)**	**(489,606)**	**(205,697)**	**(18,281)**	**(13,747)**	**(822,517)**
Amortisation on disposals	-	-	75,572	-	3,919	79,491
Amortisation expense	(25,887)	(142,462)	(126,093)	(1,185)	(3,623)	(299,250)
Translation to presentation currency	2,983	23,692	4,110	-	4	30,789
Balance at 30 June 2019	**(118,090)**	**(608,376)**	**(252,108)**	**(19,466)**	**(13,447)**	**(1,011,487)**
Carrying amount						
Carrying amount at 1 January 2018	**263,658**	**219,061**	**132,137**	**36,394**	**12,366**	**663,616**
Carrying amount at 30 June 2018	**288,198**	**198,902**	**142,599**	**26,310**	**13,959**	**669,968**
Carrying amount* at 1 January 2019	**314,966**	**1,301,922**	**233,814**	**25,125**	**14,407**	**1,890,234**
Carrying amount at 30 June 2019	**385,506**	**1,146,655**	**187,163**	**23,940**	**17,224**	**1,760,488**

6 Goodwill

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

	Six months ended 30 June 2019	Six months ended 30 June 2018
Carrying amount at 1 January	**3,092,257**	**2,937,695**
Business combination (Note 7)	414,485	-
Effect of translation to presentation currency related to Apollo Goessnitz GmbH	(111,513)	60,188
Carrying amount at 30 June	**3,395,229**	**2,997,883**

(in thousands of Russian Roubles, unless otherwise stated)

6 Goodwill (continued)

Goodwill is allocated to cash generating units, 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:

	30 June 2019	**31 December 2018**
Kazankompressormash OJSC	1,239,809	1,239,809
Apollo Goessnitz GmbH	1,047,816	1,159,329
Sibneftemash JSC	511,784	511,784
TMCP JSC (Note 7)	414,485	-
EPF "SIBNA" Inc. JSC	117,308	117,308
Dimitrovgradkhimmash JSC	64,027	64,027
Total carrying amount of goodwill	**3,395,229**	**3,092,257**

7 Business combination

In February 2019, HMS Neftemash JSC, the Group's subsidiary, acquired a group of companies engaged in manufacturing of oil and gas equipment, located in Tumen, for a total consideration of RR 700,000, paid by cash.

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

This acquisition was accounted for using the acquisition method. The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired group at the date of acquisition on a provisional basis. Such assessments may change when the Group completes the valuation of tangible and intangible assets of the acquired company. The provisional purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition
Property, plant and equipment (Note 4)	754,517
Right-of-use assets (Note 8)	2,413
Other long-term assets	720
Other intangible assets (Note 5)	524
Inventories	97,784
Trade and other receivables and other financial assets	428,270
Cash and cash equivalents	30,002
Deferred income tax liability	(43,831)
Other long-term payables	(7,712)
Trade and other payables	(827,401)
Other taxes payable	(19,771)
Short-term provisions for liabilities and charges	(130,000)
Fair value of net assets	**285,515**
Goodwill (Note 6)	414,485
Total purchase consideration	**700,000**
Less: cash and cash equivalents acquired in a business combination	(30,002)
Outflow of cash and cash equivalents on acquisition	**669,998**

(in thousands of Russian Roubles, unless otherwise stated)

8 Right-of-use assets and lease liabilities

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

For the six months ended 30 June 2019, following the reclassification of finance leases from Property, plant and equipment and Other intangibles, the movement of right-of-use assets was as follows:

	Land	Buildings	Plant and equipment	Other	Total
Cost					
Balance at 1 January 2019	**-**	**-**	**115,973**	**16,198**	**132,171**
Additions	12,603	54,641	25,626	-	92,870
Business combination (Note 7)	-	-	-	2,413	2,413
Termination of lease agreements	-	-	(8,587)	-	(8,587)
Translation to presentation currency	-	-	(8,283)	(1,558)	(9,841)
Balance at 30 June 2019	**12,603**	**54,641**	**124,729**	**17,053**	**209,026**
Accumulated depreciation and impairment					
Balance at 1 January 2019	**-**	**-**	**(10,287)**	**(3,766)**	**(14,053)**
Eliminated on termination of lease agreements	**-**	-	1,084	-	1,084
Depreciation expense	(1,970)	(2,612)	(6,684)	(2,584)	(13,850)
Translation to presentation currency	8	10	294	396	708
Balance at 30 June 2019	**(1,962)**	**(2,602)**	**(15,593)**	**(5,954)**	**(26,111)**
Carrying amount					
Carrying amount at 1 January 2019	**-**	**-**	**105,686**	**12,432**	**118,118**
Carrying amount at 30 June 2019	**10,641**	**52,039**	**109,136**	**11,099**	**182,915**

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

At 30 June 2019 and 31 December 2018, lease liabilities under long-term lease were as follows:

	30 June 2019	**31 December 2018**
Current lease liabilities	21,439	15,107
Non-current lease liabilities	146,228	82,853
Total lease liabilities	**167,667**	**97,960**

At 30 June 2019, lease liabilities were measured on a present value basis using the interest rates implicit in the lease agreements and using the weighted average incremental borrowing rate 16.08% for certain lease agreements.

For the six months ended 30 June 2019, lease expenses for short-term leases and leases of low-value assets in amount of RR 93,555 (Notes 20, 21, 22) were recognised in the consolidated condensed interim statement of profit or loss and were not included in the measurement of lease liabilities.

For the six months ended 30 June 2019, total cash outflows for leases contracts recognised as right-of-use assets amounted to RR 23,309, of which RR 8,551 was included in interest paid.

(in thousands of Russian Roubles, unless otherwise stated)

9 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 June 2019	31 December 2018
Cash on hand	2,606	2,633
RR denominated balances with banks	2,174,444	1,463,088
Foreign currency denominated balances with banks	250,877	245,341
RR denominated bank deposits	1,748,882	4,462,921
Foreign currency denominated bank deposits	175,962	115,473
Other cash equivalents	8,105	5,703
Total cash and cash equivalents	**4,360,876**	**6,295,159**

At 30 June 2019, the closing balance of short-term deposits denominated in foreign currencies comprised EUR-denominated deposit of RR 131,903, UAH-denominated deposits of RR 33,331 and USD-denominated deposits of RR 10,728. At 31 December 2018, the closing balance of short-term deposits denominated in foreign currencies comprised UAH-denominated deposits of RR 115,473.

10 Inventories

	30 June 2019	31 December 2018
Raw materials and supplies	4,595,117	4,372,438
Work in progress	3,491,227	2,925,187
Finished goods and goods for resale	2,227,959	1,791,055
Total inventories	**10,314,303**	**9,088,680**

Inventories are presented net of provision for obsolescence in amount of RR 634,928 at 30 June 2019 (31 December 2018: RR 655,091).

At 30 June 2019, inventories of RR 47,535 were pledged as collateral for certain borrowings (31 December 2018: RR 54,778) (Note 12). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 20.

11 Trade and Other Receivables and Other Financial Assets

	30 June 2019	31 December 2018
Trade receivables	8,158,905	9,815,554
Less: ECL allowance for trade receivables	(278,120)	(276,504)
Short-term loans issued	28,069	30,983
Bank deposits	35,027	31,308
Other receivables	329,816	333,567
Less: ECL allowance for impairment of other receivables	(54,854)	(53,380)
Financial assets, net	**8,218,843**	**9,881,528**
Prepayments and advances to suppliers and subcontractors	2,063,166	2,037,773
Less: Provision for impairment of advances to suppliers and subcontractors	(33,690)	(30,417)
VAT receivable	426,620	361,251
Other taxes receivable	25,505	17,708
Non-financial assets, net	**2,481,601**	**2,386,315**
Total trade and other receivables and other financial assets	**10,700,444**	**12,267,843**

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

At 30 June 2019, the closing balance of bank deposits comprised RUB-denominated deposits of RR 30,000 and EUR-denominated deposit of RR 5,027. At 31 December 2018, the closing balance of bank deposits comprised USD-denominated deposit of RR 25,646, EUR-denominated deposit of RR 5,562 and RUB-denominated deposits of RR 100.

At 30 June 2019, trade receivables arising from certain sales contracts in the amount of RR 877,974 (31 December 2018: RR 857,856) were pledged as collateral for certain borrowings (Note 12).

(in thousands of Russian Roubles, unless otherwise stated)

12 Borrowings

	Interest rate	Denominated in	30 June 2019	31 December 2018
Long-term unsecured loans and bonds:				
Unsecured bank loans	8.30% - 9.25%	RR	14,946,969	15,042,968
Bonds	10.75%	RR	2,997,847	2,996,195
Unsecured non-bank loans	5.00%	RR	333,333	444,444
Unsecured bank loans	EURIBOR+3.00%-EURIBOR+3.45%	EUR	287,271	158,921
			18,565,420	**18,642,528**
Less: current portion of long-term borrowings			(3,331,180)	(444,444)
Total long-term borrowings			**15,234,240**	**18,198,084**
Short-term unsecured loans:				
Unsecured bank loans	9.00% - 9.45%	RR	800,881	10,000
			800,881	**10,000**
Short-term secured bank loans:				
Secured loans	3.25% - 5.20%	EUR	274,201	507,117
Secured loans	13.50%	RR	41,252	48,930
Secured loans	11.50% - 12.04%	BYN	14,669	22,868
			330,122	**578,915**
Current portion of long-term borrowings			3,331,180	444,444
Interest payable			124,343	128,774
Total short-term borrowings			**4,586,526**	**1,162,133**

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

	30 June 2019	31 December 2018
RR	19,244,451	18,671,079
EUR	561,522	666,077
BYN	14,793	23,061
Total borrowings	**19,820,766**	**19,360,217**

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

Assets pledged. At 30 June 2019, the Group pledged property, plant and equipment and inventories in total amount of RR 73,280 and RR 47,535 (31 December 2018: RR 96,384 and RR 54,778), respectively.

At 30 June 2019 and at 31 December 2018, the Group also pledged its rights under some sales contracts with customers as the security for certain borrowings. At 30 June 2019, the Group recognised trade receivables under these sales contracts in amount of RR 877,974 (31 December 2018: RR 857,856).

Breach of loan covenants. At 30 June 2019, the long-term part of the unsecured non-bank loan in amount of RR 111,111 (31 December 2018: RR 222,222) was presented within the current portion of long-term borrowings due to the breach of certain financial covenants related to operational performance of the large investment project, financed by this loan (Note 27). The creditor had not requested early repayment of the loan as of the date when this consolidated condensed interim financial information was authorised for issuance.

(in thousands of Russian Roubles, unless otherwise stated)

13 Trade and Other Payables

	30 June 2019	31 December 2018
Trade payables	11,583,717	7,855,334
Other payables	881,470	615,286
Financial trade and other payables	**12,465,187**	**8,470,620**
Advances from customers	2,756,865	3,545,062
Wages and salaries payable	1,292,614	1,209,258
Other non-financial payables	**4,049,479**	**4,754,320**
Total trade and other payables	**16,514,666**	**13,224,940**

14 Other Taxes Payable

	30 June 2019	31 December 2018
VAT	475,201	598,780
Social funds contribution	230,613	259,978
Withholding tax provision, related to acquisition of subsidiary	188,052	188,052
Personal income tax	108,157	107,650
Property tax	20,832	26,810
Land tax	11,274	11,394
Transport tax	882	3,699
Other taxes	5,125	1,919
Total other taxes payable	**1,040,136**	**1,198,282**

15 Provisions for Liabilities and Charges

	Warranty provision	Provision for legal claims	Provision for tax risks
At 1 January 2018	**331,443**	**475,836**	**81,433**
Additional provisions	269,958	75,977	-
Unused amounts reversed	(54,071)	(71,995)	-
Provision used during the period	(108,384)	(18,894)	(23,696)
Effect of translation to presentation currency	968	867	-
At 30 June 2018	**439,914**	**461,791**	**57,737**
At 1 January 2019	**436,066**	**441,873**	**-**
Additional provisions	176,297	7,156	-
Business combination (Note 7)	-	130,000	-
Unused amounts reversed	(64,466)	(10,868)	-
Provision used during the period	(123,205)	(34,921)	-
Effect of translation to presentation currency	(739)	(1,778)	-
At 30 June 2019	**423,953**	**531,462**	**-**

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 30 June 2019, the closing balance of the warranty provision comprised a short-term portion of RR 269,097 and a long-term portion of RR 154,856 (31 December 2018: RR 267,379 and RR 168,687, respectively).

16 Equity and Earnings per Share

Treasury shares. During the six months ended 30 June 2019, 61,295 GDRs of the Company representing 0.26% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 25,649.

In May 2019, 414,718 GDRs of the Company representing 1.83% of its issued share capital with the total cost of RR 167,804 were transferred to the participants under the Long-term Incentive Program (Note 17).

During the six months ended 30 June 2018, 43,000 GDRs of the Company representing 0.18% of its issued share capital were bought back by a wholly-owned subsidiary of the Group for a total consideration of RR 23,454.

(in thousands of Russian Roubles, unless otherwise stated)

16 Equity and Earnings per Share (continued)

At 30 June 2019, the Company, via a wholly-owned subsidiary, is holding 789,564 (31 December 2018: 1,142,987) of its own GDRs with the total cost of RR 319,475 (31 December 2018: RR 461,630). The voting and dividend rights of these GDRs are suspended.

Dividends. No interim dividends were declared by the Board of Directors during the six months ended 30 June 2019 and 2018.

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 accounted for in shareholders' equity as an appropriation of retained earnings in six months ended 30 June 2019. This dividend was paid in July 2019.

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

At the Annual General Meeting in June 2018, the Company's shareholders approved the final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share amounting to a total dividend of RR 763,451. These dividends were accounted for in shareholders' equity as an appropriation of retained earnings in six months ended 30 June 2018. This dividend was paid in July 2018.

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

Earnings per share. The Company has no dilutive 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 in issue during the period.

For the six months ended 30 June 2019 and 2018, (loss)/earnings per share are calculated as follows:

	Six months ended 30 June 2019	**Six months ended 30 June 2018**
(Loss)/profit for the period attributable to ordinary shareholders	(336,198)	894,215
Weighted average number of ordinary shares in issue (thousands)	111,645	111,898
Basic and diluted (loss)/earnings per ordinary share (expressed in RR per share)	**(3.01)**	**7.99**

17 Share-based Payments

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

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

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

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

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

The 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 at 1 January 2016.

Award 2016 was fully vested at 31 December 2018 and was transferred to the participants in May 2019 (Note 16).

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

(in thousands of Russian Roubles, unless otherwise stated)

17 Share-based Payments (continued)

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

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

For the six months ended 30 June 2019, the Group recognised share-based compensation expense of RR 68,129 (for the six months ended 30 June 2018: RR 87,855) in general and administrative expenses in the consolidated condensed interim 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 59,272 (for the six months ended 30 June 2018: RR 76,434) and the respective personal income tax effect of RR 8,857 (for the six months ended 30 June 2018: RR 11,421). The Group also recognised related social security contributions expense of RR 10,424 (for the six months ended 30 June 2018: RR 13,442).

For the six months ended 30 June 2019, dividends accrued to the Participants of the Program for the share awards not yet vested amounted to RR 21,304 (six months ended 30 June 2018: RR 27,186) and were recorded as a deduction of retained earnings. As a result, total effect of the Program on retained earnings amounted to RR 37,968 (six months ended 30 June 2018: RR 49,248).

18 Income Taxes

Income tax expense for the six months ended 30 June 2019 and 2018 included:

	Six months ended 30 June 2019	**Six months ended 30 June 2018**
Current tax expense	193,939	935,446
Deferred tax benefit	(162,547)	(540,885)
Total income tax expense	**31,392**	**394,561**

During the six months ended 30 June 2019, deferred tax benefit was recognised mainly as a result of the reduction in previously accrued deferred tax liabilities which arose from temporary differences related to the recognition of the revenue over time.

Most companies of the Group were subject to tax rate of 20% on taxable profits in the Russian Federation for the six months period ended 30 June 2019 and 2018.

19 Revenue

Disaggregation of the Group's revenue for the six months ended 30 June 2019 and 2018, which is consistent with the revenue by segment disclosure, is disclosed in Note 28.

During the six months ended 30 June 2019, the Group recognised revenue over time in amount of RR 10,978,179 (the six months ended 30 June 2018: RR 7,113,439), the remaining revenue was recognised at a point of time (Notes 3, 28).

The Group had not recognised revenue from contracts with customers for the six months ended 30 June 2019, which is related to performance obligations that were satisfied in the prior periods.

The Group's revenue recognised for the six months ended 30 June 2019 includes RR 607,835 that was included in the opening contract liabilities.

(in thousands of Russian Roubles, unless otherwise stated)

20 Cost of Sales

	Six months ended 30 June 2019	Six months ended 30 June 2018
Materials and components	13,413,867	9,048,516
Labour costs	2,820,275	2,851,918
Depreciation and amortisation	940,990	747,124
Construction, design and engineering and other services of subcontractors	937,563	750,781
Social taxes	771,601	779,033
Utilities	226,431	267,394
Lease expense	40,753	47,803
Change in retirement benefits obligations	35,062	32,532
Change in work in progress and finished goods	(867,793)	(555,633)
Change in warranty provision	(11,374)	107,503
Amortisation of government grants	(7,895)	(22,723)
Change in provision for obsolete inventories	(3,810)	23,393
Other expenses	688,994	586,570
Total cost of sales	**18,984,664**	**14,664,211**

21 Distribution and Transportation Expenses

	Six months ended 30 June 2019	Six months ended 30 June 2018
Labour costs	315,930	310,198
Transportation expenses	247,617	240,595
Advertising	74,716	18,137
Social taxes	72,421	68,128
Insurance	65,506	138,802
Lease expense	30,459	31,478
Entertaining costs and business trip expenses	24,987	18,066
Material expenses	20,469	19,727
Products certification	13,512	14,166
Depreciation and amortisation	13,080	10,479
Telecommunication services	8,672	8,106
Agency services	8,104	9,222
Customs duties	1,951	2,420
Change in retirement benefits obligations	870	714
Other expenses	52,569	42,868
Total distribution and transportation expenses	**950,863**	**933,106**

22 General and Administrative Expenses

	Six months ended 30 June 2019	Six months ended 30 June 2018
Labour costs	1,500,660	1,401,589
Social taxes	325,196	315,482
Bank services	167,724	117,513
Depreciation and amortisation	152,854	104,141
Taxes and duties	97,116	109,689
Property, plant and equipment repair and maintenance	56,939	41,259
Insurance	55,595	72,251
Entertaining costs and business trip expenses	50,376	46,815
Audit and consultancy services	50,369	72,235
Stationary and office maintenance	40,822	38,474
Security	29,261	28,144
Lease expense	22,343	27,742
Telecommunications services	14,996	14,329
Change in ECL allowance and provision for impairment of trade and other receivables and other financial assets	9,624	16,932
Change in retirement benefits obligations	8,777	8,644
Training and recruitment	7,696	10,203
Other expenses	163,092	160,055
Total general and administrative expenses	**2,753,440**	**2,585,497**

(in thousands of Russian Roubles, unless otherwise stated)

23 Other Operating Expenses, Net

	Six months ended 30 June 2019	Six months ended 30 June 2018
Charity, social expenditures	63,022	61,348
Foreign exchange loss/(gain), net	34,091	(3)
Fines and late payment interest under contracts	25,207	18,216
Loss on purchase/sale of foreign currency, net	12,676	13,140
Depreciation of social assets	4,755	4,484
Gain from disposal of property, plant and equipment and intangible assets	(19,714)	(9,119)
Change in provision for legal claims	(3,712)	3,982
Other expenses, net	6,083	12,083
Total other operating expenses, net	**122,408**	**104,131**

24 Finance Income

	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest income	106,180	71,068
Foreign exchange loss from deposits, net	(17,275)	(65)
Total finance income	**88,905**	**71,003**

25 Finance Costs

	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest expenses	827,109	767,210
Interest expenses on lease liabilities	8,596	1,023
Foreign exchange loss/(gain) from borrowings, net	2,412	(1,867)
Fees for early repayment of loans	-	5,416
Total finance costs	**838,117**	**771,782**

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

Balances with related parties	**30 June 2019**		**31 December 2018**	
	Associates	**Other**	**Associates**	**Other**
Accounts receivable	967	-	2,343	-
Accounts payable	1,278	182,410	2,320	162,184
Current lease liabilities	3,286	-	3,608	-
Non-current lease liabilities	80,033	-	81,954	-

(in thousands of Russian Roubles, unless otherwise stated)

26 Balances and Transactions with Related Parties (continued)

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

Transactions with associates	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Associates	Other	Associates	Other
Sales of goods and finished products	1,158	-	8,289	-
Other income	1,017	-	289	-
Purchase of intangible assets	(20,717)	-	(13,870)	-
Purchase of services	(6,913)	(174)	(9,924)	-
Interest expenses on lease liabilities	(6,244)	-	-	-
Development costs expensed	(1,161)	-	(2,842)	-
Lease expense	(229)	-	(6,944)	-
Purchase of raw materials	-	-	(3)	-

Key management compensation

Key management compensation amounted to RR 237,656 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RR 250,316) 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 169,527 (for the six months ended 30 June 2018: RR 162,462) as well as share-based compensation of RR 68,129 (for the six months ended 30 June 2018: RR 87,854). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RR 19,653 (for the six months ended 30 June 2018: RR 20,779) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 46,564 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RR 52,282), including share-based compensation of RR 12,386 (for the six months ended 30 June 2018: RR 15,972).

For the six months ended 30 June 2019, dividends of RR 43,018 were accrued by the Group's subsidiary to the holder of non-controlling interest who is a member of key management (for the six months ended 30 June 2018: RR 48,106).

27 Contingencies and Commitments

(i) Legal proceeding

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. At 30 June 2019, management concluded that possible risk related with various claims and legal proceedings amounted to RR 289,070 (31 December 2018: RR 222,528). All probable legal risks are provided for (Note 15).

(ii) Tax legislation

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

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

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

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

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

27 Contingencies and Commitments (continued)

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 condensed interim financial information. At 30 June 2019 and 31 December 2018, the Group did not recognise any amount of provision for tax risks.

(iii) Environmental matters

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

(iv) Insurance policies

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

(v) Contractual commitments

In the normal course of business, the Group has entered in the long-term purchase contract for development engineering services with an associate of the Group. At 30 June 2019, commitments for purchase of the services amounted to RR 29,482 (31 December 2018: RR 30,649).

At 30 June 2019, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 253,008 (31 December 2018: RR 467,347).

During the year ended 31 December 2013, the Group's subsidiary HMS Neftemash JSC obtained the right to receive government subsidies in the amount of RR 150,000 for executing a project relating to the development of high-tech production of metering equipment for metering of extracted oil and gas at the oilfields under final production stage. At 30 June 2019, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

During the year ended 31 December 2016, the Group's subsidiary Sibneftemash JSC obtained the right to receive government subsidies in the amount of RR 170,000 for development of technology and process equipment system for thermochemical treatment of oil-and-gas-bearing formations in order to increase production of raw hydrocarbons and provide environmental improvement at the fields as a replacement of the import technology of hydraulic fracturing with proppant – gel agents. At 30 June 2019, the requirement of own investments to the project was fully complied by the Group and management believes that the Group will be able to comply with other conditions stipulated by the agreement.

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

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including Net debt/EBITDA ratio and certain other requirements. At 30 June 2019 and 31 December 2018, the Group was in compliance with all its loan covenants, except for the breach of certain financial covenants on a non-bank loan of RR 500,000 (Note 12).

28 Segment Information

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

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

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

	30 June 2019	30 June 2018
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 CJSC	Nizhnevartovskremservis CJSC

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
6	TMCP JSC (Note 7)	-

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

28 Segment Information (continued)

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

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

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

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2019 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	7,885,462	5,896,924	8,937,302	694,801	4,281	-	**23,418,770**
Intersegment revenue	94,576	37,377	706	-	1,102,046	-	**1,234,705**
Adjusted EBITDA	1,067,637	(249,907)	835,034	15,483	279,021	6,180	**1,953,448**

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2018 is as follows:

Disclosures by segments	**Industrial pumps**	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
External revenue	7,152,204	11,106,861	1,276,679	805,736	1,882	-	**20,343,362**
Intersegment revenue	181,499	78,251	2,126,460	-	1,041,036	-	**3,427,246**
Adjusted EBITDA	876,352	2,084,215	336,166	(161,435)	230,705	(46,650)	**3,319,353**

A reconciliation of financial information analysed by the CODM to the corresponding information presented in this consolidated condensed interim financial information is presented below:

	Six months ended 30 June 2019						
	Industrial pumps	**Oil and gas equipment and projects**	**Compressors**	**Construction**	**All other segments**	**Intersegment transactions**	**Total**
Adjusted EBITDA	**1,067,637**	**(249,907)**	**835,034**	**15,483**	**279,021**	**6,180**	**1,953,448**
Depreciation and amortisation	(524,417)	(223,769)	(311,680)	(18,645)	(33,168)	-	**(1,111,679)**
Non-monetary items[(1)]	(76,048)	(4,795)	(16,707)	10,054	(33,408)	-	**(120,904)**
Amortisation of government grants (Note 18)	-	7,895	-	-	-	-	**7,895**
Other operating (expenses)/ income, net[(2)]	(114,051)	(31,292)	(9,357)	11,767	12,672	8,896	**(121,365)**
Operating profit/(loss), IFRS	**353,121**	**(501,868)**	**497,290**	**18,659**	**225,117**	**15,076**	**607,395**
Finance income							88,905
Finance costs							(838,117)
Share of results of associate							11
Loss before income tax, IFRS							**(141,806)**

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, ECL allowance and provision for impairment of trade and other receivables and other financial assets, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
[(2)] Other operating (expenses)/income, net include other operating income and expenses as per Note 23, excluding depreciation of social assets and provision for legal claims.

(in thousands of Russian Roubles, unless otherwise stated)

28 Segment Information (continued)

	Six months ended 30 June 2018						
	Industrial pumps	Oil and gas equipment and projects	Compressors	Construction	All other segments	Intersegment transactions	Total
Adjusted EBITDA	**876,352**	**2,084,215**	**336,166**	**(161,435)**	**230,705**	**(46,650)**	**3,319,353**
Depreciation and amortisation	(459,789)	(162,283)	(208,177)	(20,447)	(15,532)	-	**(866,228)**
Non-monetary items[(1)]	(91,006)	(107,844)	(70,219)	(24,297)	(30,400)	-	**(323,766)**
Amortisation of government grants (Note 18)	-	22,723	-	-	-	-	**22,723**
Other operating (expenses)/ income, net[(2)]	(69,137)	(14,833)	(23,291)	(14,710)	12,807	13,499	**(95,665)**
Operating profit/(loss), IFRS	**256,420**	**1,821,978**	**34,479**	**(220,889)**	**197,580**	**(33,151)**	**2,056,417**
Finance income							71,003
Finance costs							(771,782)
Share of results of associate							(275)
Profit before income tax, IFRS							**1,355,363**

[(1)] Non-monetary items consist of defined benefits scheme expenses and provisions (provision for obsolete inventories, ECL allowance and provision for impairment of trade and other receivables and other financial assets, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions).
[(2)] Other operating (expenses)/income, net include other operating income and expenses as per Note 23, excluding depreciation of social assets and provision for legal claims.

29 Fair Value of Financial Instruments

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

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

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

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

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

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 30 June 2019, the fair value of bonds was RR 45,653 higher than their carrying amounts (31 December 2018: the fair value of bonds was RR 60,805 higher than their carrying amounts). The fair value of borrowings was based on Level 2 inputs. At 30 June 2019, the fair value of borrowings was RR 81,920 higher than their carrying amounts (31 December 2018: the fair value of borrowings was RR 15,810 higher than their carrying amounts). Carrying amounts of other liabilities carried at amortised cost approximate their fair values.

29 Fair Value of Financial Instruments (continued)

Liabilities carried at fair value. Contingent consideration liability assumed in a business combination and included in Other long-term payables line of the consolidated statement of financial position at 30 June 2019 and 31 December 2018 is carried at fair value, which is determined based on unobservable inputs (Level 3 of the fair value hierarchy). At 30 June 2019 and 31 December 2018, the fair value of this contingent consideration liability was RR 91,890.

30 Subsequent Events

***Borrowings*.** In September 2019, the Group has signed three-year credit facility agreements of RR 3,179 million, which were utilised for debt refinancing at lower interest rates.

New Long-term Incentive Program. In December 2018, the Board of Directors of the Company approved a Long-term Incentive Program (the “Program”) for the Group’s key executives. Under the conditions of the Program, GDRs of the Company will be granted to the participants based on the Group’s profit attributable to shareholders in the years 2019 to 2021. The transfer of GDRs to the participants will happen over 2022-2024, if participants are still employed by the Group. GDRs for this Program will come from GDRs owned and bought by the Company.

The first grant date for the Program is planned for September 2019, and accordingly the Program has not been accounted for and no compensation expense has been recognised in the six months ended 30 June 2019. The Group will account for this Program as an equity-settled share based payment transaction under IFRS 2, Share-based Payments, starting from September 2019.