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Board of Directors

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

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

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

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

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

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

Mr. Andreas S. Petrou
Non-executive Director

Board support

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

Company Secretary

Cyproservus Co Limited
284 Arch. Makarios III Avenue
FORTUNA COURT, Block B
3rd Floor, Flat/ Office 32
3105 Limassol, Cyprus

Registered office

5 Alkaio Street
Nicosia 2404
Cyprus
The Board of Directors presents its management report together with the audited parent company financial statements for the year ended 31 December 2017. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

**Principal activities**

The principal activity of the Company is the holding of investments.

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

**Review of developments, position and performance of the Company’s business**

The profit of the Company for the year ended 31 December 2017 was 1,252,776 RR thousand (2016: RR 1,032,622 thousand) arising mainly as a result of dividend income in amount of RR 1,381,563 thousand (2016: RR 1,100,878 thousand). At 31 December 2017, the total assets of the Company were RR 5,026,564 thousand (31 December 2016: RR 4,830,253 thousand) and net assets were RR 4,425,975 thousand (31 December 2016: RR 4,323,354 thousand). The financial position and financial performance of the Company as presented in the financial statements are considered satisfactory.

**Principal risks and uncertainties**

The Company’s critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 14 to the financial statements.

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

**Future developments**

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

**Results**

The Company’s results for the year ended 31 December 2017 are set out on page 13 of the parent company financial statements.

**Dividends**

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

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

At the Annual General Meeting, the Company’s shareholders will consider a final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share, amounting to a total dividend of RR 800,226 thousand, calculated taking into account the total quantity of shares issued. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders’ equity as an appropriation of retained earnings in the year ending 31 December 2018.

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

At the Annual General Meeting in June 2017, the Company’s shareholders approved the final dividend in respect of the year ended 31 December 2016 of 5.12 Russian Roubles per ordinary share amounting to a total dividend of RR 578,746 thousand. This dividend was paid in June 2017.

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

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

Share capital

At 31 December 2017, the Company’s issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01 each, which are fully paid, and the Company’s authorised share capital consisted of 120,705,882 ordinary shares. All changes in the share capital of the Company are disclosed in Note 9.

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

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

The role of the Board of Directors

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

Members of the Board of Directors

The members of the Board of Directors at 31 December 2017 and at the date of this report are shown on page 1.

In accordance with the Company’s Articles of Association one third of Directors or, if their number is not three or a multiple of three, then the number nearest one-third shall retire by rotation and are entitled to run for re-election. Kirill V. Molchanov, Yuri N. Skrynnik and Andreas S. Petrou shall retire by rotation and will be entitled to run for re-election on the Company’s Annual General Meeting.

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

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

<table>
<thead>
<tr>
<th>Director</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladimir V. Lukyanenko</td>
<td>27.4%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Artem V. Molchanov</td>
<td>6.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Yury N. Skrynnik</td>
<td>3.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Kirill V. Molchanov</td>
<td>2.4%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Philippe Delpal</td>
<td>0.017%</td>
<td>0.017%</td>
</tr>
</tbody>
</table>

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

Events after the balance sheet date

The material events after the balance sheet date are disclosed in Note 16 to the financial statements.

The Board Committees

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

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

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

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

Corporate governance

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

The remuneration received by the Company’s Directors directly from the Company during the year ended 31 December 2017 amounted to RR 39,568 thousand (2016: RR 38,228 thousand). The remuneration received by the Company’s Directors from subsidiaries in their executive capacity amounted to RR 145,628 thousand for the year ended 31 December 2017 (2016: RR 108,250 thousand).

Branches

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

Treasury shares

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

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

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

At 31 December 2017, the Company, via a wholly-owned subsidiary, is holding 1,033,887 (31 December 2016: 865,869) of its own GDRs with the total cost of RR 404,994 thousand (31 December 2016: RR 323,556 thousand). The voting and dividend rights of these GDRs are suspended.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Group’s budget for 2018, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By order of the Board

Artem V. Molchanov
Director
Limassol
24 April 2018
Directors' Responsibility Statement

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

Each of the Directors confirms to the best of his or her knowledge that the financial statements (presented on pages 12 to 26) give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Plc at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board

Artem V. Molchanov
Director
24 April 2018

Kirill V. Molchanov
Director
24 April 2018
Independent Auditor’s Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of parent company HMS Hydraulic Machines & Systems Group plc (the “Company”), which are presented in pages 12 to 26 and comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

To the Members of HMS Hydraulic Machines & Systems Group plc

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

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

<table>
<thead>
<tr>
<th>Why the matter was determined to be a key audit matter</th>
<th>How the matter was addressed in the audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment assessment of investments in subsidiaries</td>
<td>In relation to the Company’s analysis for the identification of indicators of impairment of investments in subsidiaries, we obtained understanding of key controls over the impairment review process and we have challenged the assessment made by the Company in order to determine whether there were any indicators of impairment. We also assessed the adequacy of the disclosures made by the Company in its financial statements in relation to the investments in subsidiaries and their impairment review process.</td>
</tr>
</tbody>
</table>


As required by applicable accounting standards, the Company performs an analysis in order to determine whether there are any indicators of impairment in respect of the Company’s investments in subsidiaries at each reporting date.

The details on the accounting for investments in subsidiaries are included in Notes 4 and 8 to the accompanying financial statements.

We specifically focus on the analysis that was prepared by the Company in order to determine whether there were any indicators of impairment in respect of the Company’s investments in subsidiaries because of the judgement involved in that assessment.

Reporting on other information

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

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

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

To the Members of HMS Hydraulic Machines & Systems Group plc

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

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

To the Members of HMS Hydraulic Machines & Systems Group plc

Auditor’s Responsibilities for the Audit of the Financial Statements (Continued)

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

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

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 24 April 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

To the Members of HMS Hydraulic Machines & Systems Group plc

Other Legal Requirements (Continued)

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

Other Matter

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

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

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

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

Limassol, 24 April 2018
### ASSETS

**Non-current assets:**

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in subsidiaries</td>
<td>8</td>
<td>4,181,740</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>4,181,740</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>7</td>
<td>822,565</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>6</td>
<td>22,259</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>844,824</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>5,026,564</td>
</tr>
</tbody>
</table>

### EQUITY AND LIABILITIES

#### EQUITY

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>9</td>
<td>48,329</td>
</tr>
<tr>
<td>Share premium</td>
<td>9</td>
<td>3,563,424</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>814,222</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td></td>
<td>4,425,975</td>
</tr>
</tbody>
</table>

#### LIABILITIES

**Current liabilities:**

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term borrowings</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Financial guarantee contracts</td>
<td>13</td>
<td>18,651</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>9</td>
<td>573,409</td>
</tr>
<tr>
<td>Other payables</td>
<td></td>
<td>8,529</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>600,589</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td>600,589</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td></td>
<td>5,026,564</td>
</tr>
</tbody>
</table>

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

Artem V. Molchanov  
Director

Kirill V. Molchanov  
Director

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The accompanying notes on pages 16 to 26 are an integral part of these financial statements.
HMS Hydraulic Machines & Systems Group plc
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in thousands of Russian Roubles, unless otherwise stated)

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>13</td>
<td>1,381,563</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>11</td>
<td>(83,953)</td>
</tr>
<tr>
<td>Other operating income, net</td>
<td>12</td>
<td>26,210</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td></td>
<td><strong>1,323,820</strong></td>
</tr>
<tr>
<td>Finance costs</td>
<td>13</td>
<td>(1,966)</td>
</tr>
<tr>
<td><strong>Profit before income tax</strong></td>
<td></td>
<td><strong>1,321,854</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>10</td>
<td>(69,078)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong> and total comprehensive income for the year</td>
<td></td>
<td><strong>1,252,776</strong></td>
</tr>
</tbody>
</table>

The accompanying notes on pages 16 to 26 are an integral part of these financial statements.
### Statement of Cash Flows for the year ended 31 December 2017

*(in thousands of Russian Roubles, unless otherwise stated)*

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income tax</td>
<td>1,321,854</td>
<td>1,087,666</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortisation of financial guarantees</td>
<td>13 (27,452)</td>
<td>(27,525)</td>
</tr>
<tr>
<td>Cancellation of financial guarantees</td>
<td>13 -</td>
<td>(808)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>13 1,966</td>
<td>1,196</td>
</tr>
<tr>
<td>Foreign exchange loss/(gain), net</td>
<td>12 1,242</td>
<td>(14,795)</td>
</tr>
<tr>
<td><strong>Operating cash flows before working capital changes</strong></td>
<td><strong>1,297,610</strong></td>
<td><strong>1,045,734</strong></td>
</tr>
<tr>
<td>Increase in other receivables</td>
<td>(214,775)</td>
<td>(360,873)</td>
</tr>
<tr>
<td>Increase/(Decrease) in accounts payable</td>
<td>4,648</td>
<td>(74,690)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td><strong>1,087,483</strong></td>
<td><strong>610,171</strong></td>
</tr>
<tr>
<td>Tax paid</td>
<td>10 (69,078)</td>
<td>(55,044)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>13 (3.162)</td>
<td>(26)</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td><strong>1,015,243</strong></td>
<td><strong>555,101</strong></td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital contribution to subsidiaries</td>
<td>8 -</td>
<td>(10,000)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>-</td>
<td>(10,000)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of loans received from related parties</td>
<td>13 (71,750)</td>
<td>-</td>
</tr>
<tr>
<td>Loans received from related parties</td>
<td>13 -</td>
<td>71,750</td>
</tr>
<tr>
<td>Dividends paid to the shareholders</td>
<td>9 (961,510)</td>
<td>(579,863)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td><strong>(1,033,260)</strong></td>
<td><strong>(508,113)</strong></td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash and cash equivalents</strong></td>
<td><strong>(18,017)</strong></td>
<td><strong>36,988</strong></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td><strong>(339)</strong></td>
<td><strong>(2,202)</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the year</strong></td>
<td><strong>40,615</strong></td>
<td><strong>5,829</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td><strong>22,259</strong></td>
<td><strong>40,615</strong></td>
</tr>
</tbody>
</table>

The accompanying notes on pages 16 to 26 are an integral part of these financial statements.
Statement of Changes in Equity for the year ended 31 December 2017
(in thousands of Russian Roubles, unless otherwise stated)

<table>
<thead>
<tr>
<th>Note</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2016</td>
<td>48,329</td>
<td>3,563,424</td>
<td>643,606</td>
<td>4,255,359</td>
</tr>
<tr>
<td>Profit for the year and total comprehensive income for the year</td>
<td>-</td>
<td>-</td>
<td>1,032,622</td>
<td>1,032,622</td>
</tr>
<tr>
<td>Dividends declared to the shareholders of the Company</td>
<td>9</td>
<td>-</td>
<td>(964,627)</td>
<td>(964,627)</td>
</tr>
<tr>
<td>Total transactions with owners of the Company, recognised directly in equity</td>
<td>-</td>
<td>-</td>
<td>(964,627)</td>
<td>(964,627)</td>
</tr>
<tr>
<td>Balance at 31 December 2016</td>
<td>48,329</td>
<td>3,563,424</td>
<td>711,601</td>
<td>4,323,354</td>
</tr>
<tr>
<td>Profit for the year and total comprehensive income for the year</td>
<td>-</td>
<td>-</td>
<td>1,252,776</td>
<td>1,252,776</td>
</tr>
<tr>
<td>Dividends declared to the shareholders of the Company</td>
<td>9</td>
<td>-</td>
<td>(1,150,155)</td>
<td>(1,150,155)</td>
</tr>
<tr>
<td>Total transactions with owners of the Company, recognised directly in equity</td>
<td>-</td>
<td>-</td>
<td>(1,150,155)</td>
<td>(1,150,155)</td>
</tr>
<tr>
<td>Balance at 31 December 2017</td>
<td>48,329</td>
<td>3,563,424</td>
<td>814,222</td>
<td>4,425,975</td>
</tr>
</tbody>
</table>

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividend 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividend to the extent that the ultimate shareholders (companies and individuals) are both Cyprus tax residents and Cyprus domiciled. The amount of deemed distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The accompanying notes on pages 16 to 26 are an integral part of these financial statements.
1 General Information

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

Approval of the financial statements. These financial statements were authorised for issue by the Board of Directors of the Company on 24 April 2018.

Global depository receipts. Global depository receipts (GDRs) each representing five ordinary shares of the Company are listed on the London Stock Exchange International Main Market following the IPO in February 2011.

Principal activities. The principal activity of the Company is the holding of investments.

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

Consolidated financial statements. The Company also prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the requirements of Cyprus Companies Law, Cap. 113; these parent company financial statements should be read in conjunction with the consolidated financial statements.

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

2 Operating Environment of the Company

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

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

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

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

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

The Ukrainian economy proceeded with recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.1% (2016: 1.4%), stabilization of average inflation and national currency. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 50% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranche of extended fund facilities agreed with the International Monetary Fund (“IMF”). In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The National Bank of Ukraine expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.
2 Operating Environment of the Company (continued)

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of IFRS 14 Regulatory Deferral Accounts.

The Company has prepared these parent company financial statements for compliance with the requirements of Cyprus Companies Law, Cap. 113 and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with IFRS, as adopted by EU, and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group).

Users of these parent company financial statements should read them together with the Group’s consolidated financial statements at and for the year ended 31 December 2017 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and of the Group.

Functional and presentation currency. Functional currency of the Company is the currency of the primary economic environment in which it operates. The Company’s functional currency and presentation currency is Russian Rouble ("RR").

Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate (as of 31 December)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 USD = RR</td>
<td>57.6002</td>
</tr>
<tr>
<td>1 EUR = RR</td>
<td>68.8668</td>
</tr>
</tbody>
</table>

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company’s loans and receivables comprise loans receivable, other receivables, and cash and cash equivalents in the statement of financial position.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.
3 Summary of Significant Accounting Policies (continued)

Trade and other receivables. Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within ‘general and administrative expenses’. When a receivable is uncollectible, it is written off against the 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 and deposits held at call with banks. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

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

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

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

Financial guarantees. Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at the fair value on the date the guarantee was given. Financial guarantee liabilities are then amortised on a straight-line basis in the statement of profit or loss and other comprehensive income over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period. Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investments in subsidiaries in the financial statements of the Company.

Income taxes. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Investments in subsidiaries. Subsidiaries are entities controlled by the Company. Control exists where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of the any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.
3 Summary of Significant Accounting Policies (continued)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Such costs are initially presented within other reserves and subsequently reclassified as a deduction to share premium upon issuance of shares.

Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

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

Dividend income. Dividend income is recognized when the right to receive payment is established.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Fair value of guarantees issued. Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on valuation techniques including reference to prices of similar instruments and recent arm's length transactions. During 2016 and 2017, the Company didn't issue any guarantees.

At 31 December 2017, the unamortised balance of the guarantees is RR 18,651 (2016: RR 46,103).

At 31 December 2017 and for the year then ended, the management of the Company did not exercise other judgements and did not make estimates and assumptions that would have significant effect on the amounts recognised in the parent company financial statements.

Impairment of investments in subsidiaries. The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.
5 New Standards, Amendments and Interpretations

The following new standards, amendments and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 and which the Company has not early adopted (items marked with * have not been endorsed by the EU; the Company will only be able to apply new standards and interpretations when they are endorsed by the EU):

<table>
<thead>
<tr>
<th>Standards, amendments and interpretations</th>
<th>Effective for annual periods beginning on or after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Improvements to IFRS Standards 2014–2016 Cycle. The improvements consist of changes to the following standards: IFRS 1, IAS 28.</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>Annual Improvements to IFRS Standards 2015–2017 Cycle. The improvements consist of changes to the following standards: IFRS 3, IFRS 11, IAS 12 and IAS 23.</td>
<td>1 January 2019*</td>
</tr>
<tr>
<td>Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards.</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>Amendments to IAS 40, Transfers of Investment Property. Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use.</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions. These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>Amendments to IFRS 9, Prepayment Features with Negative Compensation. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</td>
<td>1 January 2019</td>
</tr>
<tr>
<td>Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures. Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</td>
<td>1 January 2019*</td>
</tr>
<tr>
<td>Amendments to IAS 19, Plan Amendment, Curtailment or Settlement. Clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</td>
<td>1 January 2019*</td>
</tr>
<tr>
<td>IFRIC 22, Foreign Currency Transactions and Advance Consideration. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.</td>
<td>1 January 2019*</td>
</tr>
<tr>
<td>IFRS 9, Financial Instruments</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>IFRS 15, Revenue from Contracts with Customers</td>
<td>1 January 2018</td>
</tr>
<tr>
<td>IFRS 16, Leases</td>
<td>1 January 2019*</td>
</tr>
<tr>
<td>IFRS 17, Insurance contracts</td>
<td>1 January 2021*</td>
</tr>
</tbody>
</table>

Management believe that the standards, amendments and interpretations which are to be adopted from 1 January 2018 will have no significant impact on the Company’s financial statements of future periods. The impact of adoption of other pronouncements listed above on the financial statements of future periods is currently assessed by management of the Company.

6 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank in RR</td>
<td>21,676</td>
<td>26,445</td>
</tr>
<tr>
<td>Cash at bank in EUR</td>
<td>543</td>
<td>754</td>
</tr>
<tr>
<td>Cash at bank in USD</td>
<td>40</td>
<td>13,416</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>22,259</strong></td>
<td><strong>40,615</strong></td>
</tr>
</tbody>
</table>
7 Other Receivables and Other Financial Assets

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends receivable from related parties (Note 13)</td>
<td>804,644</td>
<td>596,658</td>
</tr>
<tr>
<td>Other receivables</td>
<td>6,177</td>
<td>6,912</td>
</tr>
<tr>
<td>Less: provision for impairment of other receivables</td>
<td>(4,909)</td>
<td>(5,169)</td>
</tr>
<tr>
<td>Financial assets within other receivables, net</td>
<td>805,912</td>
<td>598,401</td>
</tr>
<tr>
<td>Prepayment of fees to directors (Note 13)</td>
<td>14,891</td>
<td>7,789</td>
</tr>
<tr>
<td>Prepayments and advances to subcontractors</td>
<td>1,762</td>
<td>1,708</td>
</tr>
<tr>
<td>Non-financial assets within other receivables, net</td>
<td>16,653</td>
<td>9,497</td>
</tr>
<tr>
<td>Total other receivables and other financial assets</td>
<td>822,565</td>
<td>607,898</td>
</tr>
</tbody>
</table>

8 Investments in Subsidiaries

Movement in investments in subsidiaries was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>4,181,740</td>
<td>4,141,740</td>
</tr>
<tr>
<td>Capital contribution to share capital</td>
<td>-</td>
<td>40,000</td>
</tr>
<tr>
<td>At 31 December</td>
<td>4,181,740</td>
<td>4,181,740</td>
</tr>
</tbody>
</table>

Details of the investments in the subsidiaries are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Country of incorporation</th>
<th>Principal activities</th>
<th>%, interest held at 31 December 2017</th>
<th>%, interest held at 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMS Group JSC</td>
<td>Russia</td>
<td>Holding company</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>HMS Livhydromash JSC</td>
<td>Russia</td>
<td>Operating company</td>
<td>16.61</td>
<td>16.61</td>
</tr>
<tr>
<td>Livnynasos JSC</td>
<td>Russia</td>
<td>Operating company</td>
<td>14.99</td>
<td>14.99</td>
</tr>
<tr>
<td>HMS Neftemash JSC</td>
<td>Russia</td>
<td>Operating company</td>
<td>7.01</td>
<td>7.01</td>
</tr>
<tr>
<td>Hydromashservice CJSC</td>
<td>Russia</td>
<td>Operating company</td>
<td>3.15</td>
<td>3.15</td>
</tr>
<tr>
<td>HMS Capital</td>
<td>Cyprus</td>
<td>Holding company</td>
<td>0.05</td>
<td>0.05</td>
</tr>
</tbody>
</table>

In 2017 there were no changes in investments in subsidiaries.

In November 2016, the Company acquired five newly issued preference shares of HMS Capital, a subsidiary of the Group, representing 0.05% of its increased share capital by offsetting advance for acquisition of shares of HMS Capital in the amount of RR 30,000, paid in 2013.

In November 2016, the Company made a capital contribution to Hydromashservice CJSC, a subsidiary of the Group, by acquiring 100 newly issued preference shares of Hydromashservice CJSC, representing 3.15% of its increased share capital, for a cash consideration of RR 10,000.

At 31 December 2017, investments in subsidiaries include guarantees given to Hydromashservice CJSC in the amount of RR 573,826 (31 December 2016: RR 573,826).

No indicators of impairment were identified for any of the investments in subsidiaries, consequently, the Company did not perform impairment test for any of these subsidiaries.

9 Share Capital and Other Equity Items

Share capital and share premium.

Below are the details of share issues of the Company:

<table>
<thead>
<tr>
<th>Date of transaction</th>
<th>Quantity of shares issued</th>
<th>Par value, EUR</th>
<th>Share capital, RR thousand</th>
<th>Share premium, RR thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2016</td>
<td>117,163,427</td>
<td>0.01</td>
<td>48,329</td>
<td>3,563,424</td>
</tr>
<tr>
<td>During 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2016</td>
<td>117,163,427</td>
<td>0.01</td>
<td>48,329</td>
<td>3,563,424</td>
</tr>
<tr>
<td>During 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>117,163,427</td>
<td>0.01</td>
<td>48,329</td>
<td>3,563,424</td>
</tr>
</tbody>
</table>

At 31 December 2017 and 31 December 2016, the Company’s authorised share capital consisted of 120,705,882 ordinary shares with par value of EUR 0.01 each.
9 Share Capital and Other Equity Items (continued)

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

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

At 31 December 2017, the Company, via a wholly-owned subsidiary, is holding 1,033,887 (31 December 2016: 865,869) of its own GDRs with the total cost of RR 404,994 (31 December 2016: RR 323,556). The voting and dividend rights of these GDRs are suspended.

**Dividends.** At the Annual General Meeting, the Company’s shareholders will consider a final dividend in respect of the year ended 31 December 2017 of 6.83 Russian Roubles per ordinary share, amounting to a total dividend of RR 800,226, calculated taking into account the total quantity of shares issued. These parent company financial statements do not reflect this dividend payable, which will be accounted for in shareholders’ equity as an appropriation of retained earnings in the year ending 31 December 2018.

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

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

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

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

10 Income Taxes

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withholding tax on dividends receivable</td>
<td>69,078</td>
<td>55,044</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>69,078</strong></td>
<td><strong>55,044</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated tax charge at statutory rate of 12.5% (2016: 12.5%)</td>
<td>165,232</td>
<td>135,958</td>
</tr>
<tr>
<td>Tax effect of items which are not deductible or assessable for taxation purposes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax effect of expenses not deductible for tax purposes</td>
<td>3,827</td>
<td>836</td>
</tr>
<tr>
<td>Tax effect of income not subject to tax</td>
<td>(172,696)</td>
<td>(139,459)</td>
</tr>
<tr>
<td>Foreign withholding tax</td>
<td>69,078</td>
<td>55,044</td>
</tr>
<tr>
<td>Deferred tax not recognised on tax loss carry forward</td>
<td>3,637</td>
<td>2,665</td>
</tr>
<tr>
<td><strong>Income tax charge</strong></td>
<td><strong>69,078</strong></td>
<td><strong>55,044</strong></td>
</tr>
</tbody>
</table>

The Company is subject to corporation tax on taxable profits at the rate of 12.5%.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected. Dividends distributed to the Company by its Cyprus subsidiaries are exempt from income tax.
11 General and Administrative Expenses

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ remuneration</td>
<td>39,566</td>
<td>38,228</td>
</tr>
<tr>
<td>Legal, consulting and other professional services</td>
<td>19,287</td>
<td>(4,320)</td>
</tr>
<tr>
<td>Insurance</td>
<td>9,752</td>
<td>12,658</td>
</tr>
<tr>
<td>Entertaining costs and business trip expenses</td>
<td>8,641</td>
<td>4,623</td>
</tr>
<tr>
<td>Bank services</td>
<td>3,225</td>
<td>405</td>
</tr>
<tr>
<td>Auditors’ remuneration – statutory auditor</td>
<td>1,960</td>
<td>2,208</td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>1,420</td>
<td>1,634</td>
</tr>
<tr>
<td>Other expenses</td>
<td>102</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total general and administrative expenses</strong></td>
<td><strong>83,953</strong></td>
<td><strong>55,462</strong></td>
</tr>
</tbody>
</table>

Legal, consulting and other professional services stated above include fees of RR 118 (2016: RR 125) for tax consultancy services and RR 1,260 (2016: RR 1,348) for other assurance services charged by the Company’s statutory auditor.

In 2016 legal, consulting and other professional services stated above also include the release of provision for legal services of RR 51,516, related to the discontinuance of the lawsuit against the Company’s executive directors and certain other parties due to the withdrawal of the claims by the plaintiff.

12 Other Operating Income, net

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortisation of financial guarantees (Note 13)</td>
<td>27,452</td>
<td>27,525</td>
</tr>
<tr>
<td>Foreign exchange (loss)/gain, net</td>
<td>(1,242)</td>
<td>14,795</td>
</tr>
<tr>
<td>Cancellation of financial guarantees (Note 13)</td>
<td>-</td>
<td>808</td>
</tr>
<tr>
<td>Other income, net</td>
<td>-</td>
<td>318</td>
</tr>
<tr>
<td><strong>Total other operating income, net</strong></td>
<td><strong>26,210</strong></td>
<td><strong>43,446</strong></td>
</tr>
</tbody>
</table>

13 Balances and Transactions with Related Parties

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

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

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

The table below contains the disclosure by group of related parties with which HMS Hydraulic Machines & Systems Group Plc entered into significant transactions or has significant balances outstanding.

The Company’s related party balances and transactions are disclosed below:

<table>
<thead>
<tr>
<th>Balances with related parties</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMS Neftemash JSC</td>
<td>431,487</td>
<td>368,006</td>
</tr>
<tr>
<td>Hydromashservice JSC</td>
<td>285,000</td>
<td>135,660</td>
</tr>
<tr>
<td>Livnynasos JSC</td>
<td>47,497</td>
<td>32,002</td>
</tr>
<tr>
<td>HMS Livhydromash JSC</td>
<td>40,660</td>
<td>60,990</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayment of fees to directors</td>
<td>14,891</td>
<td>7,789</td>
</tr>
<tr>
<td>Other receivables from H.M.S. Finance Limited</td>
<td>1,269</td>
<td>1,743</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other short-term payables to H.M.S. Capital</td>
<td>(344)</td>
<td>(319)</td>
</tr>
</tbody>
</table>
13 Balances and Transactions with Related Parties (continued)

Transactions with related parties

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term loans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>H.M.S. Finance Limited (unsecured RUB-denominated loan at 3.01% interest rate):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January</td>
<td>72,946</td>
<td>26</td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(71,750)</td>
<td>-</td>
</tr>
<tr>
<td>Interest charged</td>
<td>1,966</td>
<td>1,196</td>
</tr>
<tr>
<td>Interest repaid</td>
<td>(3,162)</td>
<td>(26)</td>
</tr>
<tr>
<td>Loans received</td>
<td>-</td>
<td>71,750</td>
</tr>
<tr>
<td>At 31 December</td>
<td>-</td>
<td>72,946</td>
</tr>
<tr>
<td><strong>Dividend income from subsidiaries, including 5% income tax, withheld at source</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMS Neftemash JSC</td>
<td>981,041</td>
<td>876,590</td>
</tr>
<tr>
<td>Hydromashservice JSC</td>
<td>300,000</td>
<td>142,800</td>
</tr>
<tr>
<td>Livnyasos JSC</td>
<td>100,522</td>
<td>57,288</td>
</tr>
<tr>
<td>HMS Livhydromash JSC</td>
<td>-</td>
<td>24,200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,381,563</td>
<td>1,100,878</td>
</tr>
<tr>
<td><strong>Dividends received from subsidiaries, net of withholding tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HMS Neftemash JSC</td>
<td>868,507</td>
<td>617,610</td>
</tr>
<tr>
<td>Hydromashservice JSC</td>
<td>135,660</td>
<td>-</td>
</tr>
<tr>
<td>Livnyasos JSC</td>
<td>80,001</td>
<td>60,614</td>
</tr>
<tr>
<td>HMS Livhydromash JSC</td>
<td>20,330</td>
<td>10,190</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,104,498</td>
<td>688,414</td>
</tr>
</tbody>
</table>

**Guarantees in favour of subsidiaries.** Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations.

The Company has guaranteed the following obligations:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hydromashservice CJSC</strong></td>
<td>1,830,000</td>
<td>1,830,000</td>
</tr>
</tbody>
</table>

During the year ended 31 December 2017 and 2016, the Company has acted as the guarantor for the obligation of its subsidiary for the unsecured non-convertible bonds issues and for the obligations of its subsidiary in accordance with the bank loan agreements. The guarantees were provided free of charge and are valid for one to three years or until all respective obligations are fully settled. During 2016 and 2017, there were no additional guarantees issued (Note 8). During the year ended 31 December 2017, the fair value of the guarantees is amortised through the statement of profit or loss and other comprehensive income in amount of RR 27,452 (2016: RR 27,525) (Note 12). During 2016, the fair value of the guarantees has decreased through the statement of profit or loss and other comprehensive income in amount of RR 808 due to a partial repayment of the unsecured non-convertible bond.

At 31 December 2017, the unamortised balance of the guarantees is RR 18,651 (2016: RR 46,103). The liabilities are measured at the higher of (a) the amount initially recognised less cumulative amortisation and (b) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

**Key management compensation.** The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2017 amounted to RR 39,566 (2016: RR 38,228). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 145,628 for the year ended 31 December 2017 (2016: RR 108,250).

14 Financial Risk Management

**Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.
14 Financial Risk Management (continued)

(a) Market risk

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

The tables below summarise the Company’s exposure to foreign currency exchange rate risk at 31 December 2017 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Monetary financial assets</td>
<td>40 (3,051)</td>
<td>31,416 (653)</td>
</tr>
<tr>
<td>USD Monetary financial liabilities</td>
<td>(3,011)</td>
<td>(524)</td>
</tr>
<tr>
<td>Total USD Net position</td>
<td>13,416</td>
<td>12,763</td>
</tr>
<tr>
<td>EUR Monetary financial assets</td>
<td>543 (5,447)</td>
<td>754 (2,403)</td>
</tr>
<tr>
<td>EUR Monetary financial liabilities</td>
<td>(4,904)</td>
<td>(1,649)</td>
</tr>
<tr>
<td>Total EUR Net position</td>
<td>14,170 (3,056)</td>
<td>11,114</td>
</tr>
</tbody>
</table>

At 31 December 2017, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 602 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated other payables (31 December 2016: profit for the year would have been RR 2,553 lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated cash balances).

At 31 December 2017, if RR had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RR 981 higher/lower (31 December 2016: RR 330), mainly as a result of foreign exchange gains/losses on translation of Euro denominated other payables.

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

(b) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company’s financial assets which consist of cash and cash equivalents and receivables. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

At 31 December 2017, the Company had RR 578 (31 December 2016: RR 807) of cash placed in a bank with Moody’s rating of “Ca1” and RR 21,681 (31 December 2016: RR 39,808) of cash placed in a bank with S&P rating of “BBB+”.

(c) Liquidity risk

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

At 31 December 2016 and 2017, the Company’s financial liabilities are payable within one year.

The earliest period in which the maximum possible amount of obligation under financial guarantees (Note 13) could be called is less than one year.

Management of capital. The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. At 31 December 2017 and 2016, capital consists of equity as shown at the Company’s balance sheet.
15 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of liabilities carried at amortised cost approximate fair values. The fair value of borrowings were included in Level 2.

16 Subsequent Events

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