From a start-up to the industry leader

Annual report 2018
About HMS in 2018

#1 producer of pumps and oil gas equipment as well one of the leading compressor producers in Russia and the CIS

Business platform and core expertise are established and provide a strong base for future growth

Key industries: oil & gas, nuclear and thermal power generation, petrochemistry and wastewater industry

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HMS MARKETS AND MACROECONOMICS

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FINANCIAL STATEMENTS

- IFRS Consolidated Financial Statements and Independent Auditor’s Report
- IFRS Parent Company Financial Statements and Independent Auditor’s Report

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Also please visit our Investor Relations Section at our corporate website grouphms.com/shareholders_and_investors for whole spectrum of regulatory operational and financial information.
Who We Are

HMS Group is one of the largest privately-owned machine-building companies in Russia and the CIS. The company’s profile is production of industrial machinery based around pumps, compressors and oil and gas equipment, including state-of-the-art and highly sophisticated solutions. HMS Group is the only machine-building company from Russia listed on the London Stock Exchange.

The company produces both serial and/or standard models (recurring business) and customized configurations (large integrated projects). The execution of large projects includes implementation of the crucial project’s work as well as large-scale projects’ turnkey execution, from project and design to commissioning and launching. Revenue from recurring business contributes c. 75-80% on average.

HMS has a well-diversified client base of over 6,000 names, including blue-chip clients, i.e. the largest oil and gas companies in Russia and the CIS. Our clients operate through numerous contracts in different subsidiaries, which take independent purchasing decisions. A significant portion of HMS revenue is generated by the oil & gas industry, from downstream to upstream.

In 2018, the Group fully integrated the compressor business, which started delivery of a substantial part of EBITDA.

HMS is a dynamic engineering company with successful practice in the design, installation, construction and commissioning of complex oil and gas production and water facilities. It is a vertically integrated holding company with a modern corporate management system wherein the functions of the manufacturing companies’ shareholders and that of its business administration are traditionally separated.

The parent holding company is HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the Republic of Cyprus). It issued securities in the form of Global Depositary Receipts at the London Stock Exchange in February 2011.

The Group consists of 12 manufacturing facilities in Russia, CIS countries and Germany, plus six Research & Development centres, including one of the largest pump-testing facilities in Europe, and employs almost 15 thousand people.

The company was established as a small trading company in 1993. By 2013, HMS had completed a range of M&As and grown into a company with a sustainable place in the market and loyal high-profile customers, such as Rosneft, Transneft, Gazprom, Gazprom Neft, Rosatom, BP, ENI, and others.

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HMS Group, Russian and CIS pump market leader offers convenient products solutions and services for clients from oil & gas, energy, water supply and utilities, chemical processing, industrial applications, etc.

Our manufacturing, R & D, EPC and servicing capacities allow developing and delivering customer-oriented reliable and affordable products and services.
Chairman Statement

We feel confident in the company’s future in light of the current order portfolio and the volume of potential contracts under negotiation.

The financial results of 2018 confirmed the sustainability of the strategy approved by the Board of Directors in 2016. The strategy envisaged growth of HMS’ fundamental value based on both organic business growth and a new dividend policy.

It should be noted, however, that the market is still tough; high-profile clients continue to apply price pressure, which unavoidably affects profitability.

This environment once again underscores HMS’ status as market leader. The Group continues to grow, including based on the freed-up market share of our competitors.

Our revenue grew by 16 percent. We continued the payment of dividends, modernisation of production facilities, and maintained an adequate level of Net debt-to-EBITDA ratio.

We feel confident in the company’s future in light of the current order portfolio and the volume of potential contracts under negotiation.

We will continue to distribute a sufficient portion of our cash inflow among the company’s shareholders, taking into account the need to balance the interests of all capital consumers; financing capital expenditures and working capital, maintaining the Net debt-to-EBITDA ratio in the comfort zone, and dividend payments.

Your faithfully,
Nikolay YAMBURENKO

CEO Statement

We delivered what we promised. And we managed to increase revenue by 18 percent to Rub 52.6 billion, prevent net income from significantly falling, maintaining the level of Rub 1.9 billion.

2018 was the year in which we celebrated the 25th anniversary of HMS Group. Looking back, I’m very proud of the kind of company HMS Group has turned into.

Once again, we delivered what we promised. Our team delivered good results in 2018, surpassing the historic success of last year. We managed to increase revenue by 18 percent to Rub 52.6 billion, and prevent net income from significantly falling, maintaining the level of Rub 1.9 billion.

In recent years, we have observed a decline in profit margin for recurring products because of a significant increase in competition on limited markets in Russia caused by slower economic growth. Despite this, we are optimistic about the company’s prospects.

The compressor business has been fully integrated into HMS Group and started to deliver a significant part of EBITDA. In 2018, we became a supplier of gas transportation units for Gazprom. Moreover, we built a sounding portfolio of orders in this regard, which will allow the compressors to generate more profit.

In 2018, we signed a number of contracts to deliver pumping units to nuclear power plants located both in Russia and abroad.

We continue to strengthen our presence on the extremely competitive and technically sophisticated market of solutions based around pumps, compressors and oil and gas equipment. And we are very proud that NOVATEK has become one of our main customers along with Rosneft, Gazprom and Gazprom neftegaz.

In 2018, HMS further continued to reduce interest expenses and extend its debt portfolio duration. At the end of 2018, our average interest rate was decreased to 8.7% p.a. compared with 9.8% in 2017.

We feel well equipped for 2019, and will take advantage of the opportunities on the market.

Your faithfully,
Artem MOLCHANOV
Investment Thesis

Business platform and core expertise are established and provide a strong base for future growth.

Mature business platform

- HMS Group's business is based on a mature and established business platform with a focus on products where the Company has unmatched R&D expertise and production capabilities.
- The company has stable recurring business with confirmed order backlog for the next year.
- EU presence: HMS Group has access and is conducting business with EU engineering companies (Siemens, Alstom, etc.) through its EU-based subsidiary Apollo Goessnitz.
- Business is to be further developed organically, i.e. currently there are no plans for M&A.
- Further development will be carried out with low CAPEX at ca. 1.5x the D&A level.

Entering new markets

- Further development of business with Gazprom & other major names in the oil & gas industry by executing large customized projects in all HMS Group’s key segments.
- Customers in new markets are already a part of the client base and offer strong future opportunities.
- Return to the market of oil transportation on the back of localization of trunk line pumps in Russia.
- Oil & gas refining and petrochemicals represent another growth area with expanded strong references, incl. major international engineering companies.

Optimisation of the business portfolio

- HMS entered the oil & gas infrastructure construction segment in 2007 with a view to offering integrated solutions.
- Following the financial crises, this segment saw a sharp decrease in profitability.
- HMS Group decided to exit the segment and continues to develop Engineering and Procurement ("EP") business, based on HMS products and engineering competences.

Factors of Business Sustainability:

1. Delivery of Mission-critical equipment
   - HMS’ equipment is crucial to clients. It is installed at the final stage of construction projects and is difficult to replace.
   - The project costs are affordable within clients’ project budgets; equipment accounts for less than 2-3% of the total project CAPEX. As a result, clients do not postpone their purchases.

2. Leader in both large projects and standard production segments
   - HMS is the established top player in large-scale projects (with a “blue-chip” client base).
   - The company enjoys sustainable, recurring business from standard pumps and compressors with over six thousand clients.

3. Management focuses on maintaining a moderate debt position
   - The current Net debt-to-EBITDA ratio of 1.97 is conservative and in line with BBB-/BB rating categories.
   - Debt is naturally hedged as HMS follows a strategy of a match in revenues, costs and debt currency structures - ca. 98% of debt is Russian ruble denominated.
   - Short-term debt remains at low levels and is actively managed.

4. Well-diversified quality client base
   - Over 6,000 small and medium clients generate on average 75% of revenue.
   - The blue-chip client base covers nearly all Russia’s oil and gas major players.
   - Our largest clients operate through numerous contracts in different subsidiaries, taking independent purchasing decisions and offering numerous points of entry.

5. Low capex needs and flexible dividend policy
   - HMS Group is a fully invested business with modest maintenance capital expenditure needs at ca. 1.5x the D&A level.
   - All major acquisitions have already been completed.
   - There are no strict dividend commitments, which allows us to minimize payments in a harsh market environment, as was the case in 2014.

6. Market share and installed base
   - HMS is a major player in pumps, oil and gas equipment and compressors, with significant market shares and established relations with clients (including follow-on services).
   - The company has the largest installed equipment base in Russia.
25 years: from a start-up to the industry leader

1993–1998  
FOUNDATION

Three founders (German Tsuy, Artem Molchanov, and Kirill Molchanov) established the trading company Hydromashservice and brought together a core team of three founders and five sales managers.

Hydromashservice actively increased sales in Russia and the CIS and built relations with key clients (primarily with companies in water utilities and metals & mining sectors).

1999–2003  
AMBITIONS FOR MARKET LEADERSHIP

Hydromashservice demonstrated boosting growth of the client base, expanded relations with the largest oil & gas and energy companies and gained leading positions in the pumps market in Russia and the CIS.

The company gained experience in large commercial projects and humanitarian programs outside of Russia (such as the UN Oil-for-Food Programme).

2004–2008  
FROM SALES TO PRODUCTION

The largest Russian pump manufacturer, Livgidromash, joined Hydromashservice in 2003.

The company acquired its key production facilities: Neftemash (Tyumen), Nasosenergomash (Sumy), and Livnynasos (Orel region, Central Russia).

The Board of Directors approved the strategy for accelerated growth for 2009–2015 with a focus on M&A and complex solutions.

2009–2013  
DIVERSIFICATION AND COMPLEX SOLUTIONS

HMS Group increased its expertise in design and manufacturing of equipment for natural and associated gas extraction and treatment on the base of Giprotyumenneftegaz and HMS Livgidromash.

The company (Kazankompressormash) started sales of complete gas compression systems for booster compressor stations and gas trunkline compressor stations of Gazprom.

2014–2018  
ENGINEERING AND GAS TECHNOLOGIES

HMS Group supplied technological units for large scale gas projects, including:

› Technological equipment for ROSPAN INTERNATIONAL (East-Urengoyskoye field, Rosneft).

› Equipment for the extraction, transportation and processing of liquid hydrocarbons (Nadyr-Extrakt region, Gazprom).

› Helium concentrate membrane separation unit (Chayandinskoye field, Gazprom), and other projects.

The top management developed the new strategy for sustainable growth with a focus on operational efficiency and leadership in the market of technological units for large-scale investment projects.
Our Strategy

Our Vision

HMS Group is a leading Russian machine-building company – a specialist in industrial pumps, compressors, and modular technological units, as well as a provider of integrated solutions for several industries, including oil & gas, petrochemistry, energy, metals & mining and water utilities.

We consider our customer benefits to be our highest priority: building long-term relations has always been a key focus for HMS Group. All our business processes, from R&D to quality control and from manufacturing to sales and aftersales service are geared to provide our clients with high-end products and the most efficient solutions.

Strategic Goals and Priorities

Organic growth

Despite the uncertain economic situation, our business has continued to expand. Our objective is to maintain our leadership position across all our business segments: industrial pumps, industrial compressors, oil & gas equipment and engineering.

On the one hand, we expand sales to our existing clients by developing new products and offering sophisticated solutions. The Group continues to invest in development of its production sites to keep quality at the highest level.

On the other hand, HMS Group continues to increase its client base in all markets in Russia and the CIS, as well as in the Middle East, Asia and Europe.

We also look into options to enter new market segments, if we find them to be promising.

Business efficiency

HMS Group concentrates on profitability growth in order to invest in further development and create additional value for shareholders. We implement systematic measures to increase the efficiency of our businesses, from the individual level of standalone plants to the level of the entire Group.

Our technical expertise and proven experience in delivery of technological units ensure our participation in high-margin large projects, and we intend to maintain a substantial share of these in our contract portfolio. We also plan to continue taking part in multiple large-scale projects across all industries in order to strengthen partnerships with industry leaders.

The company will also develop its standard and engineered product lines; the majority of our products are already among the best in their class and we will further expand our product portfolio in order to maintain the profitability of our recurring business.

We recognise different forms of strategic partnership (joint ventures, consortia, license agreements) with machinery and engineering companies, both Russian and international. Thus, we will be able to offer new, more sophisticated products and solutions to our customers.

Sustainable development

Reliable and up-to-date business processes are crucial for the company’s sustainable growth. In the face of a rapidly changing environment, we work on maintaining an effective organisation, management and corporate culture. The company is strengthening its competences in marketing, engineering and R&D.

We have a team of highly devoted professionals in all business functions and are dedicated to the development of our personnel: HMS Group has a multi-level system of training for its employees. We are focused on the culture of innovations and change by developing incentives to ensure that each employee contributes to the company’s success.

After 25 years in business, HMS Group is a full-cycle machine-building company that has achieved a leading position among Russian players. The company follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements of the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.

Facing new challenges, we continue to implement the latest and most efficient IT systems, from specialised software for R&D to ERP and IT security solutions.

Corporate Responsibility

HMS Group follows ethical principles with regard to all its stakeholders.

We strictly comply with health and safety international standards in order to lower the environmental impact of our operations.

We carry out charity activities and offer support to charitable foundations for children and the disabled. In 2018, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions of our business activities.

ADDITIONAL INFORMATION

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Our Business Model

HMS Group’s business consists of two main aspects: running recurring operations (sales and production of standard and customized pumps, compressors and oil & gas equipment) and delivery of technological units for large-scale investment projects of our clients.

HMS’ main customers are large and medium-sized industrial companies. We also approach small businesses through our certified dealers, as well as independent trading companies. Our expertise in engineering is a basis for expanding relations with oil & gas and energy companies, clients in metals and mining industry and water utilities.

HMS Group’s business model reflects the whole value chain: marketing & sales, research & development, procurement and manufacturing, as well as after-sales service across all of its business units. We may also use outsourcing from specialized suppliers.

Our core competence is research & development in a broad range of disciplines of rotating equipment. We develop new products and offer state-of-the-art solutions to maintain our leading positions on the Russian and CIS markets. HMS’ expertise in engineering helps us to design efficient solutions that meet the highest customer requirements.

The Group’s production facilities consist of 12 plants in Russia, Ukraine, Belarus and Germany. We benefit from cooperation between our plants, which complement each other to shorten the lead-time and optimize costs.

We continued to implement our large-scale capital expenditures program (Rub 2.3 billion in 2018) to develop our manufacturing capacities and retain the highest level of product quality. The biggest investments include the construction of a new shop for large steel casting at Kazankompressormash and the expansion of machinery shops for new lines of water pumps (DeLium, Kordis series) at Livgidromash.

Our marketing function strengthens and promotes the HMS brand in both conventional and prospective markets. As part of our marketing strategy, we regularly present new products and solutions to our customers at leading trade exhibitions in Russia and abroad.

In 2018, HMS’ overall sales volumes reached Rub 52.6 billion (+18% YoY). Our direct client list comprised over 6,000 names in Russia and abroad. The largest growth came from HMS Compressors business unit (by 61% YoY) due to a number of implemented large projects with order backlog of Rub 21.1 billion at the end of 2018.

Outside of Russia, HMS’ sales offices are currently located in Germany, the UAE, as well as in Belarus and Kazakhstan. We are also growing our presence in new markets and developing relations with oil & gas, energy and international EPC companies in Russia and abroad.
In 2018, the world GDP growth rate slowed down to 3.0% against 3.7% in 2017; advanced economies grew by 2.2% compared to 2.3% in 2017, and emerging markets and developing economies (EMDEs) grew by 4.2% compared to 4.7% in 2017. In 2018, many EMDEs were under pressure, fueled by depreciation of national currencies and higher global interest rates.

Remaining trade tensions among largest countries influenced investors expectations. Despite the growth of Brent oil price, which reached its maximum of US$ 85 per barrel in October, a dramatic decline followed, so Brent finished the year at the level of US$ 51 per barrel (-40%), reflecting changes on the supply side (growth of oil production in the United States, OPEC countries and Russia).

Russian GDP growth accelerated to 2.3% in 2018 compared to 1.6% in 2017, supported by growth in the extraction industries, construction, transportation and logistics, and financial and insurance services. The industrial production index grew by 2.9% in 2018. The raw materials extraction sector grew by 4.7%, while manufacturing showed less positive dynamics (+2.6%). The main growth in manufacturing came from the automotive industry (+13.3%), the pulp and paper industry (+12.6%), wood processing (+10.6%) and pharmaceuticals (+8.2). At the same time, the machinery and equipment production index declined (-4.6%).

The sanctions of the United States and the European Union (including new restrictions on Russian state and private companies, their top managers and shareholders), along with a decline in the global economy, had a certain negative impact on the Russian ruble. By the end of the year, the Russian currency had depreciated by 8% against the US Dollar and by 13% against the Euro (average RUB/USD: from 58.33 to 62.89; average RUB/EUR: from 65.90 to 74.11). Sanctions also led to an increase in the cost of borrowing and to an outflow of foreign capital from the federal loan bond market.

In 2018, consumer inflation in Russia (the Consumer Price Index) increased to 4.3%. Ruble depreciation, a harvest that was lower than the record levels of 2016-2017 and an increased gasoline price pushed up consumer inflation. The upcoming increase in VAT rate in 2019 (from 18% to 20%) also raised inflationary risks. Industrial inflation (Industrial Producers Price Index) reached 11.7%. After the decrease of the key rate from 7.75% to 7.25% in the first quarter of 2018, the Central Bank of Russia raised it by 0.25 p.p. in September and by 0.25 p.p. in December to the initial level of 7.75%, in order to limit inflation risks.

In May 2018, the Executive Order on National Goals and Strategic Objectives of the Russian Federation through to 2024 was signed by the President of Russia. On its basis, the Government of Russia developed 12 National Projects with total budget of Rub 25.7 trillion, equal to 2.6% of the GDP. Budget of the Russian Federation for 2019 was Rub 4.3 trillion (+2.7% yoy), while the Federal Budget, regional budgets and state funds, Rub 7.5 trillion will be attracted from the Federal Budget, regional budgets and state funds. The total sum of outstanding loans in the non-financial sector increased by 7.0% (from Rub 37.5 trillion to Rub 40.2 trillion at the end of 2018), and the outstanding loans of households increased by 22.0% (from Rub 13.2 trillion to Rub 16.1 trillion). The weighted average interest rate on long-term corporate loans (in rubles) declined slightly from 9.45% in January 2018 to 9.33% in December 2018.

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## Market Trends

### Oil and Gas Industry

2018 was marked by the growing importance of the energy sector in the Russian economy. The oil and gas share in the total income of the Federal Budget of Russia, which increased from 36% in 2016 to 40% in 2017, reached 46% in 2018. One of the factors for this tendency was a rise in Urals oil prices from US$ 53 per barrel in average in 2017 to US$ 70 per barrel in 2018. Exports of natural gas, crude oil and oil products reached US$ 282 billion (52% of total Russian exports), compared to US$ 193 billion (47% of total exports) the year before. Crude oil exports only brought Russian companies US$ 129 billion (+38%). Total natural gas exports amounted to US$ 49 billion (+27%). In 2018, Russia remained the second largest producer of crude oil (12.4% of the global production) and gas (18.5% of the global production).

#### Upstream

The Russian Government is currently taking steps to increase investments in depleted and non-conventional oilfields (one of the objectives is to support production in the West Siberia which has declined since 2005). In particular, a number of changes in the tax program.

During the year, the Russian well stock slightly fell to Rub 5.6 trillion. 54 new oil fields were put into operation, which include several large fields such as Russkoe, Tagilskoe and Kuyumzhinskoe (Phase-2). Natural gas production in Russia hit the 16-year record - 725.4 bcm were produced (+4.9%). The volume of gas exports (including LNG) grew from 224.2 bcm in 2017 to 248.1 bcm (+10.7%) and domestic sales increased from 468.0 bcm to 480.5 bcm (+2.7%).

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#### Downstream

As Russian oil and gas fields are widespread across the country, Russia has the largest oil and gas pipeline networks in the world.

Crude oil production in Russia (including gas and non-conventional oilfields (one of the largest in the world) reached 46% in 2018. One of the factors for this tendency was a rise in Urals oil prices from US$ 53 per barrel in average in 2017 to US$ 70 per barrel in 2018. Exports of natural gas, crude oil and oil products reached US$ 282 billion (52% of total Russian exports), compared to US$ 193 billion (47% of total exports) the year before. Crude oil exports only brought Russian companies US$ 129 billion (+38%). Total natural gas exports amounted to US$ 49 billion (+27%). In 2018, Russia remained the second largest producer of crude oil (12.4% of the global production) and gas (18.5% of the global production).

#### Midstream

The company expanded a number of main pipelines, including the further expansion of the ESPO pipeline. The total length of the Russian gas transportation system is ~172,100 km, the major operator of gas pipelines is Gazprom. In 2018, Gazprom continued various large gas transportation system projects, including expansion of export pipelines, such as the Nord Stream 2, the Turk Stream, the Power of Siberia.
### Power Generation

In 2018, Russia continued to increase its electricity output which reached 1,091.7 billion kWh (+1.7%) and ranked Russia the fourth between the largest producers of electricity across the globe (after China, India and the USA).

Total installed capacity of Russian power system in 2018 increased by 2.8 GW (+11%) and reached 250 GW.

Total number of large power plants in Russia (with installed capacity higher than 5 MW each) amounted to 805. The structure of the installed capacity in the united power system remained practically unchanged since 2017: thermal power plants accounted for 68% of installed capacity, hydro power plants - 20%, nuclear power plants - 12%.

Total investments in power generation and transmission in 2018 were Rub 714.6 billion (+0.6%).

A number of new power units started operation in 2018, including nuclear, thermal and solar power units.

### Metals & Mining

#### Metals

The steel industry is becoming an important contributor to the Russian economy, its share in the Russian GDP increased from 1.8% in 2017 to 2.1%, the share of metals in total exports reached 8%.

Steel production in Russia increased by 0.3% and reached 71.7 million tons, while the production of cast iron decreased by 0.6% to the level of 51.8 million tons.

Russia was one of the leading exporters of steel and metal products in the world in 2018: the country exported 33.3 million tons of steel (+7%) and 5.8 million tons of cast iron (+20%) which kept Russia in the position of the world-leading exporter.

#### Mining

Russia has the world’s largest reserves of most ores and minerals. For example, the country has the largest iron ore and zinc reserves, the third largest copper and lead ore reserves, and the sixth bauxite reserves.

The mining industry of Russia is very concentrated and consists of few large companies, which typically own the whole production chain, from ore mining to the manufacture of metal products with high added value.

In 2018, the volume of coal production reached Rub 1.571 billion (+25.1%), the volume of metal ores production rose to Rub 1.753 billion (+15.5%).

Russian metalworking and mining companies continue to implement large-scale investments programs. EVRAZ, Severstal, RusAl, Norilsk and others carry out long-term programs aimed at developing new mines and establishing new production units (like coke batteries or new furnaces) that will ensure further investments in the industry for the next years.

### Water Utilities

Municipal water utilities constitute one of the consistently developing segments of the Russian economy, supported by the steady growth of tariffs (for example, tariffs on cold water supply increased by 5.1% in 2018, hot water supply by 4.9%, and sewerage by 6.1%) and an increasing inflow of private investments.

Total investments in water utilities and wastewater treatment facilities in Moscow, the re-equipment of water and wastewater facilities in Saint-Petersburg, and the reconstruction of water utilities in Tyumen (including the new water intake development).

In 2018 the Russian Government launched a number of National Projects including the ‘Housing and urban environment’ project with total budget of Rub 1,066 billion. The project will increase the volume of housing from 79.2 million square meters to 120 million square meters by 2024 (+52%), thus supporting the water utilities development in all regions of the country. A number of other projects were launched in 2018 to ensure the development of water utilities, including the ‘Volga recovery’ project with total investments to the tune of Rub 122.9 billion for 2019-2024.
Financial & Operational Overview

Group Performance

Results

<table>
<thead>
<tr>
<th>RUB mn</th>
<th>2018 FY</th>
<th>2017 FY</th>
<th>Change yoy</th>
<th>2018 4Q</th>
<th>2017 4Q</th>
<th>Change yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td>55,891</td>
<td>59,679</td>
<td>-6%</td>
<td>25,176</td>
<td>14,536</td>
<td>73%</td>
</tr>
<tr>
<td>Backlog</td>
<td>42,634</td>
<td>39,067</td>
<td>9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>52,619</td>
<td>44,422</td>
<td>18%</td>
<td>20,757</td>
<td>13,011</td>
<td>60%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6,621</td>
<td>6,839</td>
<td>-3%</td>
<td>2,302</td>
<td>1,852</td>
<td>24%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>12.6%</td>
<td>15.4%</td>
<td>11.1%</td>
<td>14.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>1,946</td>
<td>2,070</td>
<td>-6%</td>
<td>772</td>
<td>419</td>
<td>85%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>-139</td>
<td>3,098</td>
<td>-105%</td>
<td>1,854</td>
<td>1,389</td>
<td>33%</td>
</tr>
<tr>
<td>ROCE</td>
<td>13.6%</td>
<td>15.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Order intake was lower in all business segments except Compressors compared to 2017. The decline was attributable to less amount of large contracts signed in the reporting period.

Backlog for HMS Group grew to Rub 43.6 billion by 9% vs. Rub 39.1 billion last year. Pumps and, for the most part, Compressors made contribution to this growth. Unlike 2017, the growth was based on the recurring business, as backlog of large integrated contracts was 4% yoy lower.

Revenue for the full year was Rub 52.6 billion, compared with Rub 44.4 billion in 2017. Almost all segments contributed to this growth except Oil and gas equipment and projects (OGEP) business segment (-2% yoy). EBITDA was down by 3% yoy to Rub 6.6 billion because of a decline in Pumps.

For the 4th quarter, revenue was Rub 20.8 billion, compared with Rub 13.0 billion in 2017. EBITDA was up to Rub 2.3 billion from Rub 1.9 billion last year.

For the 4th quarter, net income was Rub 1.5 billion compared with Rub 0.8 billion in 2017. The main factor was decrease of interest expenses (-7% yoy) due to lower interest rates as a result of debt portfolio refinancing.

Operating profit was down 6% yoy, compared with Rub 2.1 billion in 2017. Operating margin decreased to 12.6% from 15.4% last year.

In 2018, decrease in free cash flow to Rub 139 million from Rub 3.1 billion in 2017 was due mainly to negative change in working capital.

ROCE decreased because of lower operating profit and higher average capital employed.

Cost of sales was Rub 40.6 billion, up 25% yoy, compared with Rub 32.5 billion in 2017. This was almost fully attributable to materials and components (+25% yoy) and labour costs incl. social taxes (+11% yoy). Despite the outpacing growth of cost of sales, gross profit was up 7% yoy to Rub 12.0 billion, compared with Rub 11.9 billion in 2017.

Distribution and transportation expenses was Rub 1.9 billion, up 7% yoy, compared with Rub 1.8 billion in 2017. Growth of labor costs incl. social taxes (+14% yoy) was the main driver. As a share of revenue, distribution and transportation expenses was down to 3.6%, compared with 4.0% last year.

Profit for the year (net income) was Rub 1.9 billion, down 6% yoy, compared with Rub 2.1 billion for the 4th quarter, net income was Rub 772 million compared with Rub 419 million in 2017.

Expenses and Operating Profit

<table>
<thead>
<tr>
<th>RUB mn</th>
<th>2018 FY</th>
<th>2017 FY</th>
<th>Change yoy</th>
<th>Share of 2018 FY revenue</th>
<th>Share of 2017 FY revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>40,617</td>
<td>32,536</td>
<td>25%</td>
<td>77.2%</td>
<td>73.2%</td>
</tr>
<tr>
<td>Materials and components</td>
<td>27,628</td>
<td>22,036</td>
<td>25%</td>
<td>52.5%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Labour costs incl. Social taxes</td>
<td>7,276</td>
<td>6,528</td>
<td>11%</td>
<td>13.8%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Construction and design and engineering services of subcontractors</td>
<td>2,102</td>
<td>1,365</td>
<td>54%</td>
<td>4.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,567</td>
<td>1,307</td>
<td>20%</td>
<td>3.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Others</td>
<td>2,045</td>
<td>1,299</td>
<td>57%</td>
<td>3.9%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

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Financial & Operational Overview

Business Segments Performance

Industrial pumps

Lower order intake of Rub 19.6 billion was due to no large contracts signed in the reporting period, though recurring business grew by 17% yoy.

Backlog grew by 19% yoy to Rub 17.2 billion because of a slower pace of revenue recognition of several contracts signed in 2017, that have execution period more than one year.

Revenue was Rub 17.8 billion, up 2% yoy, compared with Rub 17.5 billion in 2017.

EBITDA declined to Rub 2.4 billion, by 24% yoy, mainly due to increase of wages and a high base effect in 2017, when several untypical modular equipment projects were executed, that had higher than average profitability.

EBITDA margin was down to 13.4% due to higher revenue and lower EBITDA in 2018.

Oil and Gas equipment & projects (OGEP)

For the full year, order intake decreased sharply to Rub 12.0 billion from Rub 27.4 billion, because there were no large contracts signed in 2018.

Backlog also went down to Rub 6.7 billion from Rub 15.1 billion, due to less contracts signed than revenue recognized in the reporting period. Both recurring business and large contracts declined.

Revenue was down 3% yoy to Rub 20.9 billion, compared with Rub 21.5 billion in 2017.

EBITDA and EBITDA margin rose on large contracts.

Compressors

Order intake grew to Rub 2.39 billion, compared with Rub 7.2 billion in 2017, due to a substantially higher volume from large contracts signed in 4Q 2018.

Backlog was lifted by order intake to Rub 16.7 billion, compared with Rub 5.2 billion last year.

Revenue and EBITDA grew to Rub 14.7 billion and Rub 1.8 billion respectively, led by large contracts. EBITDA margin decline to 12.0% due to a mix of more profitable projects executed in 2017.

Construction

For the full year, orders portfolio and backlog declined substantially.

Revenue was Rub 1.8 billion, up 72% yoy, from Rub 1.0 billion in 2017, due to revenue recognition from large integrated contracts under execution. Though 4Q 2018 was profitable in terms of EBITDA, the full year EBITDA was still negative.
Financial & Operational Overview

Working Capital and Capital Expenditures

For the full year, working capital was Rub 9.1 billion, up by 17% yoy in line with growth of revenue. As a share of revenue, working capital declined to 17% from 18% in 2017.

Capital expenditures were Rub 2.3 billion, up 8% yoy, compared with Rub 2.2 billion in 2017.

<table>
<thead>
<tr>
<th></th>
<th>2018 FY</th>
<th>2017 FY</th>
<th>Change yoy</th>
<th>4Q 2018</th>
<th>3Q 2018</th>
<th>Change qoq</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>9,130</td>
<td>7,820</td>
<td>17%</td>
<td>9,130</td>
<td>11,340</td>
<td>-19%</td>
</tr>
<tr>
<td>Working capital / Revenue LTM</td>
<td>17%</td>
<td>18%</td>
<td>17%</td>
<td>17%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>2,335</td>
<td>2,159</td>
<td>8%</td>
<td>893</td>
<td>649</td>
<td>38%</td>
</tr>
</tbody>
</table>

Debt Position

Total debt was Rub 19.4 billion, compared with Rub 16.0 billion in 2017. Net debt also increased, to Rub 13.1 billion vs. Rub 11.4 billion at 2017-end.

2018 FY Net debt / EBITDA LTM ratio increased to 1.97x compared to 1.67x in 2017.

For the 4th quarter, total debt increased by minor 1% qoq, compared with Rub 19.2 billion in 3Q 2018. Net debt, in contrast, was down 12% qoq, compared with 14.8 billion in 3Q 2018.

<table>
<thead>
<tr>
<th></th>
<th>2018 FY</th>
<th>2017 FY</th>
<th>Change yoy</th>
<th>4Q 2018</th>
<th>3Q 2018</th>
<th>Change qoq</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>19,360</td>
<td>16,042</td>
<td>21%</td>
<td>19,360</td>
<td>19,177</td>
<td>1%</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>18,198</td>
<td>13,065</td>
<td>39%</td>
<td>18,198</td>
<td>18,191</td>
<td>0%</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>1,162</td>
<td>2,977</td>
<td>-61%</td>
<td>1,162</td>
<td>986</td>
<td>19%</td>
</tr>
<tr>
<td>Net debt</td>
<td>13,065</td>
<td>11,422</td>
<td>14%</td>
<td>13,065</td>
<td>14,828</td>
<td>-12%</td>
</tr>
<tr>
<td>Net debt / EBITDA LTM</td>
<td>1.97x</td>
<td>1.67x</td>
<td>1.97x</td>
<td>2.40x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dividends

The Board of Directors of HMS Group recommended total dividends for 2018 of Rub 9.81 per ordinary share (Rub 49.05 per GDR), of which Rub 3.64 per share (Rub 19.20 per GDR) have been already distributed as interim dividends in January 2019.

If approved at the Annual General Meeting of Shareholders, final dividends of Rub 5.97 per ordinary share (Rub 29.85 per GDR) will be distributed on the 1st of July, 2019.

Significant Events after the Reporting Date & Financial Management

Financial Management

As of April 1, 2019, average interest rate decreased to 8.8% compared to 9.8% at the beginning of 2018. According to management accounts, total debt decreased by 3% to Rub 18.8 billion, and net debt, in contrast, was up 13% to Rub 14.8 billion due to working capital, required for execution of large projects.

Contracts

In April 2019, the company announced signing of two contract worth Rub 4.0 billion for delivery of gas transportation units, that will be executed by the end of 2019.

Restructuring of the Core Shareholders’

On March 6, 2019 its major shareholder H.M.S. Technologies Limited (“HMST”), registered at Cyprus transferred its entire shareholding in the Company to JSC HMS Holding (“HMS Holding”), registered at Russia, the subsidiary undertaking of HMST, via the following transactions:

- HMST transferred 67,159,421 ordinary shares in the Company (comprising 57.32% of the Company’s issued share capital) to HMS Holding in the form of the shareholder’s asset contribution for nil consideration.
- HMST transferred 2,924,207 global depositary receipts issued under the Company’s depositary receipts program (“GDRs”) (representing 14,621,035 shares in the Company and comprising 12.28% of the Company’s issued share capital) to HMS Holding in exchange for additionally issued shares in HMS Holding.

As a result of this restructuring:

- HMS Holding became a direct holder of 69,159,421 ordinary shares in the Company and 2,924,207 GDRs comprising in aggregate 71.51% of the Company’s issued share capital; and
- HMST remains the sole voting shareholder of HMS Holding retaining control over the majority shareholding in the Company, and consequently none of the transactions made as a part of the restructuring triggers an obligation of the Company, HMST or HMS Holding to make any mandatory offer to the GDR holders.

This restructuring of the core shareholders’ shareholding in the Company does not lead to any change in corporate governance or corporate control of the Company. All applicable regulatory approvals have been obtained in connection with this restructuring.
2018 Calendar of Events

January

› KKM completed the integrated retrofit works for three compressor systems operated at Pervomayskaya CHP-14, St. Petersburg (ToK-1), that was required due to the inlet pressure increase of gas supplied to the power equipment of the combined heat & power plant. The retrofit works included installation of new replaceable flow paths of compressors, gear pairs of the multipliers and transmissions, as well as installation of a new advanced automation system. Compressor systems based on 40G-2-318-2.4-29 centrifugal compressors were made by KKM in 2011.

February

› KKM signed a contract to manufacture and supply a gas compression system for a compressor station construction project at the Vostochno-Messoyakhskoye oil, gas and condensate field operated by Messoyakhaneftegaz. The gas compression system, with 2.1 MMm3/day capacity and 140 bar discharge pressure, was engineered with the participation of R&D institute Nilturbokompressor and involved the use of modern 3D design methods and advanced compressor equipment solutions to ensure highly-efficient compression of associate petroleum gas. The equipment will be manufactured in a hangar version based on centrifugal gas compressors with double castings arranged in parallel.

› The equipment compresses the purified formation gas and was manufactured as a part of the GPA-6 Venga gas compression system, under a contract with KMPG.

April

› KKM signed a contract to manufacture and supply a gas compression system for a compressor station construction project at the Vostochno-Messoyakhskoye oil, gas and condensate field operated by Messoyakhaneftegaz. The gas compression system, with 2.1 MMm3/day capacity and 140 bar discharge pressure, was engineered with the participation of R&D institute Nilturbokompressor and involved the use of modern 3D design methods and advanced compressor equipment solutions to ensure highly-efficient compression of associate petroleum gas. The equipment will be manufactured in a hangar version based on a 53GC2-384/1-41 compressor of two parallel arranged compression stages driven by an 18 MW gas turbine made by Kazan Motor-Building Production Association, and will be equipped with all the necessary auxiliaries and up-to-date compressor control and monitoring systems.

› HMS Group produced pumping units for the 2nd lift pumping station of the Tver water intake (Tver Vodokanal). The units are equipped with Delium D500-735 double-suction centrifugal pumps. The project was implemented under the modernisation and reconstruction of the centralised water supply and sanitation systems in the city of Tver.

› HMS Group repurchased 43,000 of its GDRs representing 0.18 percent of the Company’s issued share capital.

May

› In February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the ‘Order’). The Order was obtained on an ex parte basis by Konstantin Grigorishin, and certain other plaintiffs against a number of defendants, including the Company, certain of its shareholders and directors, and The Bank of New York (Nominees) Limited. Amongst other things, the Order froze the property of most of the defendants, including the Company, but excluding The Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

› In April 2014, following written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia (the ‘Court’) discharged the Order in full, including in respect of the Company and its shareholders and directors. Following such discharge, there were no further substantive steps, known to the Company, by plaintiffs to proceed with their claim against the Company or its directors. The Company has maintained that there was no legal ground for the claims and allegations made by Mr. Grigorishin and the other plaintiffs against the Company.

June

› On 29 March 2018, a Notice of Discontinuance was filed by plaintiffs with the Court. Following the filing of the Notice of Discontinuance and an appearance of our legal representatives before the Court on 4 May 2018, the Court ordered the discontinuance of the action against the defendants. An English translation of the Court’s order was made available to the Company on 16 May, 2018. Following the filing of the Notice of Discontinuance, the proceedings was not a result of any settlement agreement, and the Company was not required to make any payments to the plaintiffs.

› HMS Group and UniCredit Bank signed a new credit facility agreement in the amount of Rub 4 billion with 5-year maturity.

› In line with the best corporate governance practices regarding director rotation, HMS Independent Non-Executive Directors have retired from the Board of Directors, and Mr. Eizo Vergani and Mr. Giorgio Veronesi have been appointed as new Independent Non-Executive Directors.

July

› Fitch Ratings affirmed JSC HMS Group’s foreign- and local-currency Issuer Default Ratings of ‘B+’, with ‘Stable’ outlook. The full text of Fitch’s press release is available on https://www.fitchratings.com/site/pr/100934179

› HMS Group signed a contract with NOVATEK for the design, manufacture and complete supply of a main 25 MW gas compression system (GPA), where the main and auxiliary equipment will be designed and manufactured in accordance with the API standards.

› The Arctic Cascade liquefaction technology was created and patented by NOVATEK and ensures high efficiency of liquefaction using the ambient temperature of the Arctic region while reducing energy consumption and capital costs.

› The high operating efficiency of the Arctic Cascade liquefaction technology will allow to minimize the environmental impact as well.

› www.novatek.com

› The project’s feature is the application of a new natural gas liquefaction technology - the Arctic Cascade patented by NOVATEK in March 2018.

The equipment is intended for the construction project of a complex for gas production, treatment, and liquefaction as well as shipment of LNG and gas condensate from the Yuzhno-Tambeyskoye gas condensate field.
August

- HMS Group signed a contract to supply pumping units for Inter RAO - Engineering under the construction project of a power plant comprising 3 stream-power units with a total capacity of 195 MW at Primorskiy TPP (Kaliningrad region, Russia).

  The circulation pumping units AD100-700 are designed to supply cooling water to the steam turbine condenser. The units are equipped with DeLum series of the double suction pumps with 8,500 m³/h capacity and 22 m of the pressure head.

  The feed water pumps, designed for supplying water to the stationary steam boilers, are based on PE 400-185-1 pumps with improved flow path and high efficiency to provide the required parameters of 217 m³/h capacity and 2100 metres of pressure head. The units are equipped with Voith Turbo hydrodynamic clutch to regulate the parameters of the pumping units and maintain the optimal operation mode of the entire feed water supply system at the TPP.

- HMS Group produced and delivered the 10 MW turbine-driven compressor systems (TKA) made by KKM for an interstage compressor station at the helium membrane separation unit at Chayandinskoye OGCC (Gazprom).

  The scope of supply includes three TKA-10/1 and three TKA-10/2 turbine-driven compressor systems based on 6GC-115/2-38 K.U1 and 6GC2-260/2-38 GTU compressors designed by Nilturbokompressor for permeate gas flow compression. The systems operate in series being designed to provide the required parameters of permeate fed to the second stage of the membrane systems operate in series being designed to provide the required parameters of permeate fed to the second stage of the membrane modules. The PE-9DGEP-3 gas turbines are used as drives.

  Chayandinskoye oil, gas and condensate field is one of the largest fields in eastern Russia. The field is known for its complex composition of productive gas with a high helium content.

  The field forms the backbone of the Yakutia gas production centre and serves as a resource base for the Power of Siberia gas pipeline, along with the Kovyktinskoe field in the Irkutsk region of Russia.

  The field’s annual design output is 25 bcm of gas, 1.9 mt of oil, and 0.4 mt of gas condensate.

  http://www.gazprom.com/projects/chayandinskoye/

September

- KKM signed a contract to produce the 2nd complete gas compression system for the Vostochno-Messoyakhskoye oil & gas condensate field (JV of Rosneft and Gazprom Neft). In April 2018, KKM produced a similar gas compression system for this project.

  The gas compression system in a hangar version compresses associated petroleum gas at the booster compressor station, which is under construction at the field. This system, developed by Nilturbokompressor, is complete with a high-efficient S36GC2-384/4-141GTU compressor package of two casings arranged in parallel, an 18 MW gas turbine drive by KMPD, and is equipped with all the required auxiliary systems, contemporary monitoring equipment and controls.

- KKM put a gas compression system into the test operation at the Kharyaga field (LUKOIL).

  The system compresses low-pressure associated petroleum gas supplied from oil & gas production facilities, and is equipped with high-efficient compression stages arranged in a single casing, dry gas dynamic seals, an integrated exhaust gas heat recovery unit and a 6.3 MW gas turbine made by UEC-Gas Turbines. The equipment has successfully passed the complete cycle of acceptance tests and was brought into test operation.

  In 2016-2017, two other compressor systems made by KKM (32GC-115/2-38 K.U1 and 6GC2-260/2-38 GTU) were put into commercial operation at this facility. The machines show stable operation in accordance with the required technical specifications.

October

- HMS Group repurchased 35,000 of its GDRs representing 0.15 percent of the Company’s issued share capital

November

- Apollo Goessnitz GmbH participated in the 21st Abu-Dhabi International Petroleum Exhibition. The facility presented the following equipment:

  KRKH/KRKH4 series overhang radially split process pumps (type OH2, API610) that features low operational costs and ease of maintenance due to back pull-out design with de-mountable coupling and rotatable runners

  AMG series between bearing axially split process pumps (type BB3, API610) featuring high reliability and low vibration due to back to back impellers design

December

- HMS Group signed Rub 5.2 billion contract to deliver main and auxiliary equipment for a gas booster station at an oil & gas condensate field in Russia

- The Group signed Rub 2 billion contract to deliver gas transportations units

  Capacity 2.1 mtd. Nm³/day and discharge pressure of 150 bar

  6GC-2-260/2-38 GTU turbine-driven compressor system with annual capacity of 250 mtd. Nm³/day and 35 bar discharge pressure
HMS Key Projects & Events

Awards

Two products of KKM won the 100 best Products of Russia federal Competition and the republican Best Products and services of the Republic of Tatarstan Contest in the nomination of Industrial and technology products.

The sophisticated compressor systems GCM3-107/7-31 UHL 4 and TAKAT-132.08 M4A H1 were awarded with Diplomas and certificates of the Competitions:

› The centrifugal compressor system GCM3-107/7-31 UHL 4 is intended for natural gas supply to a gas turbine of the power unit at the Phase II South-Western Thermal Power Plant (St. Petersburg). The compressor system, which utilizes the most advanced technical solutions and meets the requirements of the API 617 standard, was successfully tested and shipped to the customer within the terms of the contract.

› The vacuum compressor system TAKAT 132.08 М4а HL1, based on the screw oil-filled compressors with separate lubrication and oil injection system, is manufactured using modern technologies in accordance with the requirements of Russian and international (API 619) standards. The system, designed for compression of associated petroleum gas with a high content of heavy hydrocarbon fractions, is intended for the construction projects of a central oil collection point at the Novoportovskoye oil, gas and condensate field (Gazprom Neft).

Thermo-chemical Binary Mixture Technology (TCBXT)

In 2018, HMS Group completed the realisation of the project “Development of the technology and equipment complex for thermo-chemical and oil-and-gas-bearing formation treatment.” Employment of the technology allows to increase hydrocarbon production and restore the ecological environment on oil and gas fields, instead of using the foreign technology of proppant-gel fracturing.

More information about TCBXT you can find at pages 34-35

Export activities

Non-CIS export sales revenue of HMS Group has reached c. US$ 41 million including international Nuclear Power Projects, showing moderate growth versus previous year, despite worsening of the geopolitical environment, too slow recovery of the oil prices and still suspended progress in many major international oil & gas projects.

At the same time, HMS Group through UAE Branch office in 2018 explored new opportunities in Egyptian infrastructural, water & utilities projects. It secured 2 contracts and insured first revenue at the amount of US$ 1 million, built up a solid inquiry log with good probability to secure another US$ 2 million project, started prequalification in Egyptian oil & gas, water & utilities end-users majors such as ENPP, Petrojet, EGPC, AMOC, MDDR, NAPWASD, Water authority of Ministry of Defense-Irrigation and RO Projects.

HMS keeps on business expansion to the Persian Gulf countries persisting the qualifications in KOC (Kuwait), ARAMCO (Saudi Arabia), PDO (Oman), ADNOC (UAE).

At the same time the HMS carefully preserve and develop the business with traditional international clients such as British Petroleum, ENI, Lukoil Mid East, Gazpromneft (Badra), Statol, Total, Techint, Technimont, Daelim, Linde etc. increasing from year to year the business volume with the above clients.

HMS Projects

New Projects

In 2018, several contracts worth c. US$ 13.5 million were signed to deliver pumping equipment to a power plant, located in South Asia.

In December 2018, HMS Group signed a contract worth Rub 5.2 billion to deliver main and auxiliary equipment for a gas booster station at an oil and gas condensate field in Russia.

Also, the company signed a Rub 2 billion contract to deliver gas transportation units to one of Russia’s majors.

New Projects after the Reporting Date

In April 2019, HMS Group signed a number of contracts worth Rub 4 billion for delivery and installation of gas treatment units to one of Russia’s oil & gas major.

In 2018, several contracts worth c. US$ 13.5 million were signed to deliver pumping equipment to a power plant, located in South Asia.

In December 2018, HMS Group signed a contract worth Rub 5.2 billion to deliver main and auxiliary equipment for a gas booster station at an oil and gas condensate field in Russia.

Also, the company signed a Rub 2 billion contract to deliver gas transportation units to one of Russia’s majors.
Continuous Development & Innovations

After 25 years in business, HMS Group is a full-cycle machine-building company that has achieved a leading position among Russian players. The company follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements on the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.

Pumps

Reservoir pressure maintenance

In 2018, HMS Group designed, produced and in-plant tested a pump with horizontally-opposed arrangement of impellers. The pump is designed for injection of aggressive (corrosive) oil-field water in oil-and-gas-bearing reservoirs to maintain the reservoir pressure.

The pump was delivered to the oil field for function testing to increase the injection rate and decrease the energy intensity.

Power generation

As part of the import-substitution program, HMS group designed and manufactured a facility based on a two-stage water-packed vacuum pump. It is designed for creating and maintaining a vacuum in the condensation chamber of a steam turbine - by a process of removing non-condensable gases and air flows through system leakages. The unit will replace water jet and steam jet ejectors, which are the major equipment at Russian power plants.

Oil refining

HMS Group designed a range of pumps with new typical sizes according to API 610 standard for a large-scale modernization project of one of the largest oil refineries in Russia - the construction of the CDU/VDU and Complex of crude oil deep conversion. The Group also completed production of the KPH (C6H) and ZPH (BEH) pump units for the Complex, which were elaborated to meet the project’s technical specifications.

Oil & Gas Equipment

Thermo–Chemical Binary Mixture Technology (TCBXT)

2018 became the third and final year of implementing the project for development of the technology and equipment complex for thermo-chemical and oil-and-gas-bearing formation treatment, with the aim of increasing hydrocarbon production and restoring the ecological environment on oil and gas fields, instead of using the foreign technology of proppant-gel Fracturing. The project was being carried out in cooperation with Tyumen State University and the Institute of Biochemical Physics of the Russian Academy of Sciences in accordance with a contract with the Ministry of Education of the Russian Federation.

The company successfully accomplished the project’s following milestones:

- Industrial patent №2626436 was acquired for a high-temperature well survey combination tool.
- Industrial patent №4370167 was applied for a two-phase mixing pump.
- 3 articles were published in the magazine ‘Oil industry’, 1 article in the magazine ‘Georesources’, 1 article in the magazine ‘Bulletin of Tyumen State University’, 1 article in the magazine ‘Automation, telemetry and communication in the oil industry’, etc.
- Pre-production units were modernised – an ammonium nitrate pumping unit and a sodium nitrite pumping unit (BM pumping units). The company carried out in-plant preliminary and acceptance tests of the modernised units. In 2018, HMS manufactured a pre-production unit of the operational and control system, and carried out in-plant preliminary and acceptance tests.
- HMSC conducted a pilot run of the modernised and newly manufactured pre-production units on the Zybza-Glubokiy Yar field (Rosneft). Three wells were treated using the thermo-chemical binary mixture technology and for the first time, the company used a two-step method of well treatment. Positive results were received. At present, the technology is being transferred to the commercialisation status.
- HMS Group designed and tested a mobile TCBXT fleet, which includes 2 pumping units, one unit of the operational and control system and two trailers - a mobile reservoir with 40m3 working capacity and a flatbed trailer for transportation of supporting facilities.

Plate Heat Exchangers

In 2018, HMS Neftemash continued commercialisation of the project for development and production of plate heat exchangers for Russia’s petrochemical facilities. As part of this project, HMS set up production of shell-and-plate heat exchangers both welded and split body ‘Compablock’-type heat exchangers. The company continues to develop this product range.

Mobile Secondary Reference Metrology Complex

In October 2018, HMS Neftemash and the Department of the investment policy and governance support for business activity of Tyumen region signed an agreement, according to which the production facility will be provided with a state subsidy to perform research and development upon an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex mounted on a cross-country chassis.

The new Mobile Metrology Instrument will allow oil & gas companies to calibrate online metering units, without interruption of hydrocarbons’ extraction, thus lowering costs of extraction.

HMS Group also carried out a joint project in which HMS Neftemash and the Tyumen State University developed and put into operation the State Primary Reference Standard. The largest and most hi-end multiphase metrological test flow facility in Russia allows the testing and metrological calibration of up-to-date multiphase metering units. The Federal Agency on Technical Regulating and Metrology of the Russian Federation (Rosstandards) certified the facility and approved it as the working standard of flow rate unit of liquid-gas mixtures.

Oil & Gas Heater based on Thermosiphon

HMS started development of the oil & gas heater based on thermosiphon. In 2018, the project’s following stages were accomplished:

- A drawing of the thermosiphon’s general view was developed.
- Thermal design and simulation of the thermosiphon’s running were performed.
- Its applicability was analysed.
Continuous Development & Innovations

Hydromechanical drive for sucker rod pumping units

In 2018, HMS Neftemash continued the project on a “Rodless oil extraction mechanism.”

Working construction documentation was changed for the pumping unit with the hydromechanical submersible gear.

Documentation was revised for a protector, a hydraulic unit, and a mechanical part of the gear.

A design was developed for an axial piston pump ANP 026-300, which complies with technological and weight-size requirements (previously, the company considers using of a third-party component, which required deep rework).

A drawing was prepared of a special roller-machines fleet.

The no-sucker-rod enables mechanical dewaxing of a lift.

Increase in pumps’ volumetric efficiency, improvement of oil recovery efficiency, decreased level of power consumption.

Option to use downhole-to-surface telemetry with online output to a dispatcher console with controllability of the main well measures (pressure, temperature, etc.).

HMS Group designed and manufactured the main gas transportation unit for NOVATEK’s Tambeyskoe gas condensate field. The unit was created) for the main technological infrastructure (separators, tanks and vessels, heat exchangers).

A self-inclusive controlled telemetry station was created.

A book was developed of typical types of compressors for NOVATEK as a part of the import-substitution program. It is the part of a natural gas liquefaction unit and is designed for boil-off gas compression and its further supply into feed gas, which is to be liquefied. The unit made by HMS is the first and the only one made in Russia, which operates at up to -154°C inlet flow temperature.

Compressors

Compressor units for NOVATEK

Kazancompressormash developed a compressor unit for NOVATEK as a part of the import-substitution program. It is the part of a natural gas liquefaction unit and is designed for boil-off gas compression and its further supply into feed gas, which is to be liquefied. The unit made by HMS is the first and the only one made in Russia, which operates at up to -154°C inlet flow temperature.

In 2018, a project implemented by Giprotyumenneftegaz for small-size modular gas processing units for associated gas processing was ranked the best ‘Technological Engineering Project’. The project aims to solve the problem of utilising associated petroleum gas and obtaining additional products. The unique feature of this engineering project is that it can be installed at the depot with integration into the existing technology of oil treatment units.

This approach allows to process the associated petroleum gas, including the gas of last stages separation, with the maximum extraction of targeted hydrocarbons.

Legal Protection Of Intellectual Property

As an innovative company, HMS Group continues to protect the exclusive rights to its products and the individualisation of the goods produced and services that are provided.

More than 300 objects of intellectual property can be found in HMS’ current operating portfolio, including 234 patents, 31 registered computer programmes, and 54 registered trademarks.

In 2018, the company received exclusive rights to 15 inventions and utility model patents, and filed applications for 18 patents.
Modernization

Pumps
Melting
In 2018, HMS Livgidromash accomplished the next step of developing a number of technical processes in the key production areas:
- Experimental melting of a 50kg pump impeller from the super duplex steel (1.4469) was successfully completed. Tapping analysis was carried out at a mobile optical emission spectrometer acquired also in 2018.
- The technology was perfected for production of impellers’ heads according to the Cold-box amr process with blowing-out by a gas catalyst and channel sector generation. Utilisation of the technology allows to reduce a labour ratio to output.
- Instead of a 3D layer-by-layer printing, started to exploit a technology of models’ production with polyurethane rubber to receive critically demanding curved surfaces. This technology considerably improved accuracy and robustness of a core equipment and allowed to rise to a new quality melting level.
- Radiographic tests were included into a technological process, where the maximum thickness of a product under testing is 120mm.
- A unique technology was implemented for cryogenic molding of CREACOMP® wearing rings into BCMA 5000-14 pump’s basic parts made of the super duplex steel (1.4469).

Livnyonas reached a new level of melting accuracy for different plastic parts (plastic injection molded parts) for ECV-type pumps’ flow parts after purchase of a new Haitain HAPPS II International RMA200/0/1000 injection molding machine. The machine makes it possible to not only develop the product portfolio, but also save energy.

In addition, Livnyonas purchased vertical balancing machine VIRON 15 by Schenck Roelac, which is designed for balancing disc and bowl-shaped rotors such as flywheels, pump impellers, fans and gearbox components. The ideally balanced impeller is a guarantee of reliable and long-term performance.

Nasosenergomash commissioned the continuous sand mixer Spartan, made by English company OMEGA. The new mixer prepares mixtures for molding according to α-set process, and the Gamma 8L regeneration system makes it possible to significantly decrease material consumption. Usage of the technology allows to minimise both internal (shrinkage) cavities as well as improve the surface quality of castings, thus decreases the volumes of subsequent metalworking.

The production facility also commissioned automatic core shooter Reissaus KSA 15 and organised an impeller’s core Pep-Set apparatus. As a result, 2/3 of the impeller’s molding was switched to molding shop 1.

Oil & Gas Equipment
Dyeing of metals
Sibneftomash commissioned a processing line to prepare the surface for dyeing:
- Shop 1: An abrasive jet chamber for shot-blasting of external and internal surfaces. It allows to prepare surfaces to Sa21/2 cleaning grade standard according to ISO 8501. The chamber is equipped with an automatic system of shot-gathering and recuperation.
- Shop 2: A paint and drying cabinet for painting, drying and final preparation of a manufactured product for dispatching. The cabinet is equipped with airless spray paint sprayers, which can use the main paint materials on various bonding bases (epoxy, polyurethane, etc.). In addition, it allows to shorten the layer-drying time by increasing the temperature in the cabinet to up to +60°C.*

Metal cutting
In 2018, HMS Neftemash commissioned an abrasive jet cutter W20060-12-U-PSAX/PTV JETS 3.8/60 Compact (PTV, Czech Republic). The equipment makes it possible to cut all materials with a high-pressure water jet, adding abrasive without causing thermal impact on the material. The cutter is designed for production of metal and soft complex details without any thermal impact on the work material, especially for heat-exchanger’s plates.

Generating pressure up to 415MPa, it is able to cut up-to-200mm-thick details made of all materials except tempered glass. Such pressure is generated by an integrated high-pressure pump.

The cutting head allows to make SD cutting from plate material, e.g., cutting parts with internal and external chamfers on any curved surfaces, cutting of angle holes and treatment of complex curved slots. The produced parts have high quality surfaces, which don’t require subsequent machining, thus decreasing the production time per part.

Compressors
Melting
As part of Kazankompressormash’s melting modernisation process, the facility commissioned a regeneration unit with a melting cold-hardening mixtures shop.

In addition, the company concluded a contract with EGAS (Turkey) to deliver and assemble three mini steel plants (6, 5 and 3 tonnes furnace capacity). One of them, the 8-tonne plant, was supplied in December 2018, and is currently under construction. Delivery of the others is expected in spring 2019.

Machining centres
In December 2018, a unique horizontal boring milling machining centre HCW-2-200 (Skoda Machine Tool Inc.) was supplied to the production facility. The rotary table measures 3.6m in size, has 40 tons of carrying capacity, and the fixed-position table measures 6x3.6m. The centre has the up-to-date five-axis metalworking control system Heidenhain-400.

The blanking-welding shop #17 was equipped with a hydraulic guillotine shear designed for precise and high-quality cutting for steel, base metals and alloys. The maximum metal thickness is 25mm, and the maximum length of cutting is 3,150mm. Two band saws were also commissioned, which are designed for cutting solid billets and metal profiles.

In order to improve the manufacturing quality of screw compressors and reduce losses related to receiving defective bearings, KKM purchased and commissioned a Bearings vibrational acceptance test stand.
Corporate Social Responsibility

Social development policy and providing adequate living standards and normal working and life conditions for HMS’ employees.

The company has developed and implemented collective agreements, in-house policies and acts, which reflect social welfare issues, benefits, compensations and guarantees granted to the employees, including:
- Hardship-duty pays;
- Preservation of average earnings after transfer to easier work;
- Pecuniary aid in the event of the worker’s death;
- Pecuniary aid for medical treatment, and purchase of expensive pharmaceutical drugs;
- Bonus payments to veterans;
- Maternity coverage on monthly basis;
- Additional holidays in case of significant events, and for continuous service with the company;
- Pecuniary aid to non-working veterans, including for public holidays;
- Events to support young people.

Support and building heritage:
- Honoring HMS’ veteran workers on Machine Builders Day;
- Meetings with mentors;
- Professional skill competitions among young workers;
- Honoring best workers;
- Meetings of veteran workers (former employees) with the colleagues.

Local life
HMS Group fully participates in the local life of the regions where its facilities operate:
- Taking part in local creativity competitions, cultural, sport, charity and other events;
- Holding festivals;
- Helping schools, hospitals, childcare centres and religious organisations.

The company continues to sponsor one of its engineers, Mr. Nikolay Kuzovlev, the leading Russian athlete in Ice Climbing.

In December, 2018, he became the first ever UIAA Ice Climbing World Combined Champion winning the inaugural edition of the competition which ranks athletes based on their performances in both the speed and lead disciplines.

Safety & Health
HMS Group believes that achieving its strategic goals and maintaining its competitive advantages requires systematic management of labor health protection and the prevention of industrial injury and professional illness.

Production facilities introduce modern methods of accident prevention and maintain hygiene and sanitary conditions, which prevent professional illnesses and ailments driven by workplace factors.

On this basis, the company set up four main goals in the area of labor health protection and accident prevention:

1. Prioritisation of its employees’ health and safety over business performance results and continuous improvement of work conditions and labor health protection at every working place.

2. Significant decrease of risks of industrial traumatism and professional illness of the company’s employees:
   - Regular medical examinations, and availability of stationary medical and feldsher’s stations.
   - Issuance of free personal protective equipment, including work clothes, safety shoes and other personal safety apparel.
   - The special commissions at HMS’ facilities analyse the given personal safety apparel on a regular basis and examine novelty products, which appear on the market.
   - Issuance of milk to employees with harmful working conditions, etc.

3. Compliance of HMS’ activities in the area of labor health protection with the requirements and expectations of all interested parties, and with rules and regulations, established under legislation and normative technical documents:
   - Regular examination of industrial safety,
   - Regular training in the area of industrial safety.

4. Establishment of personal responsibility by company employees of all levels for meeting all labor health protection requirements accurately and in a timely manner. Also, HMS actively engages its employees while developing in-house documentation, which determines the regulations of implementation and realisation of the labor health safety system.

We promote and encourage a healthy lifestyle, not only because it helps to maintain a productive and positive workplace, but also because it is the right thing to do.
Corporate Social Responsibility

Charity and Social Assistance

The company believes in its responsibility for social and economic climate in regions where it operates, takes part in social projects and programs, among other things on a voluntary pro-bono basis. The charity activities are realized in the form of public private partnership aiming sustainable development of the company and the region, where it operates.

HMS Group focuses on helping children who are in need of medical treatment, as well as children in need of social and professional assistance. These projects are realised through:

- Social support and protection of citizens, including improvement of the financial position of the indigenous peoples, social assistance to the unemployed; disabled and other disadvantaged groups who, due to their specific physical or intellectual condition or other circumstances, are unable to implement their legitimate rights and interests by themselves.
- Promoting the prestige and the role of the family in society.
- Promoting the protection of motherhood, fatherhood and childhood.
- Promoting the protection of motherhood, fatherhood and childhood.

HMS Group forms the charity program based on an opinion of experts; heads of regional social agencies as well as selected fiduciary boards. The company doesn’t make any independent monitoring of social situation in the presence regions.

Besides targeted aid to schools, foster homes, indigenous people and others, the Group continues being one of the main sponsors of the Tatarstan Judo Federation. Also, in 2018, HMS sponsored children’s football and sambo competitions in the Orlov region.

The company continues to work on developing and selling energy-efficient products and service solutions. Apart from that, HMS Group set the following environmental goals, which are critical in the company’s view:

- Reducing emissions of harmful substances into the atmosphere.
- Abating waste water pollution.
- Improving waste management in the area of reducing waste and curbing adverse environmental impact.
- Developing and widely using waste-free technologies in industrial processes;
- Rational usage of raw materials, environmental items and energy;
- Improving HMS’ image in this sphere.

HMS’s facilities conducted quarterly surveys of emission of harmful substances into the atmosphere and evaluations of the effectiveness of dust and gas catchers. The company conducted an examination of emission sources, revised a draft of maximum permissible emissions, received new permits for air emissions, and developed a set of actions to decrease the level of pollutant emissions under unfavourable weather conditions. For the last three years, no excess of the maximum allowable pollutant emissions has been discovered.

The Group’s production facilities conducted chemical and microbiological analyses of natural surface water and waste storm water on a quarterly basis, and spillover tracking of storm water on a monthly basis.

As an employer of 14.5 thousand people, HMS is one of the major job creators across the cities where its facilities are located. Employees are one of HMS Group’s core assets, and the company encourages them and assists them in achieving their full potential.

In 2018, HMS continued staff training and education, with a focus on the areas of accounting and functional education. Training costs grew 9% yoy vs. 2017, and comprised 0.4% of personnel costs.

In 2018, the average headcount decreased by 68 people mainly due to voluntary employee attrition.

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<th>Average Headcount as of 31 December 2018</th>
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Training costs structure, 2018 [%]

- Functional (ACCA, accounting, audit, etc.) 42%
- English 18%
- Compulsory education 6%
- MBA, EMBA 2%
Board of Directors

HMS 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.

The Board of Directors and Performance

General Overview
The Board of Directors consists of eight (8) members, three (3) of whom are Executive Directors. During the year ending 31 December 2018, Mr. Philippe Delpal and Mr. Gary Yamamoto, who were Independent Non-Executive Directors of the Company, retired from the Board of Directors of the Company. Mr. Ezio Vergani and Mr. Giorgio Veronesi have been appointed as Independent Non-Executive Directors of the Company.

Chairman
Mr. Nikolay N. Yambureenko
Chairman of the Board of Directors, Non-Executive Director, Chair of the Strategy and Investments Committee

Mr. Yambureenko was appointed as a member of the Board of Directors in October 2010. He has been a non-executive member of the Board of Directors since 2007. He has served as Chair of the Board of Directors of the Company. Mr. Yambureenko held the position of Head of the Industrial Pumps Business Unit from 2005. Prior to joining the Group, Mr. Yambureenko held the position of Executive Director of Lurgiropman (HMS Pumps), which is now part of the Group. Mr. Yambureenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of the Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

Non-executive Directors
Mr. Ezio Vergani
Member of the Board of Directors, Chair of the Audit Committee

Mr. Vergani was appointed as an independent non-executive member of the Board of Directors in June 2018. Mr. Vergani has a degree in business administration from the University of Milan and is an Executive MBA graduate. He joined the Group in 2006 as CEO of Lurgiropman (HMS Pumps), which is now part of the Group. Mr. Vergani has more than 30 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics), where he gained a degree in industrial economics.

Mr. Giorgio Veronesi
Member of the Board of Directors

Mr. Veronesi has held various senior positions at engineering and construction sector. Mr. Veronesi has more than 35 years of experience in the international engineering and construction sector. Mr. Veronesi is also a member of the Remuneration Committee. Currently he is the Director General of Techint.

Mr. Andreas S. Petrou
Member of the Board of Directors

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2018. He has more than 30 years of experience in the international engineering and construction sector. Mr. Petrou is also the member of the Remuneration Committee. Currently he is the Director General of PROFITPROM LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of the Hydraulic Machines LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of the HMS Group. He has served as the Chairman of the Supervisory Board of Sumy Frunze NPO PJSC (Ukraine) from 2013 until 2007. Mr. Lukyanenko was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Compressor Business Unit, a position he has held since its establishment in 2012. Previously, Mr. Lukyanenko held the position of Director for Strategic Marketing. Prior to joining the HMS Group, he served as the Chief Representative of FSC ‘Sumy Frunze NPO’ (Ukraine) in Russia from 1999 to 2008. Mr. Lukyanenko holds a degree in mechanical engineering. He graduated from the Moscow Polytechnical Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) in 1988. Mr. Lukyanenko is the author of more than 50 scientific publications and creator of 20 inventions.

Executive Directors
Mr. Mr. Kirill V. Molchanov
Member of the Board of Directors

Mr. Kirill V. Molchanov has more than 30 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics), where he gained a degree in industrial economics.

Mr. Mr. Yury N. Skrynnik
Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He has more than 30 years of experience in the international engineering and construction sector and is the owner of a company with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and creator of 20 inventions.

Mr. Mr. Vladimir V. Lukyanenko
Member of the Board of Directors

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in July 2016. He is also the member of the Remuneration Committee, the Audit Committee and the Strategy and Investments Committee. Currently he is the Director General of PROFITPROM LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of the Hydraulic Machines LLC. From 2006 to 2008 Mr. Lukyanenko was the Vice-President of the HMS Group. He has served as the Chairman of the Supervisory Board of Sumy Frunze NPO PJSC (Ukraine) from 2013 until 2007. Mr. Lukyanenko graduated from Moscow Chemical Engineering Institute (currently Moscow State University of Engineering Ecology) with a degree in machine building in 1991. Mr. Lukyanenko has over 18 years of experience in the industry.
Board of Directors

Activities in 2018

The Remuneration Committee is composed of four independent Directors and is expected to meet at least once per year. Currently, the Committee comprises four independent Directors: Mr. Ezio Vergani, Mr. Yury N. Yamburenko, Mr. Vladimir V. Lukyanenko, and Mr. Giorgio Varonesi.

The Remuneration Committee is responsible for determining the Group’s remuneration policies. The remuneration of independent Directors is a matter for the Chair of the Board of Directors and the Executive Directors. No Director or manager may be involved in any decisions regarding their own remuneration.

Activities in 2018

Three meetings of the Remuneration Committee were held in 2018. The main matter reviewed by the Remuneration Committee was the development and further implementation of the Group’s updated Long-Term Incentive Program as well as the 2018 Program targets and the list of participants.

Strategy and Investments Committee

General Overview

The Strategy and Investments Committee comprises four independent Directors, one of whom is independent. The Committee is expected to meet at least once per year.

The Strategy and Investments Committee is chaired by Mr. Nikolay N. Yamburenko and the other members are Mr. Giorgio Veronesi, Mr. Yury N. Skrynyk and Mr. Vladimir V. Lukyanenko.

The Strategy and Investments Committee is responsible for considering, amongst other matters: (i) strategic business combinations; (ii) acquisitions, mergers, disposals and similar strategic transactions involving the Company; and (iii) fundamental investments of the Company.

Activities in 2018

One meeting of the Strategy and Investments Committee was held in 2018. The main matter reviewed by the Committee was the updated strategy and financial model of the Group.

Directors’ Compensation

The total compensation of the Chairman of the Board was Euro 270,115 for the year ended 31 December 2018.

The total compensation of the independent Directors, as set out in the Group’s consolidated statement of profit or loss and other comprehensive income, was Euro 2,750,000 for the year ended 31 December 2018.

Litigations involving the Company

Grigorishin Litigation. In February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the ‘Court’) and its shareholders and directors, and Bank of New York (Nominees) Limited. Among other things, the Order froze property of most of the defendants, including the Company, but excluding Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

In April 2014, following written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia (the ‘Court’) discharged the Order in full, including in respect of the Company and its shareholders and directors. Following such a discharge, there were no further substantive steps known to the Company, by plaintiffs to proceed with their claim against the Company or its directors. The Company has maintained that there was no legal ground for the claims and allegations made by Mr. Grigorishin and the other plaintiffs against the Company.

In March 2018, a Notice of Discontinuance was filed by plaintiffs with the Court. Following the filing of the Notice of Discontinuance and an appearance of the Company’s legal representatives before the Court on 4 May 2018, the Court ordered the discontinuance of the action against the defendants. The discontinuance of the proceedings was not a result of any settlement agreement, and the Company was not required to make any payments to the plaintiffs.
Overview

HMS Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. A risk management and internal control system has been integrated into the Group’s operations in order to minimise the negative impact of such risks and to benefit from available opportunities. The overall objective of this system is to obtain reasonable assurance that HMS’ goals and objectives will be achieved.

The main principle in the design and maintenance of such systems is that the expected benefits should outweigh the associated costs.

Key features of the internal control system over financial reporting

The Group uses a formal risk management program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks the company faces. Risks are classified according to their likelihood and significance; different strategies are used to manage identified risks. This process is regularly reviewed by the Board in accordance with applicable guidance.

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control and risk management monitoring is performed through internal and external assurance providers, which include:

- Financial statement audits performed by external auditors. Discussion by the Audit Committee of the results of the audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters.
- Review and formal approval of the financial results by the CEO, CFO, Audit Committee and the Board.
- Board and sub-committee approval and monitoring of operating, financial and other plans.
- Consolidation and verification of correct identification and proper assessment of critical business risks. The Audit Committee reviews changes to the risk profiles together with progress on actions for key risks on a regular basis.
- Internal audit function. The Head of Internal Audit functionally reports to the First Deputy CEO. The internal audit department performs its activities in accordance with an audit plan and incorporates review of material controls, including financial, compliance and operational controls. The results of each audit are discussed in detail with the companies and business units concerned and action plans are agreed upon.

Continuous improvement

HMS Group’s goal is to continuously improve its governance and risk management sub-systems. We assess the findings of audits and internal investigations and use them to revise our internal processes and procedures.

The key features of the risk management process include:

- The gathering and analysis of information related to internal and external factors which can affect the achievement of the Group’s objectives;
- Identifying the possible negative impact of various events on operational and financial results in accordance with applicable risk-assessment methods;
- Setting appropriate risk-tolerance levels;
- Ranking risks according to their significance and probability;
- Making appropriate decisions to manage identified risks;
- Actively monitoring the steps taken to control the most significant risks.

Principal risks and uncertainties

The table below shows the relationship between the main categories of the risks we encounter and how they affect our strategy.

Below is the summary of the principal risks facing the Group’s business. HMS also faces other risks both known and unknown; some of them apply to similar companies operating in both the Russian and international markets.

<table>
<thead>
<tr>
<th>Risk/Strategy</th>
<th>Enhancing margins</th>
<th>Driving growth</th>
<th>Generating cash</th>
<th>Maximising returns</th>
<th>Securing customers</th>
<th>Securing longterm suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global political and economic risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project execution risks</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Human Capital</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud and corruption risks</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislation and regulations</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product liability and litigation</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial risks</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Global political and economic risks

The Group may be exposed to various political, economic and other risks not only in the countries where it has primary production facilities (Russia, Ukraine, Belarus, Germany) but also in jurisdictions, where the company has other interests (e.g. EPC projects in the Middle East and Central Asia).

Starting in 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies. The above-mentioned events have led to reduced access of Russia’s businesses to international capital markets. The impact of further economic and political developments on future operations and the Group’s financial position might be significant.

The introduction of new regulations or the imposition of trade barriers or a new round of sanctions against Russia could disrupt facilities (Russia, Ukraine, Belarus, Germany) and other interests (e.g. EPC projects in the Middle East and Central Asia).

Project execution risks

Since HMS contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in large integrated projects). The Group seeks to mitigate these risks through its efforts to improve profitability and cost control, in part relying on volume growth and an increasing share of high-margin integrated solutions services.

In some instances, this could have an adverse, material effect on the company’s financial position and prospects.

Sales

The Group’s business depends on capital investment and maintenance expenditures by the Group’s customers, which in turn are affected by numerous factors, including the state of the Russian economy and that of other nations, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment and other support for the Group’s customers and for state-sponsored infrastructure projects.

The Group’s business depends on being awarded contracts and on the renewal and extension of existing contracts; moreover, the Group relies on a limited number of key customers and contracts and may incur losses due to unavailing terms of contracts with certain large customers.

Sanctions against the corporate sector (finance, defense, oil and gas industries) would create the most serious risks for Russia’s economic and financial system. Tighter and broader restrictions concerning both the use of equipment and/or software and financial operations could lead to a heavy disturbance on the markets. The capacity to develop new fields could also be constrained by sanctions, in the longer term, as existing fields run out, the country may find it hard to maintain the current level of crude output and gas production.

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Management of legal risks is based on their quality (expert) assessment and directed to their identification, monitoring of risk factors, as well as their mitigation.

HMS Legal department uses the following basic strategy of risks management:

- Legal risks are verified at the stage of contracts’ preliminary qualification and vetting as well as their further support.
- Regarding risks (a)-(f) - contracts execution security to guarantee adequate sources of costs covering in the case of contracts nonfulfillment are maintained through:
  - Usage of different kinds of collateral and non-material securities provided by third parties (sub-tiers), responsible for delivery (production) of a product’s components.
  - Withholding of an advance payment and non-material securities provided by third parties (sub-tiers), responsible for delivery (production) of a product’s components.

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Contract execution risks

HMS Group performs a systematic work to manage legal risks through their identification, and prevention of reasons and conditions when they arise at the pre-contractual stage as well as at the stages of contracts execution and legal proceedings.

Risks formation in 2018 was stipulated by a number of reason both macroeconomic and contractual related to a number of projects executed by the company.

Main legal risks which arise at the stage of contracts execution and contracts signing:

- a. Risk of nonfulfillment of a contract by a client (in whole or in part).
- b. Risk of nonfulfillment of their liabilities by third parties (sub-tiers), responsible for delivery (production) of a product’s components.
- c. Risk of a mediator’s insolvency (failure to generate a cash flow in a settlements’ chain ‘client – producer’).
- d. Risk of penalty claims for the breach of the contract.
- e. Default risk (including, as a result of sanctions and/or other enforcement actions from state services).
- f. Piracy risks.

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  - Withholding of an advance payment and non-material securities provided by third parties (sub-tiers), responsible for delivery (production) of a product’s components.

Regarding risks (a)-(c): contracts execution and contracts signing:

- a. Risk of nonfulfillment of a contract by a client (in whole or in part).
- b. Risk of nonfulfillment of their liabilities by third parties (sub-tiers), responsible for delivery (production) of a product’s components.
- c. Risk of a mediator’s insolvency (failure to generate a cash flow in a settlements’ chain ‘client – producer’).

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- Withholding of an advance payment and non-material securities provided by third parties (sub-tiers), responsible for delivery (production) of a product’s components.

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In case when risks occur at the trial level, standard legal procedures and collected documentation, which proves the counter nonfulfillment by the client, respectively deliver success of the trial (complete or partial rejection of the suit or significant lowering of penal sanctions).

Human Capital

The ability to achieve the Group’s strategic goals highly depends on our most important asset - our people. We develop and remunerate our employees using leading HR practices. In line with Group’s growth strategy, we aim to attract talented employees from the market and continuously improve our recruitment methods.

The success of the Group’s businesses depends heavily on the continued service of its key senior managers. These individuals possess industry-specific skills in the areas of sales and marketing, engineering and manufacturing that are critical to the growth and operation of the Group’s businesses. While the Group has entered into employment contracts with its senior managers, the retention of those contracts cannot be guaranteed. The Group is not insured against damages that may be incurred in the case of loss or dismissal of its key specialists or managers. Moreover, the Group may be unable to attract and retain qualified personnel to succeed such managers. If the Group suffers an extended interruption in its services due to the loss of one or more such managers, its business, financial condition, results of operations, prospects may be adversely and materially affected.

Fraud and corruption risks

Fraud and corruption are pervasive and inherent risks of all business operations. There is always some potential for fraud and other dishonest activity at all levels of a business, from that of a factory worker to senior management. Efficient operations and optimal use of resources depend on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

Mergers & Acquisitions

During the whole period of its operation, the Group has completed a number of acquisitions targeting the key players in the markets of industrial pumps, compressors, modular oil & gas equipment and EPC-contracts.

Taking into account the economic slow-down and high uncertainties, insufficient demand in many segments that makes it difficult to evaluate potential synergies from M&A, the Group does not consider any material acquisitions in the nearest future, so this risk is considered as immaterial.

Loss of key R&D employees (talents with high potential and unique R&D knowledge) can reduce the organisation’s productivity. Moreover the replacements can cost the Company long time. The Group uses proactive approach to avoid unwanted resignations. The Group increasing its focus on approaching and retaining the right talents, using a tailored mix of financial and non-financial incentives.
Risk Management & Internal Control

HMS Group promotes ethical behaviour among its employees and maintains dedicated violation reporting channels to raise concerns within the Group through an ethics hotline available 24/7. The Group’s internal audit and/or security department perform investigations into alleged fraud and misconduct. If necessary, the results of such investigations are provided to the CEO, the Board, the management and the Audit Committee, as necessary.

As the Group operates in a number of jurisdictions around the world, the Board and senior management also put a strong emphasis on corporate compliance with applicable regulation, including anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

The Group has implemented procedures to ensure that all employees are aware of the requirements of the Group’s anti-corruption policies, with a particular focus on those roles most exposed to the risk of breach.

Legislation and regulations

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax and regulatory frameworks are subject to varying interpretations. The future economic direction of 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. Recent Russian government initiatives which are currently under consideration are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating assets located in Russia, HMS Group recognises that these developments may have significant implications for its business and development plans. HMS Group continues to monitor these developments.

Information technologies

There are several significant risks in IT that can affect the company, including cyber security and incident response risk, IT resiliency and continuity risk, data management risk, technology operations risk, etc. HMS Group believes that today the main risks for the company are the following: - the risk of data loss, the risk of a computer virus epidemic or a large-scale (purposely) hacking, and the risk of a special virus attack intended to pierce information undetected.

HMS Group has developed a company-wide information security (IS) strategy and a road-map based on the audit results. The action plan will be realised in 2018-2019, including the creation of an Information Security department. Moreover, the company has planned other long-term measures which will mitigate the risk of information security breaches: development of an Information Security Policy, perimeter protection, segmentation of the network, ‘IDS/IPS, two-factor authentication’, etc.

In 2018 in accordance with the developed strategy, HMS Group has implemented a series of technical and administrative measures to further mitigate the above mentioned risks, i.e.:
- The brand new Information Security department has been established.
- A number of hardware and software solutions against malicious code, alongside with elaborated monitoring tools has been deployed, namely:
  - perimeter firewalls and threat emulation appliances, endpoint software anti-virus agent from Checkpoint.
  - threat emulation and intrusion detection applications from Group IB.
  - security information and event management solution from IBM.
- Further hardened regulations for the privileged user accounts have been developed and implemented.

Financial risk

HMS Group doesn’t use financial instruments for hedging or other risk management, so the company is not exposed to such kind of risks, including price and liquidity risks.

Foreign exchange risk

The Group has no material foreign exchange mismatch. The company operates primarily in Russia, with the majority of its revenue generated in Russian rubles. Operating costs are also mainly Russian ruble denominated and 97% of debt is also in Russian rubles.

Credit and liquidity risks

In 2018, the company continued work with its debt portfolio. As a result, HMS Group has smoothed its repayment schedule with the major repayments of Rub 11.5 billion falling in 2021. At 2018-end, HMS Group had Rub 6.3 billion of available cash. Coupled with the available undrawn credit facilities, it should be enough to cover the Group's short-term debt (6% of total debt portfolio according to FRS accounts). Considering all the above factors, HMS Group considers its exposure to credit and liquidity risks as immaterial.

Shareholding

As of December 31, 2018, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of Euro 1,171,634.27 divided into 117,163,427 ordinary shares with par value of Euro 0.01 per share, and these shares are not traded.

In February 2011, the company signed a depositary agreement with The Bank of New York Mellon (BNY Mellon), under which the issue of Global Depositary Receipts (GDRs) for HMS Group shares was initiated. The total number of GDRs issued in exchange for shares of HMS Group amounted to 48,004,000 GDRs or approximately 41% of the Company’s issued share capital.

Since February 8, 2016, the ratio of the company’s GDRs program was changed. Old ratio: 1 GDR equals 1 Ordinary share New ratio: 1 GDR equals 5 Ordinary shares

For every 5 GDRs held, holders received 1 new GDR in return. The issued number of ordinary shares and their nominal value remained unchanged. Currently there are 9,600,800 depositary receipts outstanding in the GDR program.

According to the terms of the amended deposit agreement with BNY Mellon, the annual depositary fee decreased to US$ 0.01 per ‘new’ GDR.
Dividends

In 2016, the HMS Board of Directors approved an updated Dividend Policy reflecting the Group’s strategy to maximize shareholder returns. As a general rule, the company targets to pay out total dividends for a given reporting period in the region of 50% of the ‘Profit attributable to Shareholders of the Company’ for the year, as set out in its IFRS Consolidated Financial Statements, subject to capital constraints such as Debt and Liquidity position and forecast. HMS also plans to pay out dividends basically twice a year (interim and final). Dividends are announced per 1 ordinary share.

History of dividend payments

<table>
<thead>
<tr>
<th>Period</th>
<th>Dividend per share, Rub</th>
<th>Dividend per GDR, Rub</th>
<th>Amount announced, Rub mn</th>
<th>Record Date</th>
<th>Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 FY</td>
<td>3.41</td>
<td>3.41</td>
<td>399.5</td>
<td>10 Jun 2014</td>
<td>27 Jun 2014</td>
</tr>
<tr>
<td>2015 9m (interim)</td>
<td>3.25</td>
<td>3.25</td>
<td>380.8</td>
<td>14 Dec 2015</td>
<td>30 Dec 2015</td>
</tr>
<tr>
<td>2015 FY (final)</td>
<td>5.12</td>
<td>25.60</td>
<td>599.9</td>
<td>03 Jun 2016</td>
<td>21 Jun 2016</td>
</tr>
<tr>
<td>2016 9m (interim)</td>
<td>3.41</td>
<td>17.05</td>
<td>399.5</td>
<td>12 Jan 2017</td>
<td>26 Jan 2017</td>
</tr>
<tr>
<td>2016 FY (final)</td>
<td>5.12</td>
<td>25.60</td>
<td>600.0</td>
<td>09 Jun 2017</td>
<td>27 Jun 2017</td>
</tr>
<tr>
<td>2017 9m (interim)</td>
<td>5.12</td>
<td>25.60</td>
<td>600.0</td>
<td>12 Jan 2018</td>
<td>26 Jan 2018</td>
</tr>
<tr>
<td>2017 FY (final)</td>
<td>6.83</td>
<td>34.15</td>
<td>800.2</td>
<td>15 Jun 2018</td>
<td>03 July 2018</td>
</tr>
<tr>
<td>2017 FY total</td>
<td>11.95</td>
<td>59.75</td>
<td>1,400.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 9m (interim)</td>
<td>3.84</td>
<td>19.20</td>
<td>450.0</td>
<td>11 Jan 2019</td>
<td>25 Jan 2019</td>
</tr>
</tbody>
</table>

Total dividends per 1 GDR
Rub 11.95 per 1 ordinary share

Buyback program

HMS Group started its buyback program in 2012. The company planned to invest in repurchase of GDRs up to $ 25 million. The main objectives of the program’s implementation were an intention to maximize shareholder value as well as a reduction of the effect of external shocks on GDR’s price.

Buyback period is 1 year, and the renewal of the program should be approved by the Annual General Meeting of Shareholders.

In 2015, the company approved new conditions of the program: the maximum number of GDRs, which could be repurchased, was increased to 5% of the subscribed capital of HMS Group, including previously acquired and held in the form of treasury shares.

In 2016, the company increased the maximum number of GDRs, which could be repurchased, to 6% of the subscribed capital of HMS Group.

As of today, HMS has repurchased 1,204,282 GDRs since the start of the program. The Buyback program will end as soon as the total amount of acquired securities has reached the maximum amount specified (1,405,961 GDRs).

Management purchases

Within 2018 year, Directors/PDMRs of HMS Group acquired the company’s 19,225 GDRs on the open market, using their own funds.

The Company’s shares are now held by JSC HMS Holding, though HMS Technologies remains the ultimate controlling parent as the sole shareholder of JSC HMS Holding.

RUB 59.75

Dividends

Buyback program

Management purchases

Major shareholders of HMS Group as of December 31, 2018

Shareholders by legal entities, as of 31.12.2018

Shareholding by holders (effective share)

Information on HMS Group Plc GDRs

Ticker HMSG
CUSIP RegS: 40425X407 144A: 40425X308
LEI 254900DDFETNLASV8M53
Exchange London Stock Exchange
ISIN RegS: US40425X4079 144A: US40425X3089
Ratio, GDR : ordinary shares 1:5
Local exchange Not traded
Underlying ISIN CY0104230913
Underlying CR ESVUFR
Depositary bank BNY Melon

HMS Global Depository Receipts

Continue
GDRs of HMS Hydraulic Machines & Systems Group Plc are traded on the London Stock Exchange under ticker HMSG.

The Company’s shares are now held by JSC HMS Holding, though HMS Technologies remains the ultimate controlling parent as the sole shareholder of JSC HMS Holding.

Company Name: HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC

Company Type: Public

Fiscal Year-End: December 31

Disclosure: The London Stock Exchange

Managing Director (CEO): Artem Molchanov

First Deputy CEO (CFO): Kirill Molchanov

Ticker: HMSG

CUSIP: RegS: 40425X407
144A: 40425X308

LEI: 254900DDFETNLASV8M53

Exchange: London Stock Exchange

ISIN: RegS: US40425X4079
144A: US40425X3089

Ratio, GDR:ordinary shares 1:5

Local exchange: Not traded

Underlying ISIN: CY0104230913

Underlying CIF: ESVUFRI

Depositary bank: BNY Mellon

Global Depository Receipts shareholders contacts:

Contacts for inquiries regarding:

› advise of a change of name and/or address
› report lost/stolen GDR share certificates or the non-receipt of a dividend check
› request an election form for the scrip dividend program
› request forms to transfer GDRs
› report the death of a registered holder of GDR shares
› request a duplicate account statement
› have dividends electronically deposited to your bank account
› consolidate similar account registrations
› request general information about your shareholder account, etc.

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA
Tel: +1 888 737 2377 (USA only)
Tel: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
Website: www.bnymellon.com

General Shareholder enquiries and Investor Relations contacts

HMS Group
Investor Relations
7 Chayanova str.
125047 Moscow, Russia
Tel: +7 495 730 6601
Fax: +7 495 730 6602
Email: ir@hms.ru

Disclaimer

This document contains forward-looking statements that reflect management’s current views with respect to future events.

Such statements are subject to risks and uncertainties that are beyond HMS Group’s ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. HMS Group does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

This annual report does not constitute an invitation to invest in HMS Group GDRs. Any decisions you make in reliance on this information are solely your responsibility. The information is given as of the dates specified, and we undertake no obligation to update it save as required by applicable law. HMS Group accepts no responsibility for any information on other websites that may be accessed from the company’s website by hyperlinks.
Vocabulary, calculations and formulas

Units of measurement

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>bcm</td>
<td>Billion cubic meters</td>
</tr>
<tr>
<td>bcma</td>
<td>Billion cubic meters per annum</td>
</tr>
<tr>
<td>bn</td>
<td>Billion</td>
</tr>
<tr>
<td>cub.m.</td>
<td>Cubic meter</td>
</tr>
<tr>
<td>cmpa</td>
<td>Cubic meter per annum</td>
</tr>
<tr>
<td>km</td>
<td>Kilometer</td>
</tr>
<tr>
<td>kW</td>
<td>Kilowatt</td>
</tr>
<tr>
<td>M</td>
<td>Meter</td>
</tr>
<tr>
<td>m3</td>
<td>Cubic meter</td>
</tr>
<tr>
<td>mn</td>
<td>Million</td>
</tr>
<tr>
<td>MPa</td>
<td>Megapascal, a unit of pressure measurement</td>
</tr>
<tr>
<td>Mt</td>
<td>Millions of tonnes</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatt</td>
</tr>
<tr>
<td>Nm3/Hour</td>
<td>Normal cubic metre per hour</td>
</tr>
<tr>
<td>Rube/RUB</td>
<td>Russian rouble</td>
</tr>
<tr>
<td>Scm3/hour</td>
<td>Standard cubic metres per hour</td>
</tr>
<tr>
<td>t</td>
<td>Ton / tonne</td>
</tr>
<tr>
<td>tcm</td>
<td>Trillion cubic meters</td>
</tr>
<tr>
<td>US$</td>
<td>US Dollar</td>
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</tbody>
</table>

Formulas and calculations

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS.

EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, warranty provisions, 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.

EBIT is calculated as Gross profit minus Distribution & transportation expenses minus General & administrative expenses minus Other operating expenses.

Total debt is calculated as Long-term borrowings plus Short-term borrowings.

Net debt is calculated as Total debt minus Cash & cash equivalents at the end of the period.

ROCE is calculated as EBIT LTM divided by Average Capital Employed (Total debt + Total equity).

ROE is calculated as Total equity period average divided by Profit for the period.

Operating profit adj. & Profit for the year adj. are deferred as adjusted by impairment of PPE, investment property and goodwill.

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

Capex = Organic capex + Purchase of PPE + Purchase of intangible assets.

Abbreviations & contractions

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>API</td>
<td>American Petroleum Institute</td>
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<tr>
<td>Bank of Russia</td>
<td>Central Bank of the Russian Federation, cbr.ru</td>
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<tr>
<td>BIM</td>
<td>Building Information Modelling</td>
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<tr>
<td>BM</td>
<td>Binary mixture</td>
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<tr>
<td>CAGR</td>
<td>Compound annual growth rate, is the mean annual growth rate of an investment over a specified period of time longer than one year</td>
</tr>
<tr>
<td>CIS, the</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>Chg</td>
<td>Change</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GDR</td>
<td>Global depositary receipt</td>
</tr>
<tr>
<td>GTNG</td>
<td>Giprotyumenneftegaz</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Restructuring Project</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro</td>
</tr>
<tr>
<td>KKM</td>
<td>Kazankompressormash</td>
</tr>
<tr>
<td>KMPD</td>
<td>Kazan Motor-Building Production Association (KMPO ISC)</td>
</tr>
<tr>
<td>LNG</td>
<td>Liquefied natural gas</td>
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<tr>
<td>LSE</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>NEM</td>
<td>Naassenergymash</td>
</tr>
<tr>
<td>OGEIP</td>
<td>Oil and gas engineering and projects business segment</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>yoy</td>
<td>Year-on-year</td>
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</tbody>
</table>