ANNUAL REPORT '15



HMS GROUP IN 2015

HMS Group is a major pump and compressor equipment producer and provider of flow control solutions and related services for oil and gas, nuclear and thermal power generation, utilities and water supply in Russia and the CIS countries as well as one of the leading manufacturers of skid mounted modular oilfield equipment. We are a dynamic engineering company with successful practice in design, installation and construction and the commissioning of complex oil and gas production and water facilities.



REVENUE

37,296

RUB MN +15%



7,446

RUB MN

+41%

PROFIT FOR THE YEAR

1,764

RUB MN n/a



Highlights (page 06)



Map of operations (page 12-13)



Market trends (page 30-32)

OVERVIEW	04
Who we are	04
Highlights	06
Chairman's and CEO statements	08
Map of operations	12
Investment theses	14
Strategy	16
History	18
Business model	22
2014 in context	24
MARKETS IN 2015	28
Macroeconomic development	28
Market trends:	
Oil industry	30
Power generation and water utilities	32
PERFORMANCE IN 2015	34
Operating performance	34
Financial performance	41
HMS key projects	44
R&D development	46
Corporate social responsibility	50
GOVERNANCE	52
BoD and its committees	52
Risk management and internal control	56
HMS GDRs	60
ADDITIONAL INFORMATION	62

Shareholder's info and Disclaimer

62

WHO WE ARE

HMS Group is a major pump and compressor equipment producer and provider of flow control solutions and related services for oil and gas. nuclear and thermal power generation, utilities and water supply in Russia and the CIS countries as well as one of the leading manufacturers of skid mounted modular oilfield equipment.



DIVISIONS OF OPERATIONS



EMPLOYEES



15 THOUSANDS

We are a dynamic engineering company with successful practice in design, installation and construction and the commissioning of complex oil and gas production and water facilities.

HMS Group is a vertically integrated holding with a modern corporate management system in which the functions of the manufacturing companies' shareholders and that of business administration are traditionally separated.

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

The company operates through four divisions which employ around 16 thousand people in Russia, Ukraine, Belarus and overseas.



Revenue	Rub 17,925 mn
EBITDA margin	23%
Employees	9.2 th

The industrial pumps business segment is our oldest division. It designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. It also provides aftermarket maintenance, repair services and other support for its products.

Core products and services for:

- Trunk pipelines;
- Oil refineries;
- Nuclear and Thermal power;
- Water injection;
- Water utilities;
- General industrial pumps.









OIL & GAS EQUIPMENT

Revenue	Rub 15,218 mn
EBITDA margin	21%
Employees	1.9 th

The oil and gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems used primarily for oil extraction and transportation.

Core products and services:

- Oil pumping stations and pump stations for water injection;
- Oil & gas and water processing units;
- High-precision and automated metering units;
- Tanks, reservoirs and vessels;
- Oil development equipment.



COMPRESSORS

Revenue	Rub 4,183 mn
EBITDA margin	8%
Employees	2.3 th

The compressor business segment was established after the acquisition of the leading Russian compressor producer Kazancompressormash (KKM) in July 2012. In 2013, it was bolstered by the acquisition of NIITK, a research & design institute providing compressor technologies. The division designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions to customers in oil and gas, metals and mining and other core industries in Russia.

Core products and services for:

- Oil and gas production;
- Oil and gas transportation;
- Gas processing;
- Oil refineries;
- Oil and gas chemistry;
- Refrigeration applications for various industries.



Revenue	Rub 2,617 mn
EBITDA margin	7%
Employees	1.6 th

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction work for projects for customers in oil upstream and midstream, gas upstream and water utilities sectors.

Core products and services:

- Oil and gas projects focused on design and planning;
- Oilfield surface infrastructure and pipeline construction.

HIGHLIGHTS

HMS Group is a dynamically growing diverse corporation that combines leading machine-building (pumps, compressors, oil & gas equipment), engineering and construction companies. Our markets are oil & gas, nuclear and thermal power generation, water supply & utilities, metallurgy, etc.

Name	UNIT	2015 FY	2014 FY	Change yoy
Backlog	Rub mn	24,409	28,243	-14%
Order intake	Rub mn	32,979	34,705	-5%
Revenue	Rub mn	37,296	32,351	+15%
EBITDA, adj.	Rub mn	7,446	5,272	+41%
Net debt	Rub mn	12,388	12,432	0%
EPS	Rub	16.34	-13.83	-
Dividend per share	Rub	3.25	-	-
ROCE	%	16.9%	11.1%	585 bps



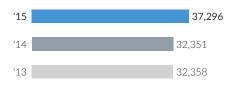




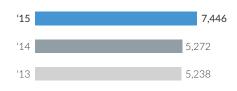
REVENUE

37,296_{RUB MN} 7,446_{RUB MN}





EBITDA



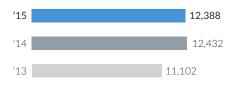
TOTAL DEBT

15,884_{RUB MN}

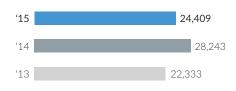


NET DEBT

0%



BACKLOG



ORDER INTAKE

12,388_{RUB MN} 24,409_{RUB MN} 32,979_{RUB MN}

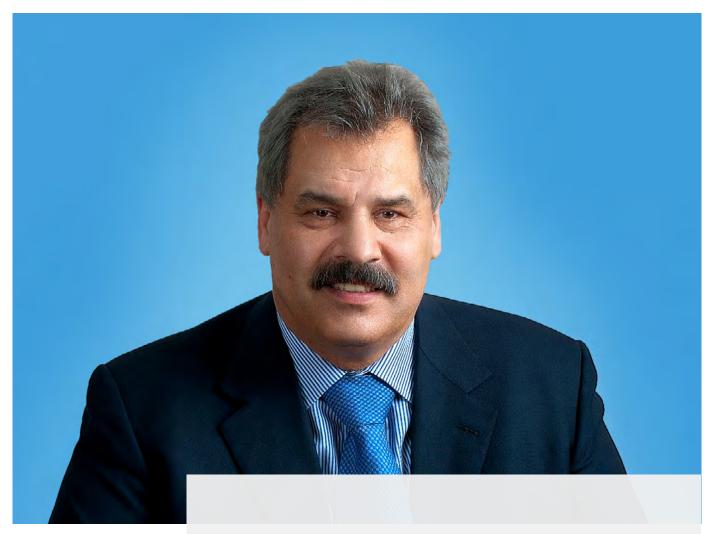








CHAIRMAN'S STATEMENT



Meeting Challenges Head-On

Dear Shareholders,

2015 was a successful year for HMS Group, despite imposition of international sanctions and intensifying recession in Russia with the GDP decreasing by 3.7%. The EBITDA reached its all-time high, which was proof of the sound development and growth strategy of HMS Group.

This success was attributable to a combination of factors: stable growth in revenue from standard equipment, effective performance of large contracts signed with our main clients, and an import substitution process. Thanks to these factors, all HMS Group's machinebuilding segments demonstrated financial results in line with the budget or better. The exception is the EPC business segment, which is experiencing a reduction in clients' Capex that hasn't been compensated by import substitution.

Large contracts in the pumps business segment in 2011-2014 gave place to large contracts in the oil and gas equipment business segment in 2014-2015. Based on the current trends in the order intake in the compressors business segment, the year 2016 could turn out to be a successful one for this segment.

We recognise that 2016 is likely to be even more challenging than 2015. Falling oil prices, high interest rates on new bank loans, depreciation of the ruble and high volatility of its rate - are all the factors that constantly shape Russia's economic landscape.

However, for the last 25 years we have survived a number of crises every time getting stronger; and despite the current economic downturn, we are ready to further expand our business. HMS Group continues its project to localise production of heavy pumps for oil extraction, transportation and refining, the nuclear power generation industry in Nezhnevartovsk and Livny, as well as a modernisation process in Kazan.

It is hard to forecast as yet how many large contracts we will be signing this year and to say whether we will be able to outperform the results of 2015. However, I am certain that our team, the market position and the production potential will enable us to continue proper development of HMS Group, with well-balanced attention to the interests of our stakeholders: shareholders, employees, creditors, authorities, and government bodies.

I humored

Yours faithfully, **Nikolai N. Yamburenko**

CEO STATEMENT



I am proud to announce that the year 2015 has been a successful one for HMS Group in terms of revenue and EBITDA, despite a decrease in Russia's GDP, volatility of the ruble, international sanctions, low oil prices, high interest rates, and other negative factors affecting business in Russia.

We demonstrated a stable increase in standard production as well as in new large projects.

I am particularly pleased to point out that the efforts we have put into developing relationships with Russian major gas companies in the last few years have started to pay off. We have reinforced our presence in the markets for gas production, transportation and refinery. Two out of three major contracts successfully carried out in 2015 were with gas companies, making a significant contribution to the company's financial results. We intend to continue our efforts in this direction.

In particular I would like to draw your attention to the export activity of HMS Group. In 2015 foreign currency revenue accounted for 10% of the total ruble revenue, which was not due to the depreciation of the ruble, but largely the result of the Group's long-term efforts over the years, that made the development of exports one of its top priorities.

Despite the challenging conditions in the financial markets, we successfully refinanced our loans, as well as received new limits with Sberbank, VTB Bank, and UniCredit Bank, in addition we decreased the net debt-to-EBITDA down to 1.66x. We succeeded in keeping the net debt in absolute terms at the level of the previous year of 12.4 billion rubles.

In the Orel region, HMS Group is continuing to develop a so-called "The Localization Project" intended to domestically produce high-capacity oil refining and transport pumps, nuclear pumps, worth 2.6 billion rubles. We are thankful to the Ministry of Industry and Trade of the Russian Federation for supporting this project in the form of a five-year loan worth 500 million rubles, from the Fund of Industry Development of the Russian Federation, at a 5 percent interest rate.

Yet the year 2016 promises to be a tougher year than 2015. The total value of large contracts this year has been less than last year. In 2015, we managed to keep the weighted average interest rate at 10.4 %, but we expect it to increase in 2016 due to new more expensive loans. In 2015, we almost avoided raising wages, but this year we will have to raise them. It is our understanding that this year we will not receive any additional revenue from the import substitution process.

The Company plans to continue its revenue growth from both largescale projects and standard products. However, increasing competition amidst economic uncertainty, low oil prices, decreases or postponements of key customers' capital investments may lead to a decrease in profitability of the Group's major projects, and might increase the risk of a slight decline in EBITDA. Yet, at the same time, based on our current portfolio of large-scale projects to be developed in the near future, we feel optimistic about the years to come in 2017-2018.

J-

Yours faithfully, **Artem Molchanov**

MAP OF OPERATIONS



HMS LIVGIDROMASH

Location: Livny, Orel region

Founded in 1947

A member of HMS Group since 2003

Products: pumps for oil processing, petrochemical, shipbuilding, power generation, water, utilities and environment, agriculture

Website: http://www.hms-pumps.com



LIVNYNASOS

Location: Livny, Orel region

Founded in 1970

A member of HMS Group since 2006

Products: submersible centrifugal ECV-type pumps for municipal, industrial, rural and household water supply as well as for irrigation and groundwater control

Website: http://www.livnasos.ru



NASOSENERGOMASH (NEM)

Location: Sumy, Ukraine Founded in 1949

A member of HMS Group since 2004

Products: pumps for oil and gas: midstream, upstream; thermal and nuclear power, water supply and utilities.



APOLLO GOESSNITZ GMBH

Location: Goessnitz, Germany

Founded in 1863

A member of HMS Group since 2012

Products: process and standard pumps and systems, system engineering - projecting, design and manufacture of plants for liquid fuels, process plants, plants for water supply, automation systems and electrical

Apollo is certified according to ISO 9001 by Lloyd's Register Quality Assurance

Website: http://www.apollo-goessnitz.de



PROMBURVOD

Location: Minsk, Belarus Founded in 1927

A member of HMS Group since 2007

Products: electric driven submersible pumps for water supply, utilities and environment.

Website: http://www.promburvod.com



BOBRUISK MACHINE BUILDING PLANT

Location: Bobruisk, Belarus

Founded in 1898

A member of HMS Group since 2011

Products: pumps for oil refining, petrochemical, steel and mining, power, pulp and paper, construction, as well as for water and water waste and sewage in municipal, agricultural and industrial water supply systems.

Website: http://www.bmbpump.by



HYDROMASHSERVICE

Location: Moscow Founded in 1993

Associated trading company of HMS Group

Products: pumps and units, compressors and units, oilfield, measuring and modular equipment

Services: commissions, installation supervising, repair, service maintenance

and equipment upgrade

Website: http://www.hms.biz



DIMITROVGRADKHIMMASH

Location: Dimitrovgrad, Ulyanovsk region Founded in 1931

A member of HMS Group since 2011

Products: pumps for chemical processing and oil and gas, vessel equipment, chemical equipment, spare parts for gas pumping

tations

Website: http://www.himmash.net





Location: Sumi, Ukraine Founded in 1951

Associate of HMS Group (47%) since 2007

Description: development of pumping equipment for large complexes of nuclear and thermal power engineering; projects of oil, chemical, sugar and food industries, oil pipeline transportation and maintenance of pressure in oil pools, water supply and irrigation; at civil engineering and mining works, in underground systems, agglomerate-and-ironmaking and steel industries, sewerage system and cattle-breeding complexes, municipal and public utilities etc.

ROSTOVSKIY VODOKANALPROEKT

Location: Rostov-on-Don, Rostov region Founded in 1932

Website: http://www.vniiaen.sumy.ua/en

A member of HMS Group since 2009

Description: institute with focus on water supply and waste water and sewage systems and related hydro-technical facilities design.

Website: http://rvkp.ru



TOMSKGAZSTROY (TGS)

Location: Tomsk, Tomsk region Founded in 1968

A member of HMS Group since 2007

Products: linear objects construction, reconstruction and overhaul such as oil pipelines, gas pipelines, product pipelines, water pipelines, condensate pipelines

and power transmission lines. **Website:** http://www.tgs.tomsk.ru

RUSSIA







Location: Nizhnevartovsk

Founded in 1998

A member of HMS Group since 2006

Services: pumping, drilling and other oilfield equipment repair, maintenance and upgrade.

Website: http://www.nv-rs.ru

SIBNEFTEMASH



Founded in 1976

A member of HMS Group since 2011

Description: special oilfield equipment development, design and manufacture for oil exploration intensification and efficiency; current and work over repairs, isolation works and fracturing.

Website: http://www.sibneftemash.ru/en

SIBNEFTEAVTOMATIKA (SIBNA)

Location: Tyumen Founded in 1986

A member of HMS Group since 2008

Products: controlling devices and systems development and manufacture for oil and gas, power generation, water, heat and gas supply.

Website: http://sibna.ru/eng/main

HMS NEFTEMASH

Location: Tyumen Founded in 1965

A member of HMS Group since 2005

Products: modular equipment for oil and gas, including cluster pumping stations and equipment for water injection systems; group automatic measuring units for oil well gauging metering; stations for hydraulic drives of submersible well pumps and underground oil extraction equipment; oil pumping stations etc.

Website: http://www.hms-neftemash.ru/en

GIPROTYUMENNEFTEGAZ (GTNG)

Location: Tyumen Founded in 1964

A member of HMS Group since 2010

Description: the leading Russian R&D center with integrated oilfield designing for oil

and gas.

Website: http://www.gtng.ru/en



Location: Kazan

Founded in 1957

A member of HMS Group since 2013

Description: a major scientific and research and production center in Russia to develop centrifugal, screw, rotary and scroll compressors.

Website: http://www.niitk-kazan.ru/eng

(KKM) KAZANCOMPRESSORMASH

Location: Kazan Founded in 1951

A member of HMS Group since 2012

Products: centrifugal, screw compressors and systems for air and various gases; compressor stations; refrigerators.

Website: http://www.compressormash.ru/en

INVESTMENT THESES





1

LEADING MARKET POSITIONS IN ALMOST ALL SEGMENTS WHERE WE ARE PRESENTED

The largest installed base in Russia supports a stable and resilient flow of orders for the replacement, upgrading, modernisation and maintenance of operating equipment, while advanced R&D capabilities allow us to offer customers high value-added integrated solutions, which are associated with higher margin, large contracts and offer aftermarket opportunities.



2

UNIQUE R&D BASE GIVES US THE ABILITY TO PROVIDE HIGH-MARGIN INTEGRATED SOLUTIONS

One of our core strengths is a strong focus on R&D, which allows us to provide complex integrated solutions. HMS Group combines leading pump R&D centers, including design centers and research institutes at production facilities, independent research and development centers at our HQ, and in the production regions of Russia and the CIS, as well as a center for innovative technologies complying with API standards in Germany.







3

WELL-ESTABLISHED CUSTOMER BASE AND STRONG RELATIONS WITH RUSSIAN OIL & GAS MAJORS, PETROCHEMICAL AND POWER GENERATION COMPANIES

We have a well-diversified client base of more than 6,000 customers, including numerous subsidiaries of Russia's largest oil and gas, petrochemical and energy companies.





4

HISTORY OF RESILIENT FINANCIAL GROWTH

Founded in 1993 as a pump trading and servicing company, HMS has grown organically and by pursuing an active M&A policy that has seen the successful completion of over 20 acquisitions aimed at either adding products to the portfolio, or expanding into adjacent business areas. As part of this strategy, HMS Group has consolidated a number of leading pumps and equipment manufacturers in the former Soviet Union since 2003, and has formed a leading industrial group with revenue of 37.3 billion rubles in 2015.



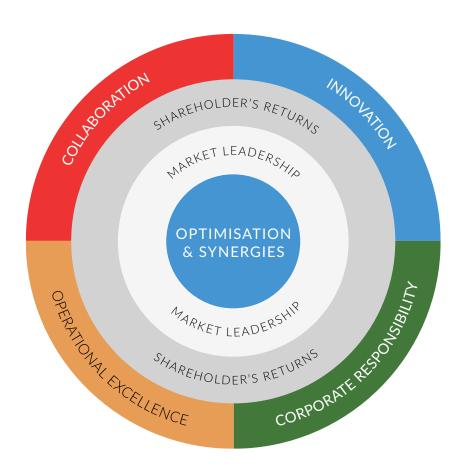
5

DEDICATED MANAGEMENT TEAM COMPRISED OF FOUNDERS AND SHAREHOLDERS

HMS Group's growth is driven by a strong management team with a proven track record that has demonstrated its ability to deliver organic growth and make value-added acquisitions. The management team includes the founders of the Group, with HMS being a core business for its largest shareholders.



STRATEGY





COLLABORATION

We work closely with our customers and suppliers across all business segments. These partnerships allow us to better understand our existing markets and to meet the current needs of our clients as well as anticipate those of the future.



OPERATIONAL **EXCELLENCE**

We constantly seek to improve the equipment we manufacture and solutions we offer as well as to develop our sales and marketing effectiveness. A commitment to selfimprovement leads to higher margins and returns.



INNOVATION

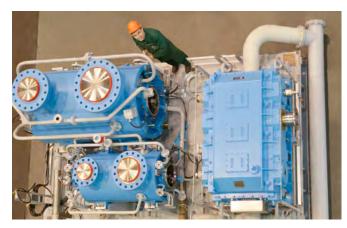
We develop new products and technologies to provide our clients with competitive engineering solutions. Our commitment to innovation promotes our market leadership and enables us to enter adjacent markets.



CORPORATE RESPONSIBILITY

We strictly comply with safety standards, follow a code of ethics in respect to all stakeholders and target a lowering of the environmental impact of our operations.





OBJECTIVE

Creating long-term value for our shareholders by achieving sustainable, profitable growth in our key strategic markets.

STRATEGY

HMS Group operates and targets the further strengthening of its position in three key markets that have encouraging outlooks and positive fundamentals —industrial pumps, oil and gas equipment and compressors. We intend to benefit from anticipated growing demand for our core equipment in the oil and gas, water utilities and power generation industries. Through the effective supply of standard and customised products and integrated solutions, HMS aims to achieve the status of preferred partner for its clients.

The Group seeks to deliver sustainable organic growth supplemented by selective acquisitions. The successful integration of acquired assets will allow HMS Group to capture synergistic opportunities and realise expected benefits. While continuing to improve operational performance, the Group will seek to develop new customer-oriented value-added products and services.

HISTORY



1993

German Tsoy, Artem Molchanov and Kirill Molchanov founded the original pump trading and servicing company. The Company expanded its operations and client base to become a leading distributor of pumps and pumping equipment in Russia and the CIS.





2005

HMS Group became a leading manufacturer of high capacity customized pumps through the acquisition of Nasosenergomash (NEM, located in Ukraine), one of the major companies in the nuclear and thermal power generation industries and trunk oil pipelines in the CIS.







2006

HMS Group became a leading manufacturer of submersible borehole pumps for water through the acquisition of Livnynasos, one of the largest producers of submersible electric water pumps in the CIS. The Company also acquired operational control over Tomskgazstroy (TGS), a provider of construction services for oil and gas pipelines. The Company expanded its maintenance and repair business through the acquisition of Nizhnevartovskremservice (NRS).



1995

HMS Group launched a pump skid assembly business in Russia and CIS countries. Hydromashservice became one of the leading enterprises specializing in the delivery of pumping equipment for oil and gas complexes, power and water industry and housing utilities.

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2004

HMS Group enhanced its oil and gas equipment offerings through the acquisition of Neftemash (currently - HMS Neftemash), one of the largest Russian producers of oil & gas equipment for surface oilfield sites.

2003

HMS Group began to manufacture pumps after the acquisition of Livgidromash (currently — HMS Livgidromash), one of the largest manufacturers of industrial pumps in the CIS.



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2007

HMS Group entered the EPC market through the acquisition of Sibkomplektmontazhnaladka (SKMN), a provider of integrated EPC services for the development and construction of oilfield infrastructure. The Company also acquired a minority stake in Dimitrovgradhimmash (DGHM), a manufacturer of pumps and vessel equipment, with an option to purchase a controlling stake in 2012, and increased its R&D capabilities through the acquisition of a 49% stake in VNIIAEN, an R&D centre and the only one of its kind in the CIS which specializes in pumping equipment for the nuclear power generation and oil transportation industries.



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HISTORY



2008

HMS Group increased its presence in the water utility, power generation and modular equipment sectors through the acquisitions of Promburvod, the largest producer of electric submersible water pumps in Belarus, and NPO Hydromash, a manufacturer of pumps for the thermal power generation and oil and gas industries that has subsequently been joined to NEM and Rostov Vodokanalproekt (RVKP), a leading project and design facility for the water utility sector.



2011

HMS Group went public in February 2011, placing 37.2% of its stock on the London Stock Exchange via GDRs. As a key consolidator in the domestic pumping industry, HMS completed 3 acquisitions (Sibneftemash, Bobruisk Machine Building Plant and exercised the option to acquire its next stake in Dimitrovgradkhimmash (DGHM)), seeking opportunities to increase its presence in existing and adjacent markets.



2012

HMS Group entered the promising new gas projects market with the acquisition of the leading Russian industrial compressor producer Kazancompressormash (KKM). Pursuing the enhancement of its pumps product portfolio, the Group completed the acquisition of the German manufacturer of high-end specialized pumps, Apollo Goessnitz GmbH (Apollo), which strengthened its market position in industries with a need for technologically-demanding integrated solutions.



2013

HMS Group made a disposal of SKMN to make the Group's business model more effective, release resources, involved in the EPC business, and use them for the active development of the core business.





2009

HMS Group continued to enhance its position in the water utility, power generation and oil and gas sectors through the acquisition of Sibnefteavtomatika (SibNA), a manufacturer of high-precision measuring equipment for the oil and gas, power generation and water utility sectors. The Company participated in the flagship project of the Vankor oilfield development and the Baltic Pipeline System construction project.



HMS Group enhanced its design and R&D capabilities and its position in the EPC market through the acquisition of 51% of the voting shares of Gyprotumenneftegas (GTNG), a leading independent Russian R&D centre focused on the design of the surface infrastructure of oil and gas fields. The Group participated in the ESPO-1 pipeline expansion project and the construction of the ESPO-2 pipeline. The Company commenced a large-scale production of pumps for use in nuclear power generation.





2015

The best year for HMS Group in terms of revenue and EBITDA.



BUSINESS MODEL

Customer focus is the leading principal for HMS Group. All our businesses — from product development to after-sales services — are tailored to solve our customers' challenges. The deep understanding of our customers and markets, the ability to engineer products to meet customers' specific needs and our strong expertise in manufacturing helps us secure further mutually beneficial partnerships.



1

RESEARCH & DEVELOPMENT

Continuous research and development play an essential role in the sustained success of HMS Group. We view R&D as the cornerstone for achieving technological leadership in the markets where we operate. Turning the technical requirements of our customers into innovatively engineered products strengthens our competitive position and helps to increase our commercial success.

HMS operates a wide corporate R&D network. It includes: 5 leading R&D centres in Russia and the CIS; 3 leading project and design institutes dedicated to strengthening our core competencies in oilfield design (GTNG), water facilities (RVKP) and compressor equipment (NIITK); and one foreign innovative technology centre - complying with offshore and oil refinery API standards (Apollo). The Group coordinates the whole innovation cycle through its headquarter in Moscow.

Our research and development activities are primarily directed at improving existing products and services, the design of products to meet specific customer needs and the development of new products, solutions and services.

Our highly qualified and experienced R&D team, combined with sophisticated computer technologies, enables us to create reliable, energy-effective, efficient pumping and compressor equipment which conforms to the requirements of Russian and foreign customers within tight schedules.



MANUFACTURING

Manufacturing is the core activity of HMS Group. We have built our leading industrial group through a number of acquisitions of the best producers of pumps, compressors and oil and gas equipment in Russia and the CIS. At present 16 plants operate under the HMS brand, most of which are considered flagship enterprises in their regions.

We continuously update our production facilities and technological processes to offer modern and competitive equipment for our clients. In our manufacturing process, we primarily focus on the energy efficiency, robustness, reliability and cost of our products.

HMS Group manufactures both standard and customised equipment. We purposefully target the segment of high margin products tailored for specific customer needs and based on our in-house R&D design, which secures our future sales growth. Our commitment to high quality, our solid track record and our strong expertise make HMS the partner of choice for participating in complex and challenging projects in the oil and gas, energy and water utilities markets.



3

MARKETING AND SALES

In the majority of cases, the Group is awarded contracts following participation in tenders. The Group builds and maintains customer relationships at the board level, senior manager level and local level. The negotiation of large-scale projects typically involves the Group's directors, senior managers, senior R&D personnel, technical specialists, and their counterparts at the customer's head office. R&D personnel support the sales process by providing input at each stage.

Customised and modular equipment is sold directly to the customers. Contract terms vary depending on a number of factors, including client industry, size of the order and the scope of types of equipment.

Standard pumps are sold mainly through an extensive trading network of dealers and distributors accounting for over 100 partner companies across Russia. The central sales office, Hydromashservice, is located in Moscow. There are also 11 branches and representatives offices in Russia and the CIS and 3 outside of the CIS — in Milan, Dubai and Baghdad.

Equipment sales are made by professionals with strong practical knowledge and the ambition to offer the best solution for the customer's specific application.

We have a well-diversified client base of around 6,000 names. A significant share of the Group's revenue comes from "Blue-chip" clients, which include the largest O&G and energy companies in Russia. A stable revenue growth comes from small-to-medium-sized clients with annual purchases below 200 million rubles.

The improvement of our sales process and further extension of the effective distribution system are the priorities for HMS Group.



4

AFTER-SALES SERVICES

When customers enter into a partnership with HMS Group, their experience is not limited to the mere procurement of industrial equipment. We also provide a wide range of after-sales services, which include:

- energy audit and optimization of energy efficiency of pumping and compressing systems;
- warranty and post-warranty maintenance;
- supply of spare parts, equipment repairs and upgrades;
- consulting and training.

We run over 20 service centres in Russia and the CIS and are seeking to further extend this network.

In addition to carrying out the energy efficiency optimisation of pumping / compressing systems, our team of product managers and engineers selects tailored pumps and compressors for every type of hydro / gas technical system. Our team works in close collaboration with the client and provides necessary consulting services in order to identify and prioritize all the factors which influence equipment selection and secure the most efficient operations of pumping and compressor system.

HMS Group provides further training programmes and technical consulting services for the client's operating personnel to enable the correct, failure-free and energy-efficient use of supplied equipment and to increase the professional qualifications of personnel.

We are currently developing a programme to expand our maintenance services to cover all types of supplied equipment.

HMS Group is anticipating a growing demand for aftermarket services in the oil and gas, energy and utilities sectors in Russia and the CIS in line with global long-term industry trends.

2015 IN CONTEXT

January

HMS Group made a partial prior redemption of its Ruble bonds series 02 for 1.9 billion rubles, excluding accumulated coupon interest, at 100% par value. 3 billion rubles bonds with a 10.75% coupon rate were issued in February 2012 and matured in February 2015. Raiffeisenbank acted as purchase agent.

HMS Group successfully completed user acceptance testing of two oil booster pump units manufactured for Transneft. The units will be installed in the Yuzhny-Balyk line operations dispatcher station to provide mainline oil pumps with oil charge.

February

HMS Group made the final redemption of its Ruble bonds series 02.

Kazancompressormash produced and delivered four compressor units to NOVATEK. Two low-pressure compressor units 6GC2-384/4-49 and two high-pressure compressor units 4GC2-65/18-101 were delivered by NIITK and are intended for compression of stripped associated petroleum gas.

Kazancompressormash produced and delivered three modular screw compressor units, intended for compression and supply of fuel gas to the gas turbines of the Shinginskaya GTPP (Gazprom Neft).

HMS Group will deliver three new generation series DeSum pump units and a feed pump APE 580-185-5 for a steam turbine reconstruction project of at the Omsk TPP-3 (TGK-11).



HMS Group produced and delivered 8 pumps for the Rumaila oil field (BP Iraq NV). The multistage centrifugal pumps CNS 500-1900-5 with 500m3/h capacity and 1,900m pressure head have up-to-date diffusers with improved hydraulic properties and low vibration values. Application of the new mechanical seals and plate couplings increases the pumps reliability and simplifies their maintenance and repair. The pumps will be installed at the cluster pumping stations to provide water supply for the injection systems. More than 40 units of CNS centrifugal water injection pumps, manufactured by HMS Group, have been successfully operated at the Rumaila oil field over the years.

March

Compressors made by Kazancompressormash, were put into operation at the Bubnovka and Ekaterinovka compressor stations (Gazprom). Reconstruction of the compressor stations is a part of

Gazprom's project to expand the Urengoy – Novopskov gas pipeline within the Southern Corridor gas pipeline system construction project.

HMS Neftemash organized production of the Mera-MP metering unit based on the NetOil&Gas multiphase flow meter.

HMS Livgidromash produced and delivered 4 mobile pump units for the 3rd block of the Rostovskaya NPP (Rosenergoatom), that are intended for water supply in emergency situations for maintenance of additional heat removal. The mobile pump unit is an independent pump station in a warm mounted shop, completed with a diesel engine, a generator unit and all necessary environmental support systems.

April

HMS Group will produce and deliver ten blocks for gas separation and reduction to be installed on the South Kemachi oil & gas condensate field (Uzbekistan. A fuel and buffer gas separation block is intended for natural gas removal of solids and condensed moisture. A gas reduction block is intended for expansion of fuel, start, buffer and blowdown gas to a required level.

HMS Group produced and delivered 9 condensate pump units for the 2nd stage construction of the Blagoveschenskaya TPP (RusHydro). The plant is a part of an investment programme of RusHydro for construction of four new generating facilities in the Far Fast of Russia.

May

Under the agreement with CNEIC, Nasosenergomash delivered six centrifugal pump units for the 3rd block of the Tianwan Nuclear Power Station, which are intended for pumping of intermediate cooling water. Altogether, HMS Group will produce and deliver 36 pump units for the plant's safety systems on the 3rd and the 4th blocks.

June

A centrifugal compressor station, manufactured by **Kazancompressormash** and intended for compression of dry hydrocarbon gas, was commissioned at LUKOIL-Permnefteorgsintez. The compressor station was equipped with a 4MW engine and delivered to the installation site as ready-to-use.

HMS Group Shareholders Annual General Meeting was held on June 19, 2015. The shareholders approved the Company's annual report for 2014 and the consolidated and stand-alone financial statements of the Group for 2014, a composition of the Board of Directors, appointed Deloitte Limited, Cyprus as the Group's auditors, while the Group's Directors had been authorized to agree on the auditor's remuneration, and approved the Buyback program of the company with respect to global depositary receipts.

July

HMS Group made a partial purchase of its Ruble bonds series 03 for 2.3 billion rubles, excluding accumulated coupon interest, at 97.75% par value. That was the prior redemption of 3.0 billion ruble bonds, with a 10.10% coupon rate, issued in February 2013 and matured in February 2018 with an offer in February 2016.

HMS Neftemash and Gazprom Neft Novy Port negotiated a contract for elaboration of design documentation, fabrication and procurement of skid-modular process equipment for construction of comprehensive gas treatment unit at the Novoportovskoe oil & gas condensate field, a prefabricated fuel gas treatment module will be supplied at the field. The gas treatment module will consist of two isolated modules (process and control sections) being fully equipped with required engineering systems. Its commissioning will enable Gazprom Neft to utilize up to 95% of associated petroleum gas at the Novoportovskoe oil and gas condensate field.

August

Kazancompressormash will manufacture and deliver four compressor systems for a project at a booster compressor station on the Samburgskoe oil & gas condensate field (ARCTICGAS). These compressor systems include centrifugal gas compressors 43GC-163/18-108 with capacity 198,336 nm³/h and discharge pressure 10.6 MPa (106 bar). The compressor equipment will be produced under a contract with Kazan Motorbuilding Production Organization (KMPO) and is designed to operate as a part of GPA-16 Volga gas compression system providing supply of purified crude compressed gas to the complex gas treatment plant for low-temperature separation process.

HMS Group supplied a retrofitted pumping unit for transfer of chemically active liquids to Nevinnomysskiy Azot (EuroChem). The unit based on horizontal centrifugal section pump HBE-M with 630m3/h capacity and 390m head was designed for a scheduled replacement of the previous HBE chemical pump.

2015 IN CONTEXT

(CONTINUE)

September

Kazancompressormash won the 3rd place in the nomination "Pumpand-Compressor Equipment" in the rating of efficient manufacturers of equipment for retrofit of oil & gas processing plants which was issued by the Ministry of Industry and Trade in order to provide information support for the market of oil & gas equipment to increase its transparency.

Totally, 34 oil & gas companies were questioned, and **Kazancompressormash** became the only compressor manufacturer included on the list of winners.

HMS Group signed a 3.5 billion rubles contract for delivery and installation of 5 high-pressure compressor units, intended for compression of separated associated gas.

HMS Group participated in the 11th International Water and Wastewater Exhibition of Iran (WATEX 2015) where it presented a wide range of state-of-the-art equipment and services for the water & utilities industry including brand new pumping solutions – HMS DeLium double suction pumps and HMS Ciris borehole submersible pumps manufactured in accordance with international standards (ISO, API, DIN, AISI, ANSI, NEMA).

October

HMS Neftemash signed a contract to supply a block cluster pumping station for the Srednebotuobinsk oil & gas condensate field. The station is intended for water injection into productive layers during formation



of pressure maintenance operations and is equipped with five CNS type centrifugal multistage pumps with 240 m3/h capacity and 1422m pressure head. The station consists of highly prefabricated process and electrical skid modules for short transportation and installation time. An automatic control system ensures operation of the equipment without continuous presence of personnel.

November

Kazancompressormash produced and delivered 3 centrifugal compressor units intended for a gas booster station at the Yurkharov oil & gas condensate field.

Rosstandard certificated a new testing facility constructed at HMS Neftemash, which is the largest metrological test flow facility in Russia. The stand allows to test and make metrological calibration of volumeters and all types of oil & gas metering units as well as to make

independent examination of different types of measuring equipment made in Russia and abroad.

HMS Group has manufactured and delivered 2 modular pumping station for the Olimpiadinsky mining and refining plant (Polyus Gold). The return water pumping station with a total capacity 1,500m3/h and 180m head is equipped with a new series DeLium double suction pump, characterized by high energy efficiency and low NPSH. Hydraulics of pumps were engineered using contemporary computer modeling techniques, which ensures higher parameters of operation reliability.



HMS Group signed another contract to supply a number of pumping units for the 1st and the 2nd power units of the Belarusian nuclear power plant (Ostrovets, Grodno Area) currently under construction. The sophisticated ACNA series pumping units with up to 2,000m3/h capacity and 40m pressure head are intended for intermediate cooling system circuit and certified for Class 2 safety and the 1st seismic classification. The Group has already been implementing a number of contracts for manufacture, supply and installation supervision of the pumping equipment for the main and auxiliary systems of the Belarusian NPP.



December

HMS Livgidromash signed a 500 million rubles loan agreement with the Fund of Industrial Development of the Russian Federation for realization of a project to localize the production of high-end pumps intended for oil refining and transportation, nuclear power generation industry.

HMS Group delivered pumping equipment to the Severnaya CHPP in Saint Petersburg (TGK-1). The ASE type pumping units with 2,500m3/h rated capacity and 180m head are intended for pumping of DH system water. The pumps are characterized by reliability due to main components made of robust alloy materials as well as decreased net positive suction head and up to 86% efficiency.

A compressor system, manufactured by Kazancompressormash, has been put into operation at the Syzran Oil Refinery (Rosneft). The compressor system based on 5GC2-216/14-26 centrifugal compressor with 216m3/ min capacity and 26 bar discharge pressure is intended for compression of hydrogen-bearing gas and operates as a part of catalytic reforming unit. The system runs on nitrogen (regeneration mode) and hydrogenbearing gas (main mode) providing the required capacity and discharge pressure parameters for the process system. The compressor system is characterized by stability in the conditions of hydrogen content alternations within the range 75-98% of the working gas, which is achieved by means of application of steam turbine.

MACROECONOMIC DEVELOPMENT

In 2015 the global economy growth rate remained low with emerging markets growth slowing for the fifth consecutive year. Global performance was determined by three key developments, all having taken root in the preceding years.

- Low prices for oil, metals and other commodities. The oil price has been fluctuating from a range of US\$ 45-65 per barrel plummeting by January 2016 to just US\$ 30 per barrel, which is the lowest price in the last 12 years.
- The Chinese economy has demonstrated a gradual slowdown with an adjustment of domestic economic activity away from investment and manufacturing towards consumption and services.
- A combination of gradual tightening of monetary policy in the USA with monetary easing in the Eurozone and Japan.
 This is in addition to concerns about emerging market growth prospects that have led to declining FDI capital flows and further depreciation of currencies in several emerging markets.

Global economic growth in 2015 has decreased by 0.3% to a level of 3.1% due to the slowdown in growth of developing countries. Growth in most of the advanced economies has increased. Manufacturing activities and trade globally remained weak.

In Russia the year was marked by strengthening of the ongoing economic crisis and further worsening of the investment climate. The causes of the crisis have remained unchanged since the previous year:

- Low level and high volatility of oil prices (oil, gas and oil products still represent more than 55% of Russian exports).
- The continuing international sanctions on the Russian financial, oil production, and military machinery industries, with a reciprocal embargo on food imports from the EU and USA.
- The strengthening of economic stagnation due to the exhaustion of growth potential of the previous economic model of 2000-2013 (which was based on continuous growth in oil products, low cost of energy, raw materials and labour, availability of relatively cheap financing sources, and initially low saturation level in consumer markets).



The Russian economy stayed in recession, shrinking by 3.7% in 2015 (compared to 0.7% growth in the previous year). The economy has not shown any signs of rapid recovery and quarter-by-quarter decline amounted to -1.2%, -1.3%, -0.6% and -2.3% correspondingly in Q1, Q2, Q3 and Q4.

The Russian rouble continued to depreciate, dropping by 30% to US\$ and by 11% to EUR (RUB/US\$: from 56.24 to 72.88; RUB/EUR: from 72.08 to 79.95). The current account of national balance of payments has strengthened slightly from US\$ 58.4 billion in 2014 to US\$ 65.8 billion in 2015, mainly due to the sharp decrease in capital outflow from Russia from US\$ 153 billion in 2014 to US\$ 57 billion in 2015. At the same time, the balance of trade of goods and services has decreased from US\$ 190 to US\$ 46 billion due to the drop in prices for export commodities and contracted internal demand for imported goods.

As capital outflow has been slowing down and pressure on the rouble easing, the Bank of Russia has consistently been decreasing the key interest rate, which is used to provide liquidity in roubles to all Russian commercial banks and via them to other sectors of the economy. The interest rate was decreased several times from 17.0% in December 2014 down to 11.0% in August 2015 and remained at this level up to the end of the year. This measure has contributed to some stabilisation of the cost of financing for all Russian companies and private individuals. Nevertheless, the interest rate remained very high (compared to precrisis levels) and, also considering the recession in the economy, the overall corporate demand for financing has decreased substantially. The total sum of credit issued by banks to corporate borrowers has decreased by 11% in comparison to 2014, from 232 trillion rubles to 207 trillion rubles. The structure of the overall credit portfolio has shifted from short-term loans to long-term credit, resulting in a 9% increase in the national corporate debt load from 26.8 trillion rubles in December 2014 to 29.3 trillion rubles in December 2015.

Recession in the real sector has been reflected on the Russian stock market, where the RTS index (based on market capitalisation in US\$) has failed to show any sustainable positive trend, despite its high volatility throughout the year; by the end of the year it was at the same 750 points as it was in January 2015. At the same time, the MICEX index (based on market capitalisation in rubles) has increased from 1,450 points in January to 1,750 points in December (a 22% increase).



Real domestic consumption in Russia decreased by 7.9% in 2015 (compared to the 0.6% growth of the previous year). Investment in fixed assets has decreased by 8.4% and constituted ~18% of GDP.

Russia experienced a 3.4% decline in industrial output in 2015 (1.7% growth in 2014). Minor growth (+0.3%) was observed only in the raw materials extraction sector, while manufacturing has decreased by 5.4%. Positive dynamics were demonstrated only in the Chemicals, FMCG and Oil products production sectors. Production of industrial equipment and machinery was among the worst performing industries, with a decline of 11.1% for the year. Energy, gas and water production, and transportation decreased by 1.6%. The profitability of the absolute majority of producers of industrial products has further declined across all industrial segments.

Inflation (Consumer Price Index) in Russia has increased slightly in 2015 to an even higher level of 12.9% (in 2014 it was 11.4%) due to the lagged effects of both ongoing devaluation of the rouble and the Russian embargo on the import of food products from the EU. At the same time, the Industrial Goods Producers Price Index has increased by only 10.7%, which reflects the recession in the local economy.

Real wages in Russia have decreased by an average of 9.5%, while the real disposable income of the population has decreased by 6.3%. The nominal unemployment rate has increased slightly from 5.3% in December 2014 to 5.8% in December 2015.

MARKET TRENDS

(OIL INDUSTRY)

OIL PRODUCTION IN RUSSIA

millions of tons

534.0



RUSSIAN WELL-STOCK

units

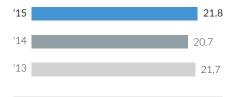
174.4



PRODUCTION DRILLING RATE

thousands of km

21.8



UPSTREAM

Russia has the largest oil and gas reserves in the world and is the world's second largest oil producer with a 13% share of total global oil output. The upstream oil industry is the backbone of the economy and is one of the main sources of investment resources, which impacts Russia's international payments and exchange rate.

According to Russia's Ministry of Energy, oil output in Russia in 2015 reached 534.0 million tons (+1.4% yoy). This increase was maintained by the development of new oil production centres in Eastern Siberia and the start of major crude oil exports to Asia, primarily to the People's Republic of China where demand for Russian oil is increasing.

MIDSTREAM

With over 74 thousand kilometres of oil pipeline and more than 500 installed pump stations; Russia has the largest oil pipeline system in the world. The existing trunk pipeline system transports over 90% of the crude oil produced in Russia.

Transneft, the only oil pipeline operator in Russia, has increased its oil exports by 7.4% year-on-year to 229.6 million tons in 2015.

The existing pipeline system is currently expanding through the following projects:

- The Zapolyarye-Purpe main pipeline;
- The Kuyumba-Taishet main pipeline;
- Expansion of the ESPO (East Siberia - Pacific Ocean) pipeline system;

- Reconstruction of main pipeline projects TON-1 and TON-2 for high-sulphur oil transportation;
- The North pipeline;
- The South pipeline.

Transneft's total capital expenditure is estimated at 333.4 billion rubles in 2015.

DOWNSTREAM

There are 40 oil refineries in Russia with a total crude oil distillation capacity of 5.5 million b/d. Rosneft, the leading Russian oil company, is the largest refinery operator and owns nine major refineries in Russia. LUKOIL is the second-largest refinery operator in Russia and has four major refineries.

In Russia, many refineries are old and do not manufacture their main products – light oil products with a high level of refining depth such as petrol and diesel – at a high quality level. Previous tax changes have encouraged companies with modest success to invest in the modernisation of refineries to produce more high-value products such as diesel and gasoline. Tax changes introduced in 2015 will stimulate refineries to more intensively modernise their production facilities.

Growth in the oil refinery industry is likely to be driven by several new projects:

Isomerisation process units:

- Kuybyshevsky Refinery (Rosneft);
- Ryazan Oil Refinery Company (Rosneft);
- Gazpromneftekhim Salavat (Gazprom).

Alkylation process units:

- NizhegorodNOS (LUKOIL);
- Angarsk Petrochemical company (Rosneft).

Diesel hydrotreating process units:

- PermNOS (LUKOIL);
- Antipinsk Refinery (Rosneft).

Reforming process units:

- Kuybyshevsky Refinery (Rosneft);
- Novokuybyshevsky Refinery (Rosneft):
- Syzran Refinery (Rosneft).

Catcracked gasoline hydrotreating process units:

NizhegorodNOS (LUKOIL).

GAS PIPELINE PROJECTS

Gazprom is a single owner of virtually all natural gas pipelines in Russia. In 2015, Russian natural gas transportation system included more than 170 thousand of kilometers of high-pressure pipelines with 250 compressor stations (3,825 gaspumping units) and 26 underground natural gas storage facilities. The most part of Russian natural gas pipelines was constructed during the Soviet era, and about 75% of the system is 20 years old. Since the late 2000s, Gazprom has built new major pipelines for natural gas transportation from new gas fields, including fields in Yamal and Eastern Siberia, and new export routes, including exports to China, along with pipelines to Europe to avoid Ukraine.

The Unified Gas Supply (UGS) system includes domestic pipelines and the domestic part of export pipelines in European Russia, but it does not include pipelines in Eastern Russia. In 2007, the Russian government delegated Gazprom to establish an Eastern Gas Program (EGP) to expand gas infrastructure in Eastern Siberia and Russian Far East. The backbone of the EGP is the "Power of Siberia" pipeline, currently under construction.

The "Power of Siberia" will run nearly 4,000 kilometers through five Russian entities: the Irkutsk Region, the Republic of Sakha (Yakutia), the Amur Region, the Jewish Autonomous Region and the Khabarovsk Territory and will have an annual capacity of 38 billion cubic meters of gas.

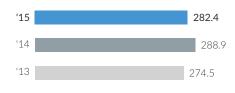
Gazprom has approved a US\$ 33 billion investment program for 2015.



CRUDE OIL PROCESSING BY DOMESTIC REFINERIES

millions of tons

282.4



Pipeline	Volume bcm	Length km	Compressors MW	Construction
Gryazovets-Vyborg	9.4	216	25	2014-2017
UGSS Expansion	63.0	2,506	1,516	2014-2017
Bovanenkovo-Ukhta, second line	60.0	1,915	1,108	2014-2017
Ukhta-Tozok, first and second lines	90.0	2,343	1,430	2014-2017
Power of Siberia	61.0	3,056	1,330	2015-2018

MARKET TRENDS

(POWER GENERATION)

Russia remains one of the largest electricity producers in the world, behind only China, the USA, Japan and India. Strong electricity demand is driven by the relatively low energy efficiency of national industries. Therefore, this strong demand is linked to the challenges affecting the limited and ageing energy producing capacity, and explains the massive investment programs of power generating companies and the permanent growth of tariffs.

In 2015, electricity output in Russia increased by 2.1% year-on-year and reached 1.084 billion kW/h.

Russia's power complex includes approximately 600 power plants, each with an individual capacity of over 5 MW. In 2015, the total capacity of Russian power plants amounted to 253.3 GW and exceeded the 2014 level by 3.9 GW. The growth was driven by construction of new power facilities and modernisation of existing infrastructure.

The power industry has the following capacity components: thermal (68%), hydraulic (21%) and nuclear (11%) plants. The long-term outlook of the Russian power industry is determined in the "General Scheme of Energy Development for the Period till 2020".

THERMAL POWER PLANTS

In 2015, Russia's overall thermal power plant installed capacity was 172.4 GW, up 2% year-on-year compared to 2014. The infrastructure in the thermal power sector is quite outdated, with almost 55% of the installed capacities being more than 30 years old. The main thermal power stations in Russia use organic fuels such as gas or coal.

Russian plants have an efficiency ratio of 37% compared to 41% for developed economies. This difference dictates the need for equipment upgrades by all major-power generating companies in Russia. This is also the reason why the technical modernisation and reconstruction of existing power stations is a primary goal for the Russian thermal power sector, in addition to the start-up of additional modern generating capacities.

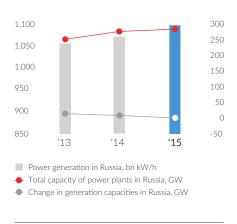
Total investments grew by 3% year-on-year in 2015 and reached 390 billion rubles.

NUCLEAR POWER PLANTS

Russia has full-cycle technology for the nuclear industry from extraction of uranium ore to electric power generation. Currently, Rosenergoatom operates 34 nuclear power units with an overall installed capacity of 26 GW. They account for 18.6% of domestic electricity generation. The share of nuclear generation in the energy of the European part of Russia is 30% and in the North-West part of Russia the figure is 37%.

There is currently a process of large-scale nuclear power plant construction in Russia. The following construction projects are underway: the Novovoronezhskaya NPP Phase II, the Leningradskaya NPP Phase II, the Baltic NPP, and the world's first floating nuclear co-generation plant named "Akademik Lomonosov". In 2015, the fourth reactor was completed at the Beloyarsk NPP (the physical start-up of the BN-800). In addition to Russia, Rosenergoatom is constructing nuclear power plants abroad, namely the Kudankulam NPP

POWER GENERATION



in India, the Bushehr NPP in Iran, the Ostrovets NPP in Belarus, the Ninh Thuan NPP-1 in Vietnam, a nuclear power station in Jordan, a nuclear power station in Armenia, and the Tianwan NPP the Second Stage in China.

Most of the 34 nuclear operating reactors in Russia are ageing: 80% of capacity has 20-40 year maturity. This has led to development of a large-scale investment programme by the state operator Rosatom.

In 2015, electricity output grew by 8.1% year-on-year and reached 195.2 billion kW/h.

The estimated investments in nuclear power increased 9% year-on-year in 2015 and reached 350 billion rubles.

MARKET TRENDS

(WATER)

Water consumption in Russia is showing stable and positive dynamics, along with a steady growth of tariffs and an inflow of private investments into the sector.

Development of the water management complex "Program of the Russian Federation in 2012-2020" aims to increase coverage of water and wastewater services in Russian regions, with a goal to reach 95% safe water supply coverage and 87% wastewater collection and treatment by 2020. According to the Program, 48 reservoirs and hydroelectric facilities will be constructed and reconstructed at existing multipurpose water reservoirs. The construction and rehabilitation of infrastructure will contribute to creating new opportunities for equipment suppliers and engineering firms as well as construction companies. Emerging interest in advanced solutions, such as membrane systems, ultraviolet and ozone treatment, is creating good development prospects for the market's participants.

A large number of water supply systems require modernisation due to the low capacity of centralised water supply systems, which is impeding the development of localities. The share of old pipes in some cities is over 60%.

Capital expenditure on water and wastewater infrastructure is forecasted to grow from US\$ 2.3 billion in 2015 to US\$ 2.7 billion in 2020.



Today the problems of water supply and wastewater treatment are addressed within the framework of the "Special-Purpose Federal Housing Program", special-purpose federal programs for territorial development, and programs for development of the republics in the south of Russia, the Far East, the Trans-Baikal and the Kaliningrad regions. The programs consist of activities for construction and reconstruction of water supply facilities, sanitation systems, and wastewater treatment plants.

OPERATING PERFOMANCE

Backlog and order intake

Backlog¹ of HMS Group by the end of 2015 decreased to Rub 24,409 million, down 14% yoy mainly due to a 54% yoy decline in the large contracts portfolio.

As regards standard equipment, the backlog grew by 9% yoy from Rub 18,081 million to Rub 19,741 million. Swings in the backlog for large contracts are incidental to a normal volatility of the portfolio and depend on large contracts signed, a client's production cycle, etc.

Backlog, Rub mn	2015 FY	2014 FY	Change yoy
Industrial pumps	10,075	11,076	-9%
Oil & Gas equipment	5,716	12,343	-54%
Compressors	6,915	2,131	224%
EPC	1,702	2,693	-37%
Construction	581	1,671	-65%
Project and design	1,121	1,022	10%
Total	24,409	28,243	-14%

In the pump business segment the backlog declined by 9% yoy to Rub 10,075 million due to fewer contracts signed for standard equipment.

The oil & gas equipment business segment's backlog declined to Rub 5,716 million, because of ongoing recognition of revenues from the Group's large contracts in the oil & gas equipment business segment. However, the backlog for standard oil & gas equipment increased by 76% yoy.

The compressors business segment grew more than threefold and reached Rub 6,915 million not only because of a large contract signed in the 3rd quarter, but also thanks to an explosive growth in small- and middle-size orders (+83% yoy).

The EPC segment's backlog was down by 37% yoy to Rub 1,702 million due to negative performance of the construction sub-segment.

¹ Backlog is calculated under management accounts as the preceding backlog plus new or additional customer orders booked during the reporting period, less amounts of contract value booked as revenue under "Russian GAAP" on an unconsolidated basis under the relevant contracts, including adjustments in compliance with IFRS. The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS.

Note: Backlog for 2014 was adjusted for Rub 733 mn, and order intake for 2015 was adjusted by Rub 2.9 bn

Order intake² for FY 2015 decreased to Rub 32,979 million, down 5% yoy compared to FY 2014 mainly because fewer large-scale orders were received in 2015. In addition, an almost 50% drop in the EPC segment affected the whole order intake. The volume of large contracts signed declined by 42% yoy, and, in contrast, the number of standard equipment orders increased by 6% yoy.

Order intake, Rub mn	2015 FY	2014 FY	Change yoy
Industrial pumps	15,399	15,592	-1%
Oil & Gas equipment	7,919	13,963	-43%
Compressors	8,145	2,168	276%
EPC	1,517	2,983	-49%
Construction	-181	1,559	n/a
Engineering	1,698	1,424	19%
Total	32,979	34,705	-5%

GROUP PERFORMANCE

Revenue reached Rub 37,296 million, 15% yoy higher than Rub 32,351 million the year before.

EBITDA grew by 41% yoy to Rub 7,446 million. As the result, EBITDA margin for the full year reached 20.0% versus 16.3% for the comparative period.

Rub mn	2015 FY	2014 FY	Change yoy
Revenue	37,296	32,351	15%
EBITDA	7,446	5,272	41%
EBITDA margin	20.0%	16.3%	-

The main reason for the higher revenue and EBITDA for the full year 2015 is the execution of large contracts on the back of slow but stable growing revenue and EBITDA from standard production.

Export sales of the Group amounted to Rub 3,819 million (10% share of HMS' revenue).

² Under management accounts, signed contracts during the reporting period.

OPERATING PERFOMANCE

(CONTINUE)

Cost of sales, Rub mn	2015 FY	2014 FY	Change yoy	Share of revenue 2015	Share of revenue 2014
Total cost of sales	25,783	23,511	10%	69.1%	72.7%
Supplies and raw materials	16,520	13,400	23%	44.3%	41.4%
Labour costs	5,928	5,677	4%	15.9%	17.5%
Construction & design and engineering services of subcontractors	1,135	1,763	-36%	3.0%	5.4%
Depreciation and amortization	1,281	1,264	1%	3.4%	3.9%
Others	919	1,407	-35%	2.5%	4.4%

Cost of sales grew by 10% yoy to Rub 25,783 million from Rub 23,511 million. The growth was mainly due to a 23% yoy increase in the costs of supplies and raw materials, which accounted for 44% share of the revenue compared to 41% last year. This significant growth was the result of execution of large contracts in the oil & gas business segment, which are more material-intensive.

Since large contracts are more material-intensive but less labor-intensive, the labor costs demonstrated only a slight increase, but as a share of revenue they decreased to 16% from 18% in the comparative period.

Operating expenses, Rub mn	2015 FY	2014 FY	Change yoy	Share of revenue 2015	Share of revenue 2014
Distribution and transportation	1,378	1,237	11%	3.7%	3.8%
General and administrative	4,603	4,340	6%	12.3%	13.4%
Other operating expenses	624	222	181%	1.7%	0.7%
Total operating expenses	6,605	5,798	14%	17.7%	17.9%
Finance costs	2,087	2,148	-3%	5.6%	6.6%

Distribution and transportation expenses increased by 11% yoy to Rub 1,378 million rubles. As a percentage of revenue the figure went down to 3.7% from 3.8% for the full year 2014.

General and administrative expenses totaled Rub 4,603 million for FY 2015, up 6% yoy because of a 16% yoy growth of labour costs due to an increase in compensation to employees combined with a change in the base for statutory social insurance contributions (SICs). From 2015 onwards all payments to employees are included in the base for SICS. Limits for some SIC bases were raised and limits for some SICs were scrapped. Despite the increase of labour costs in absolute terms, general and administrative expenses, as a share of revenue, declined to 12% compared to 13% for the FY 2014.

In absolute figures, **SG&A expenses**³ grew by 7% yoy, but in terms of share of revenue they decreased to 16% from 17% for 2014. This is a direct consequence of the operating leverage, when revenue is growing faster than expenses.

³ SG&A expenses = Distribution and transportation expenses + General and administrative expenses

Total operating expenses⁴ grew by 14% yoy to Rub 6,605 million from Rub 5,798 million, but as a percentage of revenue they declined to 17.7% from 17.9% in the comparative period.

Operating profit increased more than five-fold and reached Rub 4,525 million versus Rub 855 million in the previous year. Operating margin grew to 12.1% from 2.6% for the FY 2014.

In 2014, the Group recognized Rub 2,186 million impairment of goodwill, which reflected geopolitical risks and worsened economic conditions in Russia. And in 2015, HMS recognized impairment of property, plant and equipment of Giprotyumenneftegaz and Bobruisk Machine Building Plant in total amount of Rub 364 million, and impairment of investment property of Rub 19 million (Rub 383 in total).

If adjusted, the Group's operating profit increased by 61% yoy to Rub 4,909 million with operating margin adj. at 13.2% versus 9.4% last year.

Operating profit reconciliation, Rub mn	2015 FY	2014 FY	Change yoy
Operating profit	4,525	855	429%
Impairment of property, plant and equipment and investment property	383	0	-
Impairment of goodwill	0	2,186	-
Operating profit, adj.	4,909	3,041	61%
Operating margin, adj.	13.2%	9.4%	-

Finance costs decreased by 3% yoy, where interest expenses for 12 months 2015 were 28% yoy higher and reached Rub 1,804 million while foreign exchange loss went down by 52% yoy to Rub 343 million from Rub 720 million in the previous year.

Interest expenses' growth is the result of the average debt burden⁵ growth (Rub 16.4 billion for the FY 2015 vs. Rub 14.8 billion for the FY 2014) combined with an increase in the average interest rate⁶:

- 10.7% for 2015 vs. 9.8% for 2014 for all loans, including FX-denominated,
- 11.7% for 2015 vs. 10.6% for 2014 correspondingly for Rub-denominated loans.

HMS Group undertook major efforts to keep interest rates at a manageable level.

⁴ Total operating expenses = Distribution and transportation expenses + General and administrative expenses + Other operating expenses (net)

⁵ Total debt average FY 2015 is derived as (Total debt 31.12.2014 + Total debt 31.12.2015)/2, and total debt average FY 2014 is derived as (Total debt 31.12.2013 + Total debt 31.12.2014)/2.

⁶ Herein, average interest rate for 2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.01.2016)/2, and average interest rate for 2014 is derived as (weighted average interest rate on 01.01.2014 + weighted average interest rate on 01.01.2015)/2.

OPERATING PERFOMANCE

(CONTINUE)

Profit for the period reached Rub 1,764 million versus loss for the period of Rub 1,575 million in the previous year. If adjusted for one-off impairments, profit for the year adjusted increased by 239% yoy to Rub 2,071 million from Rub 611 million, and profit for the year margin adjusted was 5.6% this year versus 1.9% last year.

Net income reconciliation, Rub mn	2015 FY	2014 FY	Change yoy
Profit / (Loss) for the year	1,764	-1,575	n/a
Impairment of property, plant and equipment and investment property (net of tax 20%)	307	0	-
Impairment of goodwill	0	2,186	-
Profit for the year, adj.	2,071	611	239%
Profit for the year margin, adj.	5.6%	1.9%	-

SEGMENT PERFORMANCE

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, compressors, oil and gas construction and the other products and services. From 2015 onwards, HMS Group will report a total segment's revenue, which includes external revenue and intersegment revenue, for more consistent demonstration of the performance of each segment.

Industrial pumps Business Segment

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solution as well as standard pumps; it also provides aftermarket maintenance and repair services and other support for its products.

Industrial pumps, Rub mn	2015 FY	2014 FY	Change yoy
Revenue	17,925	16,899	6%
EBITDA	4,098	3,137	31%
EBITDA margin	22.9%	18.6%	-

The industrial pumps business segment's revenue grew to Rub 17,925 million from Rub 16,899 million (+6% yoy). EBITDA increased by 31% yoy to Rub 4,098 million due to several factors: input of large-scale contracts in the oil & gas equipment business segment, import substitution, and costs optimization along with NEM's costs depreciation because of deprecation of the Ukrainian hryvnia against the Russian ruble. EBITDA margin grew up to 22.9% not only because of execution of large contracts, which are more profitable, but also because of growth of the average margin of standard pumps production.

Oil & Gas equipment Business Segment

The oil & gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

Oil & Gas equipment, Rub mn	2015 FY	2014 FY	Change yoy
Revenue	15,218	10,291	48%
EBITDA	3,246	1,908	70%
EBITDA margin	21.3%	18.5%	-

The oil & gas equipment business segment continued to deliver outstanding results due to signed contracts for delivery of integrated solutions both in terms of revenue and EBITDA. Revenue increased by 48% yoy to Rub 15,218 million, EBITDA was up 70% yoy and reached Rub 3,246 million with EBITDA margin growing to 21.3% from 18.5% last year.

Compressors Business Segment

The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's main products include standard compressors, customized compressors and compressor-based integrated solutions.

Compressors, Rub mn	2015 FY	2014 FY	Change yoy
Revenue	4,183	2,661	57%
EBITDA	315	-255	n/a
EBITDA margin	7.5%	-9.6%	-

Revenue grew by 57% yoy to Rub 4,183 million. EBITDA turned positive Rub 315 million in comparison to negative Rub 255 million last year. The improving results of the compressors business segment are explained by increased number and value of contracts for standard equipment combined with execution of a large contract in the oil & gas equipment business segment. In addition, the most shipments and revenue recognition was completed in the 4th quarter of 2015. EBITDA margin reached 7.5% versus negative 9.6% last year.

OPERATING PERFOMANCE

Engineering, Procurement and Construction (EPC) Business Segment

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects for customers in the oil & gas upstream and midstream.

EPC, Rub mn	2015 FY	2014 FY	Change yoy
Revenue EPC	2,617	3,356	-22%
Project and design	1,593	2,266	-30%
Construction	1,024	1,089	-6%
EBITDA EPC	180	490	-63%
Project and design	132	279	-53%
Construction	48	211	-77%
EBITDA margin EPC	6.9%	14.6%	-
Project and design	8.3%	12.3%	-
Construction	4.7%	19.3%	-

The EPC business segment's results continued to weaken compared to FY 2014 with revenue down to Rub 2,617 million (-22% yoy) and EBITDA decreasing by 63% yoy to Rub 180 million.

In general, the EPC segment is experiencing tougher competition and stiffer pricing in the oil & gas engineering and construction market, which influenced the segment's financial results. As a result, the EPC margin went down to 6.9% from 14.6% in the period of comparison.

FINANCIAL PERFOMANCE

Cash flow performance

Cash flow performance, Rub mn	2015 FY	2014 FY	Change yoy
Net cash (used in)/from operating activities	1,881	960	96%
Net cash used in investing activities	-1,431	-1,112	29%
Free cash flow (FCF)	451	-153	-395%
Net cash (used in)/from financing activities	-1,594	3,031	-153%
Cash & cash equivalents	3,496	4,535	-23%

Working capital⁷ grew by 29% yoy to Rub 8,813 million from Rub 6,834 million last year, primarily due to realization of large contracts. As a share of revenue, working capital increased to 24% compared to 21% last year, still within a normal range of working capital requirements when executing large and technically sophisticated projects.

Capital expenditures for the FY 2015 grew by 19% yoy to Rub 1,457 million from Rub 1,223 million for the FY 2014. HMS Group is close to completion of the 1st stage of its ambitious project, a so-called "The Localization Project", to develop manufacture competences for high-capacity oil refining and transport pumps and nuclear pumps in Livny, the Orel region. The largest share of current capital expenditures (c.44%) was channelled to this investment project. Excluding this localization capex, the general maintenance capex decreased by c. 28% yoy compared to the last year.

In December 2015, the company signed a loan agreement with the Fund of Industrial Development (the Ministry of Industry and Trade of the Russian Federation). The Fund provided HMS Group with a 5-year special-purpose loan worth Rub 500 million at an interest rate of 5% to invest in The Localization Project.

Investing cash outflow increased by 29% yoy to Rub 1,431 million because of the growing capital expenditures. Despite this fact, **free cash flow** turned positive Rub 451 million versus outflow of Rub 153 million last year because of higher margins in 2015.

Debt and Liquidity position

2015 FY	2014 FY	Change yoy
15,884	16,967	-6%
11,218	13,235	-15%
4,667	3,732	25%
3,496	4,535	-23%
12,388	12,432	0%
1,66	2,36	-
	15,884 11,218 4,667 3,496 12,388	15,884 16,967 11,218 13,235 4,667 3,732 3,496 4,535 12,388 12,432

Total debt of HMS Group declined by 6% yoy to Rub 15,884 million, and **Net debt** was almost flat at Rub 12,388 million with a slight decrease in absolute figures. Reduction in total debt was attributable to payments received under both contracts under execution and newly signed contracts at the end of 2015.

Because of EBITDA's growth along with the constant level of net debt, **Net debt-to-EBITDA LTM ratio** decreased to 1.66x from 2.36x.

Working capital = Inventories + Trade and other receivables (excluding Short-term loans issued, Bank deposits and Promissory notes receivable) + Current income tax receivable - Trade and other payables - Short-term provisions for liabilities and charges - Current income tax payable - Other taxes payable

FINANCIAL PERFOMANCE

(CONTINUE)

On January 1, 2016, the weighted average interest rate was 11.4% vs. 10.0% on January 1, 2015, for all loans, including FX-denominated, owing to new credit lines obtained at higher rates, though lower than average prevailing interest rates. The weighted average interest rate for Rub-denominated loans only increased to 12.5% from 10.9% as of January 1, 2015.

Dividends and HMS GDRS

On December 7, 2015, the Board of Directors approved the payment of interim dividends of Rub 3.25 per ordinary shares, amounting to total dividends of Rub 381 million, as a compensation for lack of dividends for 2014 due to the strong and better than expected financial results for 9 months 2015 and expectations for the full year. The dividends were paid on December 30, 2015.

On June 19, 2015, the Board of Directors approved a buyback program of the company with respect to global depositary receipts. The buyback period was set for 1 year from June 19, 2015, until June 19, 2016. According to the program, the company can repurchase from the market maximum 5% of the subscribed capital of HMS Group, including previously acquired and held at present GDRs (Treasury shares).

as of June 19, 2015	Number of securities	% share in the capital	Number of securities after GDRs' ratio change
Subscribed capital of HMS Group (ordinary shares)	117,163,427	100	-
Maximum number of GDRs to be purchased	5,858,171	5	1,171,634
Treasury shares (GDRs)	1,819,444	1.55	363,889
Number of GDRs, HMS can purchase under the Buyback program	4,038,727	3.45	807,745

Securities should be repurchased at the prevailing market price at the date of such purchase and may not exceed 5% of the average market price for all market trades within 5 days prior to the acquisition. All purchases are carried out by the Company with the assistance of Renaissance Capital. The Buyback program will end as soon as the total amount of acquired securities has reached the maximum amount specified or, if earlier, on June 19, 2016.

As of today, HMS Group repurchased 553,332 GDRs (2.36% of HMS' subscribed capital) and there are 618,302 GDRs left the company can buy under the program.

as of April 28, 2016	Number of	% share in the	Number GDRs
	securities	capital	ramber obres
Subscribed capital of HMS Group (ordinary shares)	117,163,427	100	-
Maximum number of GDRs to be purchased	5,858,171	5.00	1,171,634
Treasury shares (GDRs)	2,766,660	2.36	553,332
Number of GDRs, HMS can purchase under the Buyback program	3,091,511	2.64	618,302

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Financial management

On February 2, 2016, HMS Group completed an early full redemption of its Ruble 3bn bonds series 03 with a 10.10% coupon rate with maturity in February 2018. Currently, HMS Group doesn't have any Ruble corporate bonds outstanding.

Within the full year of 2015, HMS Group refinanced Rub 5.9 billion. In general, throughout the year, HMS Group signed loan agreements to refinance its credit portfolio and to finance its capital needs worth Rub 13.7 billion.

At the beginning of this year, HMS Group increased its uncommitted revolving credit line with VTB Bank from Rub 4.5 billion to Rub 10.0 billion.

Depositary program

In February 2016, the ratio of HMS' depositary receipts program was changed from 1:1 to 1:5. According to the "new" ratio, 1 depositary receipt became equal to 5 ordinary shares, and on February 8, 2016, HMS Group's shareholders received 1 "new" GDR for every 5 "old" GDRs. Only whole depositary receipts were distributed and, in effecting this, "old" receipts were rounded down, fractional receipts were sold on the market and the cash proceeds were distributed to the depositary receipts' holders. The issued number of ordinary shares and their nominal value stayed unchanged.

Also, under a new deposit agreement with BNY Mellon, the annual depositary fee became equal to US\$ 0.01 per "new" GDR instead of US\$ 0.03 per "old" GDR, implying a 15-fold decrease in such fees.

After the reverse split, issued number of GDRs equals 9,600,800, where 8,728,000 depositary receipts are outstanding and 872,800 - "green-shoe" ones.

Large contracts

In February 2016, HMS signed a Rub 2.8 billion contract to produce a boosting compressor station, based on 3 centrifugal-type compressor units with gas-turbine engines and intended for compression of low-pressure associated gas. The station will be manufactured by Kazancompressormash and installed at an oil & gas condensate field in West Siberia, by the end of 2016.

In March 2016, HMS Neftemash signed a number of contracts for delivery and installation of technologically integrated solutions for two Siberian gas fields, worth Rub 3.1 billion. These solutions will be intended for pumping of natural gas liquids and pumping of oil, wash-down water and rust preventive chemical. These contracts are a follow-up to another project, recently completed successfully.

Incentive program

On March 23, 2016, the Board of Directors decided to establish a long-term incentive program for the key executives to align the objectives of the shareholders and the executives, to retain and motivate the key executives in the form of a stock ownership program with GDRs' vesting linked to HMS' performance. GDRs for this program will come from GDRs owned and bought by the company, so this program will not dilute ownership of existing shareholders. As the basic scenario, the program's fund would be equal to 5% of HMS' share capital in the form of GDRs, subject to 100% of the KPIs (Profit for the year attributable to the shareholders of the company and EBITDA).

HMS KEY PROJECTS

PROJECTS ON TRACK

In the 1st half of 2014, HMS Group signed a contract for more than 6 billion rubles with one of the Russian oil & gas majors to deliver oil & gas equipment as part of a large-scale project, the "Liquid Hydrocarbon Project", which is planned to be completed in 2016.

In December 2013, the company signed a 5.7 billion rubles contract to supply an integrated solution for a major Siberian gas field. According to the contract, HMS will design, manufacture, deliver, supervise and test the complex technological facility, including compressors, pumps, tanks and vessels, filters, coolers and other components. The project is planned to be completed in 2016.



Centrifugal compressor 4GC2-75/30-83 GTU with gas-turbine engine



Testing of centrifugal compressor

NEW PROJECTS

In September 2015, HMS Group signed a 3.5 billion rubles contract to deliver 5 high-pressure compressor units, intended for compression of separated associated gas. All units will be manufactured by Kazancompressormash and installed at an oil and gas condensate deposit, located in the Ural region of Russia.

NEW PROJECTS AFTER THE REPORTING DATE

In February 2016, the company signed a 2.8 billion ruble contract to produce a boosting compressor station. The station, based on 3 centrifugal-type compressor units with gas-turbine engines and intended for compression of low-pressure associated gas, will be manufactured by Kazancompressormash and installed at an oil and gas condensate deposit, located in the West Siberia. The project is to be completed by the end of 2016.

A month later, HMS signed a number of contracts for delivery and installation of technologically integrated solutions for two Siberian gas fields, worth 3.1 billion rubles. The company will deliver complex solutions for pumping of natural gas liquids and pumping of oil, washdown water and rust preventive chemical. All units will be delivered by HMS Neftemash. These contracts are a follow-up to another project successfully completed recently.



Modular cluster pump station for "Buzachi Operating Ltd", Kazakhstan



System for measuring volume and quality of crude oil for the oil & gas production department «Sorochinskneft» (Rosneft)



Compressor station with liquid-ring compressor for Rosneft

R&D DEVELOPMENT

HMS Group is continuously strengthening its research and development capabilities and the Company's strategy is aimed at establishing the best Research & Development in Russia and the CIS. Our investments are dedicated to strengthening our core competencies in industrial pumps, oil & gas equipment and compressor technologies, and in developing solutions for the oil and gas industry and water utilities.

In 2015, HMS continued the process of the localization of heavy pumps and pumping equipment manufacturing at HMS Livgidromash and Nizhnevartovskremservice,

in close cooperation with Nasosenergomash (Ukraine); the company completed the 1st stage in Q1 2016. Within the framework of the project, the company constructed a new production unit and a new transformer substation.

The new test complex built will become the only one of its kind in Russia, enabling the testing of the pumping units installed in the oil pipelines of Transneft and Rosatom's nuclear power plants. It consists of all necessary main and support systems to conduct operational testing of the heavy centrifugal pumping units.

Following an increasing customer demand for multiphase flow metering units and in order to enhance the expertise in the development of this type of equipment, HMS Group completed the construction of the largest and the most hi-end multiphase metrological test flow facility in Russia, which will allow the testing and metrological calibration of up-to-date multiphase metering units. The Federal Agency on Technical Regulating and Metrology of the Russian Federation (Rosstandard)



certificated the facility and approved it as the working standard of flow rate unit of liquid-gas mixtures.

Representatives of the world largest metering unit producers – Siemens, ABB, Honeywell, Schneider Electric, Weatherford and Emerson – took part in a formal opening ceremony which was held in March, 2016.

HMS Group conducted several trial tests of a new well testing mobile unit, MERA-MR, to develop new competences in heavy oil reservoirs and oil wells with high viscosity fluids.

Multiphase metrological test flow facility



Centrifugal double suction pump type series Del ium

Debits measuring tests were successfully performed at the East – Messoyakha and Russkoye fields with high-viscosity oils (up to 1.000 cSt) in 2014. In 2015, HMS Group produced and delivered unique metering units to operate at the R. Trebs & A. Titov Fields (Bashneft). These units were specially projected for transportation by different means of transport: helicopter, truck transport or sledge drag.

HMS Group started production of a new NetOil&Gas multiphase flow meter, which is the key metering assembly of MERA-MR metering unit made by HMS Neftemash since 2014. Over the short period of time, this product became the most perspective system for measurement of oil production rate at oil wells, including high viscous oil ones. The NetOil&Gas flow meter is based on continuous recording of oil production rate and is designed on the base of Foxboro coriolis meter, pressure detectors, temperature detectors, moisture meters and a calculator. The flow meter uses mathematical analyses of artificial neural networks for finding multiphase flow meter parameters without pre-separation.

Also, there was a dehydration unit for oil associated gas produced and delivered under the Chashkino gas compressor station project (LUKOIL). The unit was designed for reduction of the water dew point of oil associated gas to a temperature not higher than -15°C by an absorption method of gas dehydration, which provides efficient and continuous plant operation. Application of plate heat exchangers instead of shell and tube ones allows reduction of the unit's overall dimensions

HMS Group successfully completed at the Mendeleev super-computer model simulation of bed process, which occurs at injection of binary mixtures agent for thermal-gas-chemical formation treatment to enhance oil recovery.

The company signed a state contract with the Ministry of Science of Technology of the Russian Federation to carry out a complex project to develop the technology of thermochemical fracturing instead of the foreign technology of hydraulic fracturing with proppant gel.

HMS Group manufactured a new type of centrifugal compressor units for oil & gas producing wells, that is intended for complex variable-load operations with parallel pressure cases. Also, a new type of centrifugal compressor unit 3GC2-75/30-83 GTU with an integrated lubrication system of centrifugal compressor and driving gas turbine unit has been developed, produced and supplied to a client already.

HMS Group developed a method of oil degassing and dehydration and equipment, which can be used on oil deposits, among other things, at a booster pump station equipped with multiphase pumps. The product allows improving of the efficiency of oil-gas-water mixture preparation for transportation due to enhancement of efficiency of oil-water separation. Before the separation, the mixture is heated by additional gas pumped by a multiphase pump, that has a temperature not lower than the mixture has. Some part of the gas separated from the mixture, can be reused as umped gas.



Mobile metering unit MERA-MR



NetOil&Gas multiphase flow meter

HMS Group continues to strengthen its expertise in equipment designed according to international standards. In 2015, Apollo implemented a number of new developments. Besides a couple of new pump types and systems, a number of new hydraulics and additional pump sizes was completed.

R&D DEVELOPMENT

Pos.	Event type (new development, successful testing, development of new equipment)	Date of test / commissioning	Additional information
1	 KRHA-200/550 Single stage pump (type OH2 acc. to API610) Designed as heavy duty process pump 	01/2015	 New pump size within the existing pump series KRHA New set of patterns for impeller and volute casing Successfully tested at Apollo test field
2	 KRHL-25/250 Single stage pump (type OH2 acc. to API610) Low Flow High Head design With semi open impeller Complete range of different hydraulics including new sets of hydraulic parts 	02/2015	 New pump size within the existing pump series KRHL Includes a complete range of different hydraulic parts New set of patterns for impellers, pump casing, diffusor and casing cover Successfully tested at Apollo test field The range of the type series KRHL extended to even lower capacities
3	 KRH-40A/280 Single stage, radial split, volute casing pump (type OH2 acc. to API610) Designed as heavy duty process pump 	02/2015	 New pump size within the existing pump series KRH New set of patterns for impeller and volute casing Successfully tested at Apollo test field The extend of the type series has a special importance for applications within Offshore, Oil & Gas and Power plant business
4	 KGR-80/400 Horizontal, 2-stage, single suction, between bearing pump (type BB2 acc. to API610) Designed as heavy duty process pump 	06/2014	 A new pump series based on API610 BB2 2-stage pump Development was focused on the expansion of the existing pump performance range up to higher discharge heads with a single-casing pump to meet a wide number of applications with a competitive solution Complete new design and a new set of patterns for hydraulic parts like impeller, volute casing and casing cover
6	 ZPRA-300/600 Horizontal, single stage, double suction, between bearing pump (type BB2 acc. to API610) Designed as heavy duty process pump Special design with side suction nozzle ZPR-100/400 Horizontal, single stage, double suction, between bearing pump (type BB2 acc. to API610) Designed as heavy duty process pump Special design with side suction nozzle 	12/2015	 New pump size within existing pump series ZPRA and ZPR New set of patterns for impeller and volute casing Successfully tested at the Apollo test field Special importance for applications within Offshore, Oil & Gas and Power plant business

7	 KRHA-350/550 Single stage, radial split, volute casing pump (type OH2 acc. to API610) Designed as heavy duty process pump for a offshore application 	09/2015	 New pump size within existing pump series KRHA New set of patterns for impeller and volute casing Successfully tested at Apollo test field Special importance for applications within Offshore, Oil & Gas and Power plant business All pumps were delivered acc. DNV Category 1 including complete design review
8	 KRH-40C/350 Single stage, radial split, volute casing pump (type OH2 acc. to API610) Designed as heavy duty process pump for offshore application 	09/2015	 New pump size within existing pump series KRH New set of patterns for impeller and volute casing Successfully tested at Apollo test field Special importance for applications within Offshore, Oil & Gas and Power plant business
9	 TGC-100C/4 High pressure BB5 pump acc. to API610; back-to-back design; Water injection pump for offshore application FPSO 	09/2015	 Skid weight approx. 15.000 kg Complete skid with pump, motor and noise enclosure Successfully tested as complete skid at Apollo test field 4-hour mechanical run test witnessed by the customer. Complete new set of patterns for hydraulic parts like impellers, diffusers and Barrel All pumps were delivered acc. DNV Category 1 including complete design review
10	 KRH-40/280 Single stage, radial split, volute casing pump (type OH2 acc. to API610) Designed as heavy duty process pump 	09/2015	 New pump size within existing pump series KRH New set of patterns for impeller and volute casing Successfully tested at Apollo test field Special importance for applications within Offshore, Oil & Gas and Power plant business

HMS Group's current operating portfolio of 246 patents, 46 registered trademarks and 26 registered computer programs reflects our commitment to research & development.

In 2015, HMS Group continues complex protection of its exclusive

rights to its products in line with differentiation of goods and services to acquire the right of exclusive use in the market. The company received exclusive rights on 19 intellectual property assets: 13 invention and utility model patents, 3 registrations of application software, and 3 trademark registrations. The patented

technologies are intended for work enhancement of units to measure oil flowrate, a separating assembly for a stand to test functioning of these units, centrifugal pumps and compressors and their components, and improvement of a conditioning process of oil-gas-water blend for transport.

SOCIAL RESPONSIBILITY

HMS Group fully recognises its responsibility to all of its stakeholders and communicates with them on a regular basis. The Group has a long and solid record of commitment to our people, contributing to social development and improvements in the quality of life across local communities in the regions where we operate.

PEOPLE FIRST!

Employing over 15,000 people and being one of the major employers in cities where our facilities are located, we carry enormous responsibilities. We believe that employees are one of the core assets of HMS Group, and that we can only be successful and sustainable by attracting and retaining the best people, encouraging and developing them to achieve their full potential. In 2015, we continued investment in staff training and education, focussing mainly on accounting and functional education, including development of managerial competencies of the company's officers (MBA/EMBA programs), and English language teaching. Training and development are managed locally in order to address both the needs of the facility and those of the employee. About 140 trainings and courses were held in Moscow alone.

In 2015, HMS Group continued its planned recruitment to open positions. As at 31 December 2015, the company employed more than 15,000 people, although this was less than in 2014 due to a planned optimization.

Safety is one of our priorities and the company improves its health and safety standards on a regular basis. There are courses and trainings on occupational safety, fire and the environment held at all production sites throughout the year. The entities also hold regular, routine medical check-ups for employees working in hazardous production areas.

We promote and encourage a healthy lifestyle because not only does it help to maintain a productive and positive workplace, but it is also the right thing to do. In 2015, HMS Group held a number of family and sporting competitions and other events that over the years have become a tradition in the corporate life of HMS Group subsidiaries.

ENVIRONMENT

Efficient use of natural resources is one of HMS Group's main priorities. The Group systematically implements environmental and energy-saving technologies at its production sites, even though in general the environmental impact of HMS Group subsidiaries is low.



We not only continue to work on developing and selling energy-efficient product and service solutions, but also all of our businesses focus on efficient consumption of fuel, paper, water, electricity and heating.

HMS Group conducts activities on a regular basis to offset environmental impacts, including waste management, analysis and control of water quality on industrial sites, environmental emission compliance, and industrial environmental monitoring.

CHARITY

In 2015, HMS Group continued its long-standing tradition of investing in the future by developing local community projects. The company believes that charity initiatives and the creation of jobs and business opportunities strengthen local economies and support community development projects.

HMS Group sponsored various projects that support healthy lifestyles and education for children and youth, culture and arts.

In Kazan, HMS Group continued its sponsorship of the Ice-Hockey Federation and the Judo Federation in the field of youth sports development.

The company pays extra attention to children from low-income and vulnerable families, orphanages and health care institutions. In Livny, HMS Group supports a number of schools, kindergartens, regional hospitals and orphanages.



In Tyumen, the company provided support to the Regional Medical Society, the Tyumen Regional Fund for Judo and continued its commitment to sponsorship of Boarding School #66. In Moscow, HMS Group continued to support the Preobrazhensk Cadet Corps.

Average headcount as at December 31, 2015

2007	2008	2009	2010	2011	2012	2013	2014	2015
8,480	8,395	7,344	7,197	8,522	8,958	8,931	9,199	9,152
2,148	2,135	2,126	2,132	2,482	2,463	2,396	1,862	1,924
0	0	0	0	0	2,373	2,271	2,509	2,276
2,070	2,410	3,157	3,269	3,175	3,725	3,014	1,747	1,600
188	188	215	241	247	295	303	295	284
12,886	13,128	12,842	12,839	14,426	17,814	16,913	15,613	15,236
	8,480 2,148 0 2,070 188	8,480 8,395 2,148 2,135 0 0 2,070 2,410 188 188	8,480 8,395 7,344 2,148 2,135 2,126 0 0 0 2,070 2,410 3,157 188 188 215	8,480 8,395 7,344 7,197 2,148 2,135 2,126 2,132 0 0 0 0 2,070 2,410 3,157 3,269 188 188 215 241	8,480 8,395 7,344 7,197 8,522 2,148 2,135 2,126 2,132 2,482 0 0 0 0 0 2,070 2,410 3,157 3,269 3,175 188 188 215 241 247	8,480 8,395 7,344 7,197 8,522 8,958 2,148 2,135 2,126 2,132 2,482 2,463 0 0 0 0 0 2,373 2,070 2,410 3,157 3,269 3,175 3,725 188 188 215 241 247 295	8,480 8,395 7,344 7,197 8,522 8,958 8,931 2,148 2,135 2,126 2,132 2,482 2,463 2,396 0 0 0 0 0 2,373 2,271 2,070 2,410 3,157 3,269 3,175 3,725 3,014 188 188 215 241 247 295 303	8,480 8,395 7,344 7,197 8,522 8,958 8,931 9,199 2,148 2,135 2,126 2,132 2,482 2,463 2,396 1,862 0 0 0 0 0 2,373 2,271 2,509 2,070 2,410 3,157 3,269 3,175 3,725 3,014 1,747 188 188 215 241 247 295 303 295

BOARD OF DIRECTORS







HMS Group's corporate governance practices are designed to ensure that the interests of all its stakeholders are given due consideration.

Although the Company is not a 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. 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 seven (7) members, three (3) of whom are Executive Directors. During the year ending 31 December 2015, new Terms of Reference of the Board of Directors and Managing Director (CEO) were approved by the Board of Directors.

1. MR. NIKOLAI N. YAMBURENKO

Chairman of the Board of Directors, Non-Executive Director, Chair of the Strategy and Investments Committee

Mr. Yamburenko 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 10 July 2014, when he was appointed Chair of the Board of Directors. Mr. Yamburenko previously held the position of Head of the Industrial Pumps Business Unit from 2005. Prior to joining the Group, Mr. Yamburenko was the CEO of HMS Livgidromash, which is now part of the Group. Mr. Yamburenko 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.

Executive Directors

2. MR. ARTEM V. MOLCHANOV

Member of the Board of Directors, Managing Director (CEO)

As one of the founders of the Group, Mr. Molchanov has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov became the President of HMS Group in 2008 and was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov has more than 20 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.

3. MR. KIRILL V. MOLCHANOV

Member of the Board of Directors

As one of the founders of the Group, Mr. Molchanov has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010 and has served as Vice President of HMS Group since 2008. Mr. Molchanov has 20 years of industry experience. He graduated from the Bauman Moscow Higher Technical School (currently the Bauman Moscow State Technical University) with a degree in electromechanical engineering. He graduated from the Judge Business School, University of Cambridge with an executive MBA degree.

4. 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 is currently the Head of the Compressor Business Segment, a position he has held since its establishment in 2012. Previously, Mr. Skrynnik held the position of Director for Strategic Marketing. Prior to joining HMS Group, he served as the Chief Representative of JSC "Sumy Frunze NPO" (Ukraine) in Russia from 1999 to 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of "Machines, Equipment, Technologies, Products and Services" Ltd. from 1992 to 1999. He served as a scientific research officer at the Moscow Institute of Chemical

Machinery (currently the Moscow State University of Environmental Engineering) from 1986 to 1988. Mr. Skrynnik has more than 20 years of science and management experience. He graduated from the Sumy branch of the Kharkiv Polytechnic 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. Skrynnik is the author of more than 50 scientific publications and creator of 20 inventions.

Non-executive Directors

5. MR. PHILIPPE DELPAL

Member of the Board of Directors, Chair of the Audit Committee

Mr. Delpal was appointed as an independent non-executive member of the Board of Directors in December 2010 and is Chair of the Audit Committee. Mr. Delpal has had a career in banking, most recently as chairman of BNP Paribas Vostok in Moscow. He is now an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity firms in Russia. He is also currently serving as a non-executive director for Tinkoff Credit System Holding (LSE listed), Orient Express Bank OJSC (Russia), Blackrock Emerging Europe PIC (London, LSE listed investment trust), and Komercijalna Banka AD (Serbia). Prior to that, Mr. Delpal founded Cetelem Russia in 2006 and served as its CEO from 2006 until 2010. Mr. Delpal was CEO of Rusfinance Bank (Société Générale Group) from 2004 to 2006. In addition, Mr. Delpal has over eight years of experience as an auditor at Société Générale. He graduated from the Telecom Paris University with a degree in IT, Telecoms and Economics. He has been living in Russia since 2004.

6. 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 2010. From 1989 to 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing the interests of the Government of the Republic of Cyprus. From 1987 to 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law firm. He is an honours graduate of the Law School of Democrious University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

7. MR. GARY S. YAMAMOTO

Member of the Board of Directors, Chair of the Remuneration Committee

Mr. Yamamoto was appointed as an independent non-executive member of the Board of Directors and Chair of the Remuneration Committee in December 2010. Prior to joining the Group, he served as Chief Executive Officer at Borets International in 2009. Mr. Yamamoto has served as the President of Yamamoto Consulting since 2008. He served as a member of the Board of Directors at Radius Servis from 2007 to 2008. Prior to this, Mr. Yamamoto enjoyed a 20-year career with Schlumberger Limited and, from 2003 to 2008, served as Vice President of Schlumberger Russia. Mr. Yamamoto has more than 20 years of management experience. He graduated from the University of California, Berkeley, with a degree in engineering in 1988. Mr. Yamamoto is a member of the Society of Petroleum Engineers and the Independent Directors Association.

BOARD OF DIRECTORS

(CONTINUE)

PRINCIPAL ACTIVITIES OF THE BOARD OF DIRECTORS IN 2015

The Board of Directors held four ordinary meetings in 2015, all of which occurred in Limassol, Cyprus. During the course of the year, the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategy, including investment plans, M&A activities, budgeting, long-term incentive plan for the management of the Company, and general corporate development.

Throughout the year, the Board of Directors focused on the improvement of the Company's internal control and risk management systems.

At its meetings the Board of Directors reviewed other issues connected with the activities of the Company that are within its remit, including the approval of corporate reports.

THE BOARD OF DIRECTORS COMMITTEES

There are three Committees of the Board of Directors: the Audit Committee, the Remuneration Committee, and the Strategy and Investments Committee. A brief description of the main activities of these Committees in 2015 is set out below

Audit Committee

General Overview

The Audit Committee comprises two independent Directors and is expected to meet three to four times per year. Currently, the Audit Committee is chaired by Mr. Philippe Delpal; the other member is Mr. Gary S. Yamamoto.

The Audit Committee is responsible for considering, amongst other matters: (i) the integrity of the Group's financial statements, including its annual and interim financial statements; (ii) the

effectiveness of the Group's internal controls and risk management systems; (iii) auditors' reports on the Group; and (iv) the terms of appointment and remuneration of the auditors of the Group.

The Audit Committee supervises, monitors, and advises the Board of Directors on risk management, control systems, and the implementation of the codes of conduct. The Audit Committee also supervises the Group's submission of financial information, a number of other audit-related issues, and assesses the efficiency of the work of the Chair of the Board of Directors.

Activities in 2015

Three meetings of the Audit Committee were held in 2015. The main issues that the Audit Committee oversaw during the year were the preliminary review of IFRS financial statements (including goodwill impairment at the end of 2015) and internal control and risk management (including the audit plan).

The Audit Committee also supervised the internal and external audit procedures, and the implementation of the annual tax strategy within the course of the year. The Audit Committee also made recommendations to the Board of Directors with regards to internal control efficiency and interim dividend distribution.

Remuneration Committee

General Overview

The Remuneration Committee comprises three Directors and is expected to meet at least once per year. Currently, the Remuneration Committee is chaired by Mr. Gary S. Yamamoto; its other members are Mr. Nikolay Yamburenko and Mr. Philippe Delpal. The Remuneration Committee is responsible for, amongst

other matters, determining and reviewing 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 2015

Three meetings of the Remuneration Committee were held in 2015. The main matters reviewed by the Remuneration Committee were the terms of the CEO's contract and the Group's Long-Term Incentive Program. Ernst & Young were engaged to develop the Long-Term Incentive Program in line with international best practice.

The Remuneration Committee adopted decisions and made recommendations to the Board of Directors regarding the CEO's contract and the Long-Term Incentive Program, in accordance with international best practice.

External Audit of Financial Statements

Every year the Company/Group appoints an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company/ Group in compliance with IFRS. The external auditor also prepares reviews of the consolidated interim financial information of the Company/Group in compliance with IFRS requirements. The external auditor of the Company/ Group is selected from leading audit firms after a thorough review of their respective proposals. Following the review, the Audit Committee gives its recommendations to the Board of Directors regarding the candidacy of the external auditor and the level of the auditor's compensation, and

LITIGATIONS INVOLVING THE COMPANY

advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2015, based on the recommendation of the Audit Committee, the Board of Directors selected Deloitte (Cyprus) to conduct the audit of the financial statements of the Company/Group for the year ending 31 December 2014, and Deloitte remains in the office for the 2015 audit.

Strategy and Investments Committee

General Overview

The Strategy and Investments Committee comprises three directors, one of whom is independent. The Committee is expected to meet at least once each year. Currently, the Strategy and Investments Committee is chaired by Mr. Nikolay Yamburenko and the other members are Mr. Gary Yamamoto and Mr. Yury Skrynnik.

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 2015

One meeting of the Strategy and Investments Committee was held in 2015. The main matter reviewed by the Committee was the Group Strategy up to 2020.

Director's Compensation

Total compensation of the Chairman of the Board was Euro 270,115 for the year ended 31 December 2015. 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 225,000 for the year ended 31 December 2015.

Grigorishin Litigation. 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 by Konstantin Grigorishin and certain other plaintiffs against a number of defendants, including the Company, certain of 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 prior written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia discharged the Order in full, including in respect of the Company and its shareholders and directors. As far as the Company is aware, since then the plaintiffs have taken no substantive steps to proceed with their claim against the Company or its directors.

The Company strongly rejects the plaintiffs' claims and allegations against the Company as groundless. The Company will continue to defend vigorously its position in these pending legal proceedings.

Tsoy Litigation. In late June 2014, the Company's shareholder, German Tsoy, and his holding company, Acura Global Limited (BVI), launched an action in the District Court of Nicosia against a number of defendants, including certain other shareholders and directors of the Company. The plaintiffs have initiated this litigation purportedly as a derivative action seeking damages "for the benefit of" of the Company "and/or" its majority shareholder, H.M.S. Technologies Limited. As such, no claims have been

asserted directly against the Company by the plaintiffs.

The plaintiffs also applied to the Court for interim measures including an application for a freezing order (the "Application") against the defendants, but not the Company. The Company and certain of its shareholders and directors opposed the Application. In late March 2015, following prior written submissions against the Application, the plaintiffs withdrew the Application, but not the main action itself.

In late September 2015, the plaintiffs submitted the statement of claim in this on-going litigation. The Company carefully reviewed this statement of claim, with assistance from its Cyprus and international counsel. On its face, the statement of claim does not raise any new material allegations or claims compared to prior submissions by the plaintiffs in relation to their withdrawn Application.

Previously, the Company's nondefendant directors, namely, Messrs. Philippe Delpal, Gary S. Yamamoto, Andreas S. Petrou and Nikolai N. Yamburenko, who make up the majority of the Company's Board of Directors, carefully considered the plaintiffs' claims and allegations, obtained legal advice from the Company's lawyers, and unanimously concluded that the plaintiffs' allegations are entirely meritless. The Company's non-defendant directors will continue to defend vigorously the Company's position in this on-going litigation.

In late April 2016, the Company and certain other defendants submitted their statements of defence in this ongoing litigation.

RISK MANAGEMENT & INTERNAL CONTROL

OVERVIEW

The Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. In order to minimize the negative impact of such risks and to benefit from available opportunities, a risk management and internal control system has been integrated into the Group's operations. The overall objective of this system is to obtain reasonable assurance that the Group's 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 GROUP'S INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

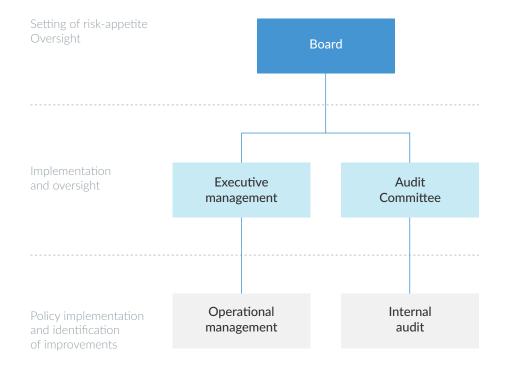
The Group uses a formal risk management program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company. Risks are classified according to their likelihood and significance; different strategies are used to manage identified 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 Audit Committee and administratively 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 adjust 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 negatively impact the achievement of the Group's objectives;

- The identification of the possible level of 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 relationship between the main categories of the risks we encounter and how they affect our strategy is shown in the table below.

Risk\Strategy	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing longtern suppliers
Global politician and economic risks	•	•	•	•		
Sales	•	•	•	•		
Project execution risks	•	•	•	•	•	•
Human Capital	•	•	•	•		
Acquisitions and disposals	•	•	•	•		
Fraud and corruption risks	•	•	•	•	•	•
Technology		•				
Legislation and regulations	•	•	•	•		
Product liability and litigation	•	•	•		•	•
Financial risks	•	•	•	•		

RISK MANAGEMENT & INTERNAL CONTROL (CONTINUE)

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

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 Group has other interests (e.g. EPC projects in the Middle East and Central Asia). The Group has not to date been significantly affected by the recent developments in Ukraine but, in the event of a deterioration of that country's situation, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

The introduction of new regulations or the imposition of trade barriers or international sanctions could disrupt the Group's business activities or impact on the Group's customers, suppliers or other parties with which it does business. In some instances, this could have an adverse, material effect on the Group's financial position and prospects.

Sales

The Group's business depends on the levels of 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 those 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 or in state-sponsored infrastructure projects.

The Group's business depends on the award of contracts and renewals and extensions of existing contracts; moreover, the Group relies on a limited number of key customers and contracts and may incur losses due to unfavourable terms of contracts with certain large customers.

Project execution risks

Since the Group's contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in the EPC segment). 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.

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 industryspecific 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 their services 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.

Acquisitions

The Group cannot be certain that the anticipated cash flows, synergies and cost savings from acquisitions or other transactions will materialize or reach expected levels. Inefficient integration of the newly acquired businesses poses a risk to the Group's operations. Any failure to integrate the operations of the Group's companies successfully could adversely affect the Group's business and financial condition and the results of operations.

Since its formation in 1993, the Group has completed a number of acquisitions involving the purchase of industrial pumps, modular equipment manufacturing and EPC services companies and the Group expects to make additional acquisitions in the future. The integration of these and future acquisitions into the Group's operations poses significant management, administrative and financial challenges.

The integration process may result in unforeseen difficulties and could require significant time and attention from management that would otherwise be directed at developing the Group's existing business.

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 depends on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

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 cases. If necessary, the results of such investigations are provided to the CEO, the Board, the management and 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 anticorruption policies, with a particular focus on those roles most exposed to the risk of breach.

Legislation and regulations

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 recognizes that these developments may have significant implications for its business and development plans. HMS Group continues to monitor these developments.

HMS GDR

As of December 31, 2015, 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.

As of December 31, 2015, 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.

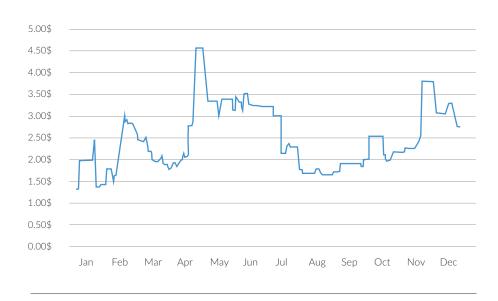
Since February 8, 2016, the ratio of the company's GDRs program was changed:

- Old ratio: 1 GDR equals 1 Ordinary share
- New ratio: 1 GDR equals 5 Ordinary shares

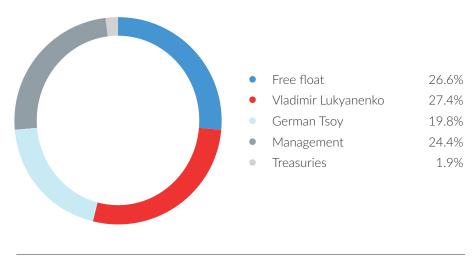
For every 5 GDRs held by holders, they received 1 "new" GDR in return. The issued number of ordinary shares and their nominal value remained unchanged. After the reverse split, issued number of GDRs equals 9,600,800, where outstanding are 8,728,000 depositary receipts and 872,800 - "green-shoe" ones.

According to the terms of the amended deposit agreement with BNY Mellon, the annual depositary fee will equal US\$ 0.01 per "new" GDR instead of the current US\$ 0.03 per "old" GDR, implying a fifteen-fold decrease in such fees.

Information on HMS Group Plc GDRs:



Major shareholders of HMS Group as of December 31, 2015



Min	Max	At the end of the period
19.90	41.21	22.05
19.50	29.90	21.10
10.50	21.15	12.50
1.30	12.50	1.30
1.30	3.05	1.85
1.78	4.50	3.20
1.68	3.20	1.85
1.85	3.75	2.76
	19.90 19.50 10.50 1.30 1.30 1.78 1.68	19.90 41.21 19.50 29.90 10.50 21.15 1.30 12.50 1.78 4.50 1.68 3.20

SHAREHOLDER'S INFO & DISCLAIMER

Information:

Company Name	HMS Hydraulic Machines & Systems Group Plc
Company Type	Public
Fiscal Year-End	December 31
Disclosure	LSE
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov

HMS Group Plc GDR Details:

Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
Exchange	London Stock Exchange
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR : common shares	1:5
Effective Date	Feb 11, 2011
Underlying ISIN	CY0104230913
Depositary bank	BNY Melon
Country	Russia
Industry	OilEquip.,Serv.&Dist

GDRs Holders' 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

Address: 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 Contacts

HMS Group Investor Relations

Address: 7 Chayanova str. 125047 Moscow, Russia,

Tel: +7 495 730 6601 Fax: +7 495 730 6602 Email: ir@hms.ru www.grouphms.com

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