

HMS GROUP IN 2017

KEY INDUSTRIES:

oil & gas
nuclear and thermal power generation
petrochemistry
wastewater industry

BUSINESS PLATFORM

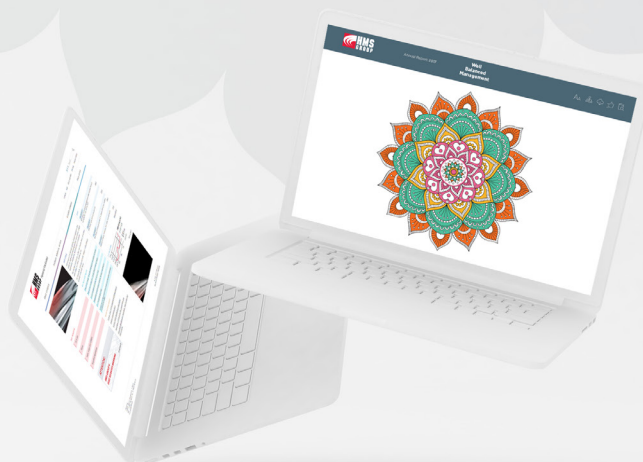
and core expertise are established
and provide a strong base
for **future
growth**

No.1

producer of pumps and oil
and gas equipment as well
as

one of the leading

compressor producers
in Russia and the CIS



You can find more information
on our web site:
grouphms.com/shareholders_and_investors

See
our Online Report
ar2017.grouphms.com

Contents

02

OVERVIEW

02	Who We Are
06	Financial Highlights
08	Chairman Statements
10	CEO Statements
12	HMS Group Assets
14	Investment Theses
16	Our History
18	Our Strategy
20	HMS Business Model
22	Calendar of Events

26

HMS MARKETS AND MACROECONOMICS

26	Macroeconomic Environment in 2017
28	Market Trends

32

HMS PERFORMANCE IN 2017

32	Operational Overview
33	Financial Overview
38	HMS Key Projects & Events
41	Research and Development
46	Corporate Social Responsibility

50

CORPORATE GOVERNANCE

50	Board of Directors
54	Risk Management and Internal Control
60	HMS Global Depository Receipts
62	Information for Shareholders and Disclaimer

64

ADDITIONAL INFORMATION

64	Vocabulary, Calculations and Formulas
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FINANCIAL STATEMENTS

IFRS Consolidated Financial Statements and Independent Auditor's Report
IFRS Parent Company Financial Statements and Independent Auditor's Report

Who We Are

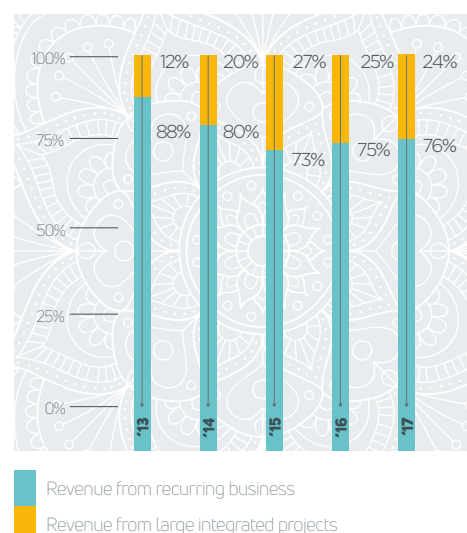
HMS Group is one of the leading privately-owned machine-building companies in Russia and the CIS. The company's profile is production of industrial machinery based around pumps, compressors and oil and gas equipment, including state-of-the-art and highly sophisticated solutions

HMS Group is the only machine-building company from Russia listed on the London Stock Exchange.

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

In 2017, the Group completed the optimization and integration of acquired companies as well as restructuring of its business.

Revenue structure by contract's type
%



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

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

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

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

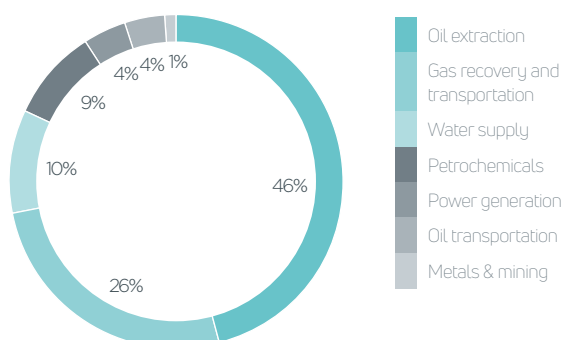
The Group consists of

12 manufacturing facilities in Russia, CIS countries and Germany

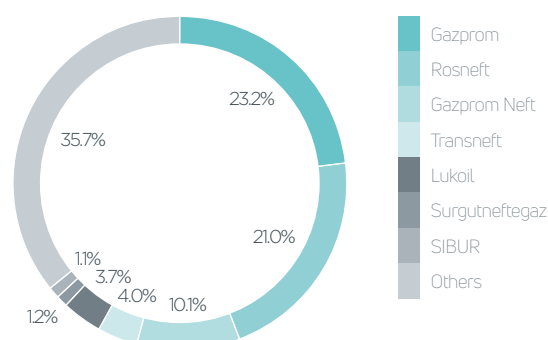
7 Research & Development centres, including one of the largest pump-testing facilities in Europe

~15,000 employees

Revenue structure by industries, 2017
%



Revenue structure by clients, 2017
%



HMS GROUP

operates via **four**
operating segments:

Industrial Pumps

18%

EBITDA margin

37 percent

contribution
in consolidated revenue

46 percent

contribution
in EBITDA

Description

This is the oldest business segment, responsible for the project and design, engineering, manufacturing and supply of 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 countries and across the globe. It also provides aftermarket maintenance, repair services and other support for its products.

Core products and services:

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

Oil & Gas Equipment and Projects

12%

EBITDA margin

48 percent

contribution
in consolidated revenue

38 percent

contribution
in EBITDA

Description

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

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



Well Balanced Management

Description

The compressor business segment was established after the acquisition of the leading Russian compressor producer, Kazankompresormash, in July 2012.

In 2013, this segment was bolstered by the acquisition of NIITK, a research & design institute providing compressor technologies. The division is responsible for project and design, engineering, manufacture, and supply of a diverse range of compressors and compressor-based solutions to customers in the oil and gas, metals and mining and other core industries in Russia.

Core products and services:

- Oil & gas production
- Oil & gas transportation
- Gas processing
- Oil refineries
- Oil & gas chemistry
- Refrigeration applications for various industries

Description

The fourth operating segment consists of only one facility, Tomskgazstroy. It focuses on the main and infield pipelines and oil and gas-condensate fields, facilities construction and overhaul.

Core products and services:

- Construction, reconstruction and overhaul of the linear objects, e.g. namely oil pipelines, gas pipelines, product pipelines, water pipelines, condensate pipelines and power transmission lines.

Compressors

13%
EBITDA margin

12 percent
contribution
in consolidated revenue

17 percent
contribution
in EBITDA

Construction

-7%
EBITDA margin

2 percent
contribution
in consolidated revenue

-1 percent
contribution
in EBITDA

Financial Highlights

HMS Group

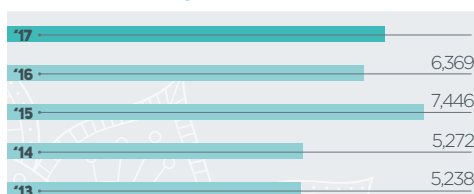
is a dynamically growing international machinery company – a specialist in industrial pumps, compressors, and modular technological units

Name	Unit	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	Change yoy
Revenue	Rub mn	32,358	32,351	37,296	41,582	44,422	7%
EBITDA	Rub mn	5,238	5,272	7,446	6,369	6,839	7%
Net debt	Rub mn	11,102	12,432	12,388	13,347	11,422	-14%
Backlog	Rub mn	22,333	28,243	24,409	24,035	44,155	84%
Order intake	Rub mn	34,814	34,705	32,979	40,624	65,499	61%
EPS	Rub	16.79	-13.83	16.34	10.53	16.32	55%
Dividend per share	Rub	3.41	—	8.37	8.53	11.95¹¹	40%

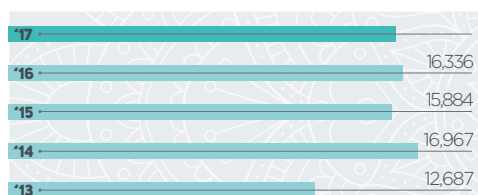
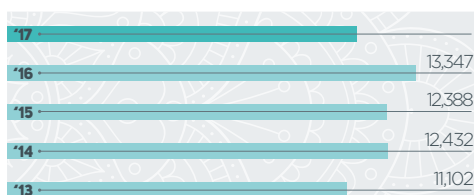


See information about
MARKET TRENDS
on page 28

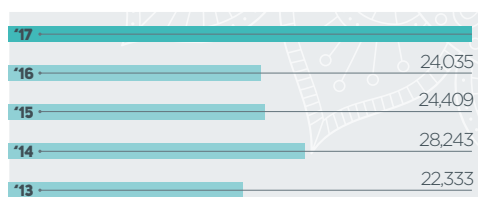
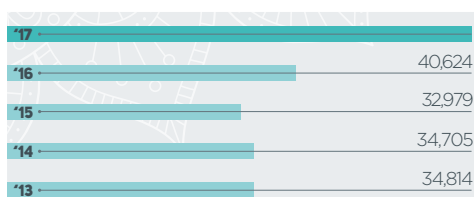
¹¹ If final dividends of Rub 6.83 to be approved at the Annual General Meeting of shareholders to be held on June 21, 2018.

Revenue **+7% yoy****RUB44,422^{mn}****+8%** CAGR 2013-2017EBITDA **+7% yoy****RUB6,839^{mn}****+7%** CAGR 2013-2017

See more information about
**GROUP & SEGMENT
PERFORMANCE**
on page 33

Total Debt **-2% yoy****RUB16,042^{mn}****+6%** CAGR 2013-2017Net Debt **-14% yoy****RUB11,422^{mn}****+1%** CAGR 2013-2017

See more information about
**DEBT
POSITION**
on page 37

Backlog **+84% yoy****RUB44,155^{mn}****+19%** CAGR 2013-2017Order Intake **+61% yoy****RUB65,499^{mn}****+17%** CAGR 2013-2017

See more information about
**OPERATIONAL
OVERVIEW**
on page 32

Chairman Statement

We will continue to distribute a sufficient portion of our cash inflow among the company's shareholders, and aim to please and maintain our stable base of shareholders



Nikolay Yamburenko
Chairman of HMS Group

The financial results of 2017 confirmed the sustainability of the strategy approved by the Board of Directors in 2016.

The strategy envisaged **growth of HMS' market capitalization** based on both organic business growth and a new shareholding policy.

Revenue increased by seven percent, EBITDA by seven percent, and net income – by 73 percent. The Net debt-to-EBITDA ratio declined from 2.10 to 1.67. We entered the year 2018 with a record-high order book of Rub 65.5 billion.

It should, however, be noted that, in general, the last few years have been less than ideal for Russia's oil-and-gas machine building industry. Many of our competitors are going bankrupt or close to it, due to market challenges and poor financial management. High-profile clients continue to apply price pressure, which unavoidably affects the profitability of machine builders.

This unfavorable environment once again underscores **HMS' status as a market leader. The Group continues its growth**, one of the reasons for which is shrinking market share of its competitors.

I am pleased to draw your attention to the fact that, for last five years, since 2013 **our organic CAGR of revenue and net income** has outstripped the inflation rate despite signs of a crisis in Russia's economy. Herewith, we **continued the payment of dividends, modernization of production facilities, and maintained an adequate level of Net debt-to-EBITDA ratio**.

We feel confident in the company's future in the light of the current 2018 order portfolio and the volume of potential contracts under negotiation.

We will continue to distribute a sufficient portion of our cash inflow among the company's shareholders,

taking into account the need to balance the interests of all capital consumers: financing of capital expenditures and working capital, maintenance of the Net debt-to-EBITDA ratio in the comfort zone, and dividend payments.

In 2017, our measures drove HMS' GDRs price up 31 percent year-on-year to US\$ 9.80, and we expect further growth. **We aim to please and maintain our stable base of shareholders, who enjoy high dividend yield**, in the light of the still low liquidity of HMS' GDRs, as well as the relative weakness of Russia's equity market, partly due to sanctions.

RUB **65.5** bn
record-high order book



Your faithfully,
Nikolay Yamburenko

CEO Statement

In 2017, we completed the optimization and integration of acquired assets. Organic 2013-2017 CAGR of our revenue amounted to 8.2 percent, EBITDA – 6.9 percent and Net income – 8.4 percent



Artem Molchanov
CEO of HMS Group

We will celebrate the 25th anniversary of HMS Group in 2018. During these years, **HMS Group has matured into a thriving company with a place in the market and loyal customers.**

Since its establishment in 1993, we have come a long way, from a small trade company to **one of the largest machine-building companies in Russia.** Moreover, we are **the only public machine-builder from Russia listed on the London Stock Exchange.**

In 2017, we completed the optimization and integration of acquired assets. Over the last few years, **we have successfully realised a number of large contracts, which involved sophisticated technological solutions,** with large Russian and international companies, namely Rosneft, Gazprom, Gazprom Neft, Transneft, BP, Eni, ROSATOM, and others. The reputation we've earned as a reliable supplier, and the references we've received will allow us to further strengthen our presence on the extremely competitive and technically sophisticated market of solutions based around pumps, compressors and oil and gas equipment, both within Russia and abroad.

Organic 2013-2017 CAGR of our revenue amounted to 8.2 percent, EBITDA – 6.9 percent and Net income¹¹ – 8.4 percent amid downturn in Russia.

In 2017, we completed a project to localise production of pumps made by our Ukrainian and German production facilities at HMS Livgidromash, located in the Orlov region. The main emphasis of the project is the design and production of high-tech pumps for transportation of oil and oil products, API oil processing and petro-chemistry, thermal and power energy, and water utilities. We also continued the on-going modernization of our production capacities.

Despite substantial capex expenses, **the annualised free cash flow amounted to 1.15 billion rubles** from 2013 to 2017. The largest part of this free cash was distributed among our shareholders through dividend payments and a buy-back program. Amidst the fluctuating Russian equity market due to EU and US sanctions, **we plan to hold firm to a strategy of maximization of shareholders' income from dividends.**

We closed the 2017 year with a supportable debt level. **The Net debt-to-EBITDA ratio decreased to 1.67,** which is significantly lower than the banking and internally set covenants.

In 2017, HMS continued its **strategy of reducing interest expenses and extending the debt portfolio's duration.** We will uphold this strategy in 2018, and expect that it will give added **momentum to the growth of net income.**

We met the 2018 year with a record-high order book. More importantly, **we see great opportunities available on the market, and are confident that we possess the power and ability to exploit them.**

8.2 percent

organic 2013-2017 CAGR of revenue

Your faithfully,
Artem Molchanov

¹¹ Net income (profit for the year) adjusted.

HMS Group

Assets

Industrial Pumps



HMS Livgidromash

Location: Livny, Orel region, Russia

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

www.hms-livgidromash.com

Nasosenergomash (NEM)

Location: Sumy, Ukraine

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

www.nempump.com/en

Promburvod (PBV)

Location: Minsk, Belarus

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

www.promburvod.com

Livnynasos

Location: Livny, Orel region, Russia

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

www.livnasos.ru/en

Bobruisk Machine Building Plant

Location: Bobruisk, Belarus

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.

www.hms-bmbpump.ru

HYDROMASHSERVICE

Location: Moscow, Russia

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

Services: commissions, installation supervising, repair, service maintenance and equipment upgrade

www.hms.biz

Dimitrovgradkhimmash (DGHM)

Location: Dimitrovgrad, Ulyanovsk region, Russia

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

www.himmash.net

Apollo Goessnitz GmbH

Location: Goessnitz, Germany

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

www.apollo-goessnitz.de/en

Nizhnevartovskremsservice

Location: Nizhnevartovsk, Russia

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

www.nv-rs.ru

VNIIAEN

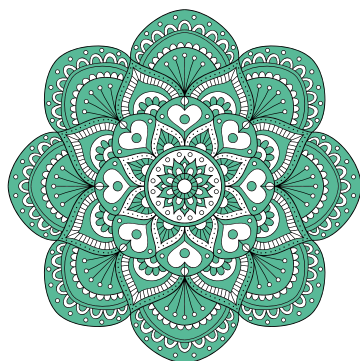
Location: Sumy, Ukraine

Description: development of pumping equipment for large complexes of power engineering; on 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.

www.vniiaen.sumy.ua/en

Subordinate enterprise

Oil & Gas Equipment



HMS Neftemash

Location: Tyumen, Russia

Products: modular equipment for oil & gas, equipment for water injection systems; automatic measuring units for oil wells; oil pumping stations, etc.

www.hms-neftemash.ru/en

Sibneftemash

Location: Tyumen, Russia

Description: special oilfield equipment, oil exploration intensification and efficiency; isolation works.

www.sibneftemash.ru/en

Sibnefteavtomatika (Sibna)

Location: Tyumen, Russia

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

www.sibna.ru/en

Giprotyumenneftegaz (GTNG)

Location: Tyumen, Russia

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

www.gtng.ru/en

Institute Rostovskiy Vodokanalproekt (RVKP)

Location: Rostov-on-Don, Russia

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

www.rvkp.ru

Compressors



Kazankompressormash (KKM)

Location: Kazan, Russia

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

www.compressormash.ru/en

NIITURBOKOMPRESSOR n.a. V.B.Shneppa (NIITK)

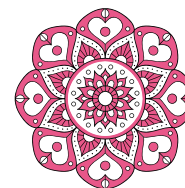
(before 26.08.1985 – ICBS – Special Design Bureau compressor engineering)

Location: Kazan, Russia

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

www.niitk-kazan.ru/en

Construction



Tomsgazstroy (TGS)

Location: Tomsk, Tomsk region, Russia

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

www.tgs.tomsk.ru

Investment Thesis

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

1

Mature Business Platform

HMS Group's business is based on **a mature and established business platform** with a focus on products where the Company has unmatched R&D expertise and production capabilities

The company has **stable recurring business** with confirmed order backlog for the next year

EU presence: HMS Group has access and is **conducting business with EU engineering companies** (Siemens, Alstom, etc.) through its EU-based subsidiary Apollo Goessnitz

Business is to be further developed organically, i.e. currently there are **no plans for M&A**

Further development will be carried out with **low CAPEX** at ca. 1.5x the D&A level

2

Entering new markets

Further development of business with **Gazprom & other major names in the oil & gas industry by executing large customized projects** in all HMS Group's key segments

Customers in new markets are already a part of the client base and offer strong future opportunities

Return to the market of oil transportation on the back of localization of trunk line pumps in Russia

Oil & gas refining and petrochemicals represent another growth area with expanded strong references, incl. major international engineering companies

3

Optimisation of the business portfolio

HMS entered the oil & gas infrastructure construction segment in 2007 with a view to offering integrated solutions

Following the financial crises, this segment saw a sharp decrease in profitability

HMS Group decided to exit the segment and continues to **develop Engineering and Procurement ("EP") business**, based on HMS products and engineering competences

Factors of Business Sustainability:

1 Delivery of Mission-critical equipment:

- HMS' equipment **is crucial to clients. It is installed at the final stage** of construction projects and is **difficult to replace**
- The project cost is affordable within clients' project budgets: equipment accounts for **less than 2-3% of the total project CAPEX**. As a result, **clients do not postpone their purchases**

2 Leader in both large projects and standard production segments:

- HMS is the established top player in **large-scale projects** (with a "blue-chip" client base)
- The company enjoys **sustainable, recurring business from standard pumps and compressors** with over six thousand clients



3 Management focuses on maintaining a moderate debt position:

- The current **Net debt-to-EBITDA ratio of 1.67** is conservative and **in line with BBB/BB rating categories**
- **Debt is naturally hedged** as HMS follows a strategy of a **match in revenues, costs and debt currency structures** – ca. 98% of debt is Russian ruble denominated
- Short-term debt remains at low levels and is actively managed

4 Well-diversified quality client base:

- Over 6,000 small and medium clients generate on average 80% of revenue
- The blue-chip client base covers nearly all Russia's oil and gas major players
- Our largest clients operate through numerous contracts in different subsidiaries, taking independent purchasing decisions and offering numerous points of entry

5 Low capex needs and flexible dividend policy

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

6 Market share and installed base

- HMS is a **major player in pumps, oil and gas equipment and compressors**, with significant market shares and established relations with clients (including follow-on services)
- The company has **the largest installed equipment base** in Russia

Our 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.

1995

HMS Group launched a pump skid assembly business in Russia and the CIS countries.

Hydromashservice became one of the leading enterprises specializing in the delivery of pumping equipment for oil and gas complexes, the power and water industry, and housing utilities.

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.

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. HMS increased its R&D capabilities as well, through the acquisition of a 49% stake in **VNIIAEN**, an R&D centre and the only one of its kind in the CIS, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

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.

2009

HMS Group continued to enhance its position in the water utility, power generation and oil and gas sectors through the acquisition of **Sibnefteavtomatika**, 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.

2013

HMS Group **disposed 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.

The company received its first large compressor contract to deliver a complete gas compression system based on a centrifugal compressor with a gas turbine drive to **Stavrolen** (Lukoil).

2016

HMS Group established its business platform and core expertise, which provide a strong base for future growth.

2004

HMS Group enhanced its oil and gas equipment offerings through the acquisition of **Neftemash**, one of the largest Russian producers of modular flow control equipment for surface oilfield sites.

2005

HMS Group became a leading manufacturer of high capacity customised 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**, a provider of construction services for oil and gas pipelines, and expanded its maintenance and repair business through the acquisition of **Nizhnevartovskremervice**.

2010

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 **Giprotyumenneftegaz**, 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** (Transneft), and commenced a large-scale production of pumps for use in nuclear power generation.

2011

HMS Group went public in February 2011, placing 37.2 percent of its stock on the London Stock Exchange via GDRs.

As a key consolidator in the domestic pumping industry, HMS completed three acquisitions (**Sibneftemash**, **Bobruisk Machine Building Plant** and exercised the option to acquire its next stake in 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 **Kazankompressormash**.

Pursuing the enhancement of its pumps product portfolio, the Group completed the acquisition of the German manufacturer of high-end specialised pumps, **Apollo Goessnitz GmbH**, which strengthened its market position in industries with a need for technologically-demanding integrated solutions.

2017

The results of the 2017 year confirmed the sustainability of the strategy approved in 2016. A smooth and well balanced year

Our Strategy

Vision



HMS Group is a dynamically growing international machinery company – a specialist in industrial pumps, compressors, and modular technological units, as well as a provider of integrated solutions for oil & gas, petrochemicals, power generation, mining & metals and water utilities.

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

Strategic Goals and Priorities

1

Further organic growth

Despite the tough economic situation in Russia, since 2014 **our business has been growing steadily**. Our objective is to **keep the growth** across all our main business segments: industrial pumps, industrial compressors, oil & gas equipment and engineering.

On the one hand, we **broaden business with our existing clients** by developing new products and offering sophisticated solutions that meet growing customers' requirements. Our significant long-term CAPEX programme is intended to help us keep up the pace.

On the other hand, HMS Group continues to **expand its client base in all the regions of Russia and the CIS, in the Middle East, Asia and Europe**.

We are also keeping our options open on **entering new market segments**, if we find them promising.

2

Business efficiency increase

We are running systematic **work on increasing the efficiency** of our businesses, from standalone plants to the level of cooperation between our companies and business segments. HMS Group is going to continue this work as increased profitability helps us invest in further business development and create additional value for investors.

Our technical expertise and proven experience in supplying complex solutions allow us to participate in **high-margin large projects**. We intend to keep their share in our contract portfolio. We plan to take part in multiple large-scale infrastructure projects across all sectors, a strategy which helps us strengthen reliable partnerships with industry leaders.

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

We recognise different forms of strategic partnership (joint ventures, license agreement, consortia) with machinery and engineering companies, both Russian and international, as a way to offer new, **sophisticated products and integrated solutions to our customers**, as well as enter new markets and product segments.

3

Sustainable development

Reliable and up-to-date business processes are critical for the company's sustainable growth.

In the face of the rapidly changing international environment and emerging uncertainties, we are consistently working on maintaining **an effective management system and corporate structure**.

The company is strengthening its competences in international marketing and sales, new areas of engineering, and project management. Over the past few years, we have managed to gather a team of highly devoted professionals in all business functions. We also continue to attract new talent, starting from university graduates and ranging to experienced professionals at all levels.

We are dedicated to **the development of our personnel**: HMS Group has a multi-level system of **training** for its employees, and our management team are also regularly improving their qualifications to meet new challenges and achieve ambitious strategic goals. We are now focusing on the **culture of innovations and change** by developing incentives to ensure that each employee contributes to the company's success.

After over 20 years in business, HMS Group has become a full-cycle machinery company and achieved a leading position among Russian players. The company follows **best practices and international standards** in R&D, engineering, manufacturing and quality management in order to meet high requirements of our customers in Russia and abroad. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of potential clients.

Facing new technological challenges, we implement the **latest and most efficient IT systems**, from specific software for new product development to ERP and IT security solutions.

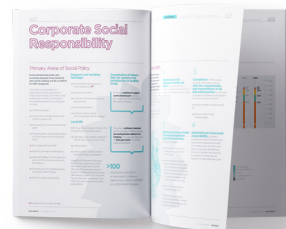
Corporate Responsibility



HMS Group follows ethical principles in respect of all its stakeholders.

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

We carry out charity activities and offer support to charitable foundations for children and the disabled. In 2017, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions where we operate.



See information about
**CORPORATE SOCIAL
RESPONSIBILITY**
on page 46

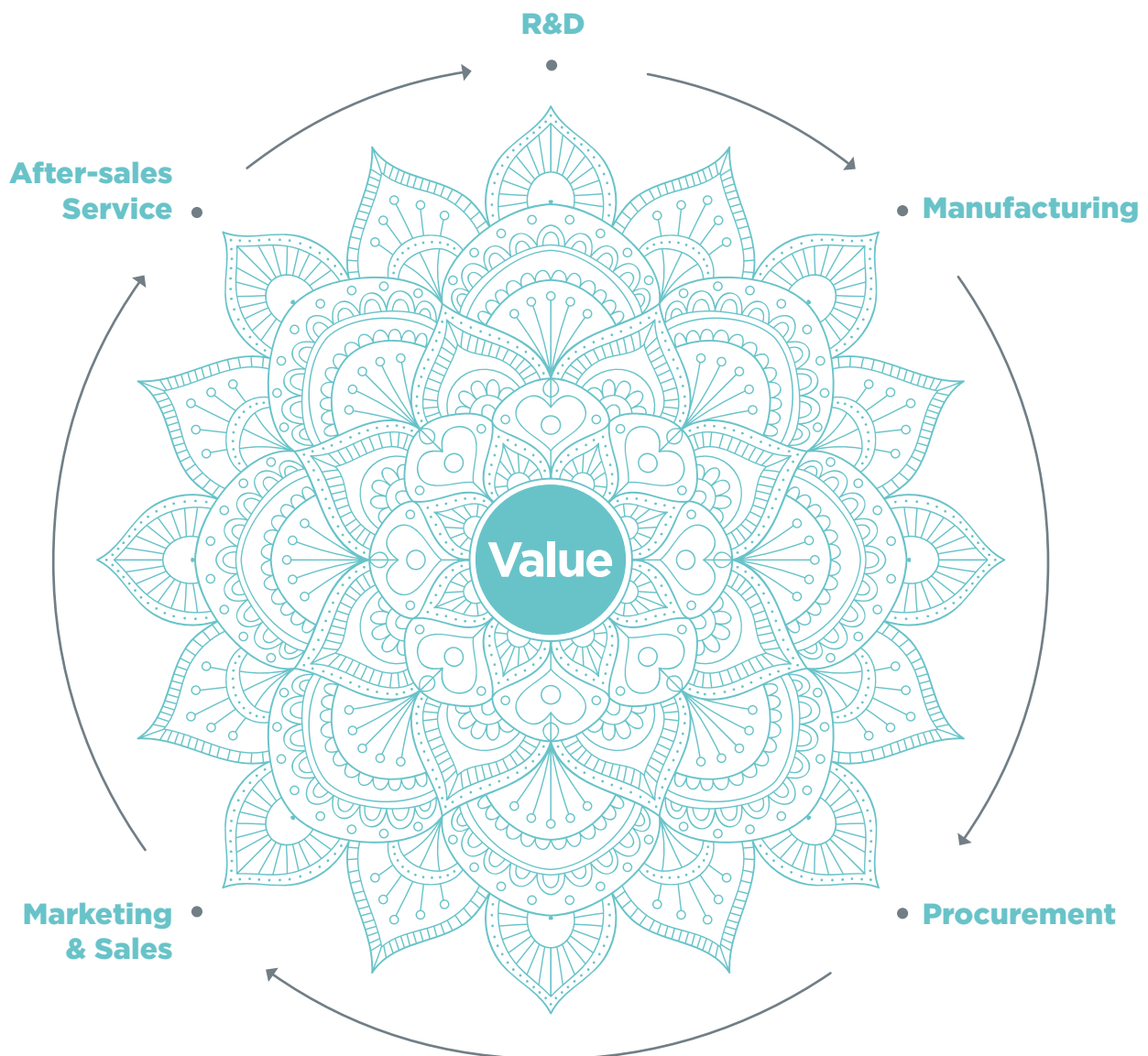
HMS

Business Model

HMS Group's business model comprises all major elements of the value chain: research & development, manufacturing, procurement, and marketing & sales, as well as after-sales service across all of its business segments (industrial pumps, compressors and oil & gas equipment and projects, and construction)

HMS Group's business consists of recurring operations (the production of standard and customized equipment and sales across all target segments) and of large integrated projects that cover a full business cycle (from engineering and research & development to manufacturing and commissioning).

HMS' customers are large and medium sized industrial companies. We also approach small businesses through our dealers and independent trading companies. Participation in mega-projects makes it possible to maintain and strengthen business relations with the largest oil & gas and energy generation companies, as well as with leaders in many other industries.



Our core competences are research & development and engineering, which allow us to develop new products and offer state-of-the-art solutions. The development of new products and solutions is focused on innovations and efficiency in order to meet growing customers' requirements.

Our R&D capabilities include three leading R&D centres in Russia (Moscow, Kazan and Livny), one center in Ukraine (Sumy), and one in Germany (Apollo Goessnitz), as well as two leading Russian engineering centres (in Tyumen for oil & gas and in Rostov-on-Don for water & wastewater). We actively benefit from synergies between our R&D and engineering centres in terms of product development and project implementation.

Our production facilities consist of 12 plants in Russia, Ukraine, Belarus and Germany. In order to shorten lead times and reduce costs, we can benefit from cooperation between our production plants, which work as one large manufacturing complex. HMS production facilities perform joint supplies for large-scale projects and can relocate orders using all capacities available.

In 2017, we continued to implement our large-scale capital expenditures programme to develop our manufacturing capacities and achieve the highest technological level of production. The second stage of the Localization project (heavy duty API pumps for the oil & gas and energy industries) at HMS Livgidromash was completed, so that the shop is now in full operation. We also continue to expand our manufacturing capacities at Kazankompressormash (new capacities in centrifugal compressors and a welding shop) and other production facilities.

In 2017, HMS' overall sales volumes reached Rub 44.4 billion (+7% yoy). Our client list comprised over 6,000 names in Russia and abroad. We increased sales to many client groups, especially in oil & gas, conventional and nuclear power generation, and water utilities. The oil & gas equipment and projects segment showed the largest sales increase (+28% yoy) due to a number of implemented large projects.

Our marketing function helps us strengthen and expand our brand in both conventional and prospective markets. As part of our marketing strategy, we regularly present our latest products and solutions to our customers at leading trade fairs in Russia and abroad.

Outside of Russia, HMS' sales offices are currently located in Germany, Italy, the UAE and Iran, as well as in Belarus, Kazakhstan, Ukraine, Uzbekistan and Turkmenistan. We are also growing our presence in new markets and developing a relationship with global engineering and oil & gas companies in Russia and abroad.

7

R&D centres

RUB 44.4^{bn}+7% yoy
sales volumes

12

plants in Russia,
CIS countries and Germany

>6,000

clients in Russia and abroad

Calendar of Events

02/February

HMS Group signed a new 3-year credit agreement with UniCredit Bank totalling Rub 800 million with maturity in 2020. The credit line was utilised for general corporate needs, including refinancing its previously signed credit line at lower interest rates.

KKM signed a contract worth
~RUB900^{mn}
 for delivery
 of compressor equipment,

including a gas transportation unit, to an oil & gas condensate field located in the Yamal region, Russia

HMS Neftemash produced and delivered a gas treatment unit for Siberian Oil and Gas Company. The unit, with a capacity of up to 46,400 Nm³/hour, 10 MPa calculated pressure, and a pumping temperature from 15 to 50°C, is intended for the removal of condensed moisture from gas, the reduction of fuel and buffer gases, and for the pretreatment of purge gas. The unit consists of two blocks (main and control sections) and was fitted with the most modern engineering and safety systems, which maintain reliable operations in low temperatures (down to 60°C).

HMS placed
 a **RUB3^{bn}**
 exchange bonds issue of
 JSC "HYDROMASHSERVICE,"

the main operational subsidiary of the Group

The company successfully came back to the public debt capital markets with a 3-year put option and a 10-year maturity bonds issue. It was the first HMS Group debt issuance since 2013. Following two weeks of marketing in Russia, the bookbuilding was successfully completed intraday with the total demand reaching as high as Rub 11 billion. The final book was more than 3.6 times oversubscribed, with orders from about 40 investors. The demand for the issue mainly came from Russian banks, asset management and investment companies. The strong momentum in the book made it possible to narrow the price guidance three times from the initial 11.00–11.25% and finally set the coupon at 10.75%.

The Lead Managers of the transaction were Raiffeisenbank, Renaissance Capital and Sovcombank.

On February 10, 2017, Fitch Ratings assigned the issue an expected local currency senior unsecured rating of 'B+(EXP)'/RR4.

The issue is included in the Lombard list of the Central Bank of Russia.

03/March

KKM signed a contract to manufacture and supply a gas compression system for a compressor station construction project at the Vostochno-Messoyakhskoye oil, gas and condensate field operated by Messoyakhneftegaz. The gas compression system, with a 21 MNm³/day capacity and 140 bar discharge pressure, was engineered with the participation of R&D institute NIIturbokompressor and involved application of modern 3D design methods and advanced compressor equipment solutions to ensure highly-efficient compression of associate petroleum gas. The equipment will be manufactured in a hangar version based on 53GC2-384/4-141 compressor of two parallel arranged compression stages driven by an 18 MW gas turbine made by Kazan Motor-Building Production Association, and will be equipped with all the necessary auxiliaries and up-to-date compressor control and monitoring systems.

The gas compression system

21 MNm³/day
 capacity

140 bar
 discharge pressure

05/May

HMS Group took part in the 2017 **Iran Oil Show international exhibition**, held on May 6-9 in Tehran, Iran). The Group presented samples and models of contemporary pumps and compressors for the main processes of oil, gas and condensate upstream, midstream, and downstream applications:

- Overhung pumps with radially split casing of the KRH and KRHA series (type OH2 in accordance with API standard 610)
- Axially split, multistage pumps of the AMG and NPS series (type BB3 by API 610)
- Double-casing, radially split, multistage pumps of the CNSDp series (type BB5 by API 610)
- Non-integrally geared centrifugal compressors with vertically split casing (API standard 617)

06/June

A number of HMS' managers acquired

64,143

of HMS Global depositary receipts in total, using their own funds

HMS Group signed

a **RUB6.3^{bn}**

contract for the delivery and installation

of oil & gas equipment for one of the largest gas fields in Russia, the next stage of the previously announced

10.2

billion-ruble-contract

07/July

The Russian credit agency Expert RA assigned the JSC HMS Group (a legal entity, the holder of HMS Group's assets, located in Russia) a first time Issuer Rating of ruA+, with a "stable" outlook.

ruA+

"Stable" outlook

HMS Neftemash completed the delivery of the low temperature separator equipment to the East Urengoy license block, part of the Rospan International project "The 2nd construction phase of gas and gas condensate treatment objects".

HMS Group signed a number of credit agreements with Sberbank totalling

RUB4.9^{bn}

These 5-year, uncommitted credit facilities are to be utilised for general corporate needs, including the refinancing of HMS' current credit lines at lower interest rates. A portion of the credit facilities will be kept undrawn as a reserve.

KKM signed an agreement with ISD DUNAFERR to deliver compressor equipment for coke gas dry compression for the manufacturing lines' retrofit project.

Calendar of Events

08/August

One of HMS' managers acquired

10,340

of HMS Global
depository receipts
using his own funds

A gas compression system, made by KKM, was tested and commissioned at the booster compressor station No.3 of the Yuzhno-Balyksky Gas Processing Plant (SiburTyumenGaz). The gas compression system is based on 4GC2-242/12-80 centrifugal compressor with a 170,000 Nm³/hour capacity and 80 bar discharge pressure, and is equipped with an 18 MW gas turbine drive made by KMPO. The equipment was designed for compression and supply of dry stripped gas to a main gas pipeline, and was delivered to the facility in a ready-to-use version.

The gas compression system

170^{kNm³/hour}
capacity

80^{bar}
discharge pressure

18^{MW}
gas turbine drive

09/September

Two HMS' managers acquired

13,995

of HMS Global
depository receipts in total,
using their own funds

Fitch Ratings affirmed JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDR)s of "B+" and the outlook "Stable." According to the press release, the ratings reflect HMS' leading market position and its stable fundamentals.

B+
"Stable" outlook

KKM delivered the equipment for a project of the unstripped gas compressor system retrofit at the Minnibaev Gas Processing Plant (Tatneft). Two compressor systems based on centrifugal compressors (each with a 394 cub.m/min capacity, 42.17 bar discharge, 6,300 kW driver, and 28 compression ratio) were designed for the compression of unstripped petroleum gas.

KKM was recognised as **the best Russian company** among more than 30 nominees in the category **"Pumping and Compressor Equipment"** annually held by the Moscow Oil and Gas Conference. The rating was based on a survey of 27 oil and gas companies – Gazprom, Gazprom Neft, Rosneft, LUKOIL, Surgutneftegaz, Tatneft, TAIF-NK and others.

10/October

HMS' production facilities, namely DGHM, GTNG, KKM, HMS Neftemash and Sibneftemash, were **prequalified by UOP LLC (HONEYWHEEL)** for the production localization and collaboration at different sites in Russia.

11/November

HMS Neftemash and Sibneftemash were successfully prequalified by Linde Group for collaboration on NOVATEK's **Arctic LNG-2 project**, related to natural oil extraction and liquefied gas production.

HMS Group signed two contracts worth

RUB4^{bn}

for construction and installation works

at clients' oil & gas facilities in Western Siberia. Projects are expected to be completed within a year and a half.

KKM received the API 617 (part 1-2) certificate, which confirms the compliance of centrifugal gas and air compressors by KKM with the highest quality requirements of the leading international oil and gas companies. The certification audit was performed by Bureau Veritas.

An HMS' manager acquired

5,500

of HMS Global depositary receipts, using his own funds

12/December

HMS Neftemash successfully completed a project for LUKOIL to draft, assemble, deliver, commission and supervise modular equipment for associated oil and gas dehydration with an 18,000 Scm³/hour gas treatment capacity, for construction of the Chashkino gas compression station.

An integrally geared compressor system of the AEROCOM series, made by KKM, was successfully tested and put into operation at the Omsk Refinery (Gazpromneft-ONPZ). The AEROCOM system is designed to compress nitrogen in the process line for purification of regeneration gases from chlorine. It employs advanced API 617 technologies ensuring the high efficiency of the equipment. The equipment was supplied under the import substitution program implemented by Gazprom Neft for the L-35/11-1000 catalytic reforming unit retrofit project.

Unit retrofitting works are part of the second large-scale modernisation phase of the Omsk Refinery, scheduled to be completed by 2020, with the aim of increasing the key performance indices of oil refining to the level of world industry leaders, and further reducing the environmental impact of production **by 28 percent**.

HMS Group signed an agreement to deliver API 610 process pumps to a refinery owned by a major Russian oil & gas company.

The total contract value is c.

EUR15.6^{mn}

The project is planned to be executed in 2018-2019 1H.



See information about
**HMS KEY
PROJECTS & EVENTS**
on page 38

Macroeconomic Environment in 2017

In 2017, the world economy GDP growth rate continued to accelerate and reached 3.6% against 3.2% in 2016: advanced economies grew by 2.2 percent compared to 1.7 percent in 2016, emerging markets and developing economies also grew faster than the year before (4.6% vs. 4.3% in 2016). The economic growth, coupled with improved compliance among OPEC and non-OPEC producers, supported the recovery of oil prices: by the end of 2017, oil prices reached US\$ 66 per barrel

Following higher oil prices and macro-economic stabilisation, **the Russian economy** returned to modest **growth of 1.5%**. The economic growth was supported by expansion of domestic demand (+3.4%) and investments (+8.3%). However, continued western sanctions against Russia slowed down the country's GDP growth, especially in terms of raising external financing. The threats to future economic growth include further drop in oil prices and expansion of sanctions, that might result in restricted access to capital markets and difficulties in accessing the latest technologies.

In 2017 the Russian Ruble did not show sharp fluctuations. By the end of the year it had appreciated by 5 percent against the US Dollar, but depreciated by 8 percent against the Euro (RUB/USD: from 60.66 to 57.60; RUB/EUR: from 63.81 to 68.87).

The current account in the balance of payments increased from US\$ 24.4 billion in 2016 **to US\$ 35.2 billion in 2017**, due to significant growth in energy export (from US\$ 154 billion in 2016 to US\$ 193 billion in 2017) supported by higher oil prices, which also compensated for the significant growth in imports. Capital outflow increased from US\$ 18.4 billion to US\$ 24.8 billion. Banks' foreign debt grew by 13 percent to US\$ 103.4 billion in 2017.

The Central Bank continued its approach to monetary easing in 2017 and reduced the key rate **from 10 to 7.75%** over the course of 2017. In its November statement, the Central Bank confirmed gradual reduction in the key rate as the inflation stabilizes at around 4%.

The total sum of outstanding credits issued to the non-finance sector increased by 3.5 percent (from Rub 40.9 trillion at the end of 2016 to Rub 42.4 trillion at the end of 2017), yet the increase was owed to individuals. **Outstanding credits to corporate borrowers remained at the same level of Rub 30.2 trillion**. The weighted average interest rate on long-term corporate credits (in Rubles) declined from 12.99% in January 2017 to 9.25% in December 2017.

Despite continued improvements in Russia's real economy, global investors refrain from investments in the Russian stock market. The MICEX index decreased from 2,232 points in January to 2,110 points in December (-5%), with a total capitalisation of Rub 9.3 trillion, while the RTS index (which is based on market capitalisation in the US Dollars) grew slightly from 1,147 points to 1,154 points (+0.6%) with a total capitalisation of US\$ 161.6 billion.

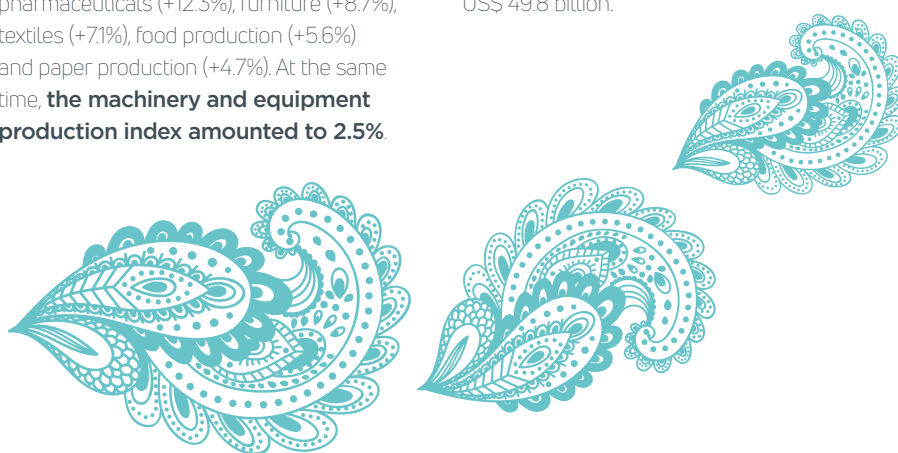
The industrial production index grew by 1.0 percent in 2017. The raw materials extraction sector grew by 2 percent, while manufacturing showed lower positive dynamics with a 0.2 percent increase. The main growth in manufacturing came from the automotive industry (+12.9%), pharmaceuticals (+12.3%), furniture (+8.7%), textiles (+7.1%), food production (+5.6%) and paper production (+4.7%). At the same time, **the machinery and equipment production index amounted to 2.5%**.

In 2017, inflation in Russia (the Consumer Price Index) was minimal, in the context of the history of modern Russia (2.5%). A combination of relatively tight monetary policy and fiscal policy was the main cause of the inflation slowdown. **Industrial Producers Price Index reached 8.4%** in December 2017 (compared to December 2016), due to an increase in raw materials, while the manufacturing price index amounted to 4.2%.

The unemployment rate declined slightly, by 0.3 percent (from 5.5% in 2016 to 5.2% in 2017), with a total labour force of 75.8 million people (-0.4%). However, Russia still feels the lack of certain categories of professionals (qualified engineers, managers, industrial workers). Low inflation and a recovering economy allowed real wages to increase by 3.4 percent. Yet, real disposable income continued to decline (-1.7%).

The Russian Budget showed a deficit of Rub 1.3 trillion (planned: 2.0 trillion), which is equal to 1.5% of the GDP (2016: 3.4%). Budget revenue increased by 12 percent, while spending grew by only 0.1 percent.

In 2017, Russia decreased its external sovereign debt by 2.7 percent to US\$ 49.8 billion.



Market Trends

Oil and Gas Industry

In spite of the attempts by the Russian Government to reduce the economy's dependence on the energy sector after the drop of oil prices in 2014-2015, it nevertheless remains the main contributor to the Russian GDP. After the share of oil and gas income in the Federal Budget decreased from 50% in 2013 to 36% in 2016, it grew up to 40% in 2017 as a result of an increase in oil prices from US\$ 42 to US\$ 53 per barrel. In 2017, export of natural gas, oil and oil products reached US\$ 193 billion (47% of total Russian exports), compared to US\$ 154 billion (46% of total exports) in 2016. Crude oil exports only brought Russian companies US\$ 93.3 billion in 2017 (+27%). Total natural gas exports amounted to US\$ 38.1 billion (+22%).

Upstream

The year 2017 was marked by OPEC and non-OPEC countries' extended output cuts, which were aimed at reducing oil production by 1.8 million barrels per day in total. They were targeted to balance supply and demand on the oil markets and support oil prices. In accordance with this step, Russia took on the obligation to reduce production by 300 thousand barrels per day. As a result, the country's production showed a slight decline (546.7 million tons in 2017 compared to 547.3 million tons in 2016).

During 2017 Russian well stock increased from 173.1 million units to 175.3 million units (+1%). Total drilling rate increased more significantly and reached 28.6 thousand kilometers (+11%).

Existing oilfields are gradually getting exhausted, so oil and gas companies are increasing the extraction of hard-to-recover and offshore oil, that results in higher upstream capex. Fixed capital investments in extraction of crude oil and natural gas reached Rub 1.9 trillion. In 2017, the exploration of a number of new large oilfields started in Russia, including the Yurubcheno-Tokhomskeye, Kondinskoye, Filanovsky and Pyakyakhinskoye fields.

Russia remains the largest producer of gas in the world. In 2017, the country achieved its highest level of gas extraction in 17 years with 691 bcm of natural and associated gas (+8%), that was supported by the growth of exports, as well as strong domestic consumption.

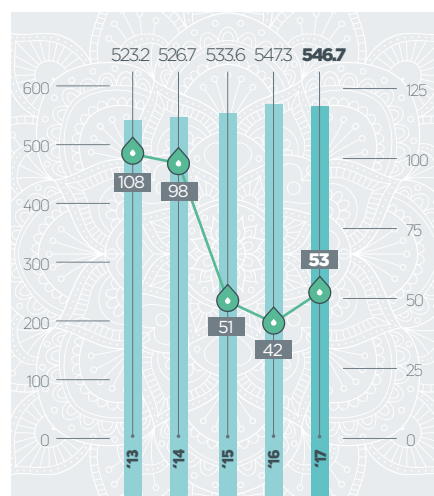
Crude oil exports brought Russian companies in 2017

US\$93.3^{bn}
+27%

Total natural gas exports amounted to

US\$38.1^{bn}
+22%

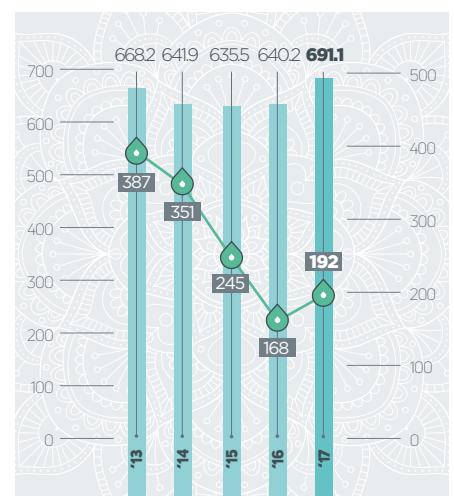
Crude oil production in Russia (including gas condensate) and Urals oil price dynamics



Oil price, US\$/barrel (Urals)

Crude oil production in Russia, incl. gas condensate, million tons

Natural and associated gas production in Russia, and average export price of gas



Gas price, US\$/tcm

Natural gas and associated gas production in Russia, bcm

Source: the Ministry of Energy of the Russian Federation, the Ministry of Finance of the Russian Federation

Midstream

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

Transneft is the major operator in Russia of the oil trunk pipeline system (51,500 km) and oil-product trunk pipeline system (16,900 km). The annual capex in the oil transport system exceeded Rub 300 billion in 2016-2017. Total planned capex in development and modernisation for the next five years is more than Rub 1,100 billion. The list of main projects includes further increasing the ESPO oil pipeline capacity, Sever (North) and Yug (South) Projects (oil-product pipelines).

The total length of the Russian gas transport system is close to 180,000 kilometers. The major operator of gas pipelines is Gazprom. The main ongoing projects include the export pipelines, such as the Power of Siberia, Nord Stream 2, TurkStream, the domestic pipelines Ukhta-Torzhok 2, and Gryazovets-Slavyanskaya CS.

Total planned capex in development and modernisation of the oil transport system for 5 years is

>RUB1,100^{bn}

Downstream

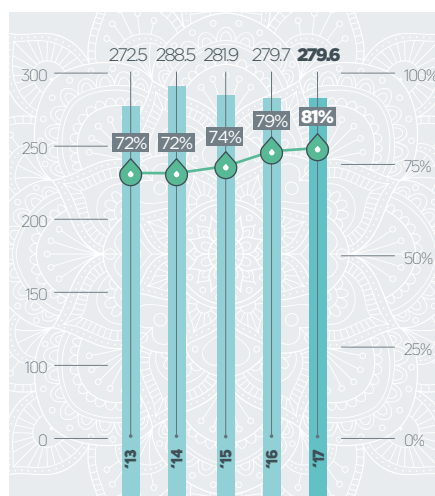
There are 39 large oil refineries in Russia with a total crude oil distillation capacity of 800,000 tons per day. Rosneft, the leading Russian oil company, is the largest refinery operator owning nine major refineries. LUKOIL, with four major refineries, is the second-largest refinery operator in the country. Primary oil processing in Russia reached 279.6 million tons in 2017 (close to the level of 2016).

Fixed capital investments in the production of refined petroleum products and coke reached Rub 381.2 billion in 2017 (+74%). Enlarged investments in oil processing in Russia resulted in the continued increase in the average processing depth (to the level of 81% in 2017 from 72% in 2013) and the yield of light products.

A number of other large projects on the modernisations of oil refineries as well as new construction are planned on the horizon till 2025. Examples of some of the main projects include the modernisations of the Samara and Ufa refineries and the construction of new units at the Moscow and Omsk refineries.

Russian gas processing capacities consist of 29 plants, which processed 75.7 bcm in 2017. The main trend in gas processing is the steadily increasing share of petroleum associated gas, which reached c. 47 percent in 2017 (2007: 35%), as well as increasing volumes of LNG production. Ongoing and prospective projects in gas processing and LNG production include the Amur gas processing plant, Arctic LNG, Baltiysky LNG, and LNG Sakhalin 2.

Primary oil processing volume and processing depth in Russia

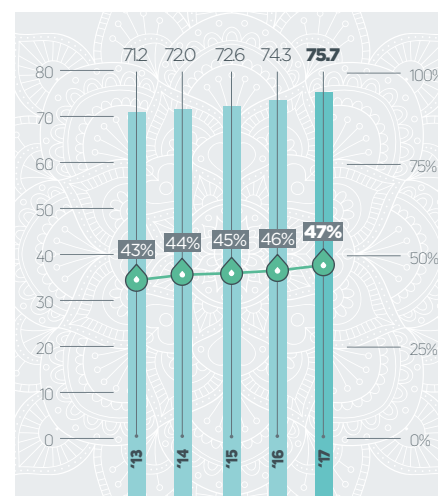


Processing depth, percent

Primary oil processing in Russia, million tons

Source: the Ministry of Energy of the Russian Federation, the Federal State Statistics Service of the Russian Federation

Gas processing structure in Russia



Share of associated gas, percent

Gas processing volume in Russia, bcm

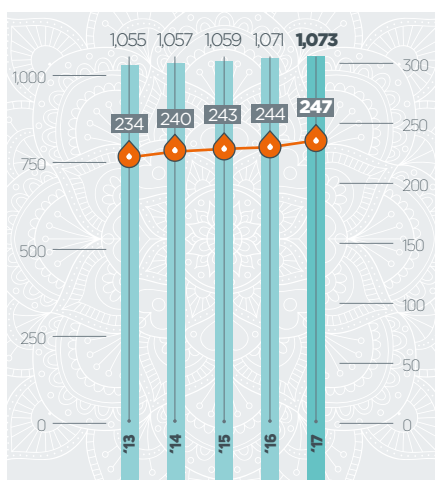
Source: the Ministry of Energy of the Russian Federation, HMS Group estimate (for 2017)

Market Trends:

Power Generation

In 2017, Russia remained in the top five electricity producers and consumers in the world. The production facilities, suppliers and consumers of electricity on most of the territory of Russia are connected by the United Power System. Only the northern regions of Russia's Far East represent technologically isolated power systems due to the lack of a transmission network.

Total installed capacity and electricity output in Russia



Electricity output, bn kWh

Installed capacity, GW

Source: the Ministry of Energy of the Russian Federation, HMS Group estimate (for 2017)

Russia's united power complex consists of about 750 large power plants (with an installed capacity of over 5 MW each). The main types of power generation in Russia are: thermal (68% of total installed capacity), hydro (20%) and nuclear (12%) plants. The share of wind, solar and other types of energy generation is yet insignificantly low (below 1%).

Electricity output in Russia in 2017 amounted to 1,073 billion kWh, thus staying close to the level of 2016, which reflects slow recovery of the Russian economy. The average electricity price for industrial companies in Russia increased by 10.6 percent yoy in 2017.

Russia's overall installed thermal power plants' capacity in the United Power System amounted to 163 GW in 2017 (+1.6% yoy). The assets in the thermal power sector are quite outdated, with about 30% of the installed capacities being more than 45 years old.

Rosenergoatom, the operator of Russian nuclear power plants, runs 35 nuclear power units with an overall installed capacity of 27.9 GW. The relatively higher share of the nuclear sector in the generation structure (19% compared to 12% in installed capacity) is explained by the lower electricity price of nuclear power plants.

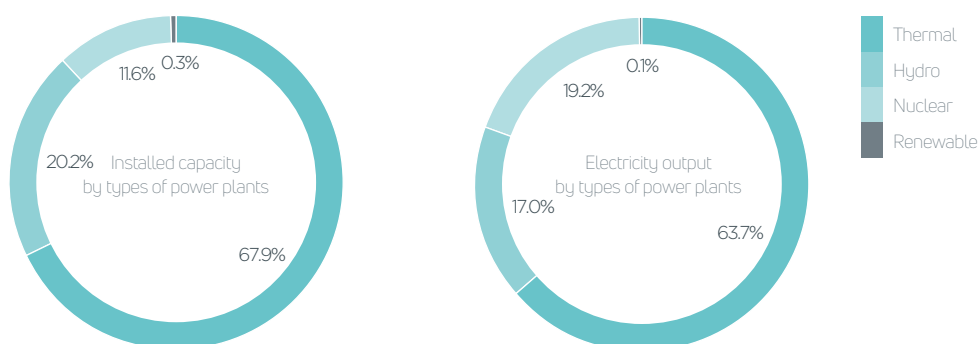
Currently, a number of new nuclear power units are being constructed in Russia. The following projects are now underway: the Novovoronezhskaya NPP, Leningradskaya NPP, Kurskaya NPP and the world's first floating nuclear co-generation plant "Akademik Lomonosov." In addition to Russia, Rosenergoatom has a number of nuclear power plant construction projects abroad, such as: the Akkuyu NPP in Turkey, Kudankulam NPP in India, Bushehr NPP in Iran, Belarusian NPP in Belarus, Tianwan – 2 NPP in China, Rooppur NPP in Bangladesh, and a number of projects under negotiation.

The capital expenditures in power generation decreased from Rub 515.5 billion in 2016 to Rub 500.3 billion in 2017 (-3% yoy), as the main part of a state-supported investment program on constructing new generation units (during 2010–2017) was finished.

According to the scheme of territorial planning in the field of energy, approved by the Russian Government in 2016, more than 59 GW of new capacity is planned to be installed by 2030. The implementation of this program will increase capex in power generation for the next ten years.

Total installed capacity and electricity output of the United Power System by types of power plants in 2017

%



Source: "System Operator of the United Power System" JSC

Water

Municipal water utilities is one of the consistently growing segments of the Russian economy supported by the steady growth of tariffs (10.1% for industrial producers and 6.2% for individuals in 2017) and an increasing inflow of private investments.

In 2017, the construction of new accommodation amounted to 79.2 million square meters, which increased the need for construction of water infrastructure.

Since 2014 the Government has been actively attracting private investments in the modernisation of housing infrastructure by signing concession agreements with businesses. From 2014 to 2017, Rub 50 billion has already been invested.

As a result, by the end of 2017, the accident rate in water supply decreased by 21 percent, and water losses decreased by 14 percent. The accident rate in heat supply decreased by 47 percent, and heat losses decreased by 18 percent. By 2027, more than Rub 260 billion is planned to be invested in the modernisation of water utilities.

Examples of recent large projects in water utilities construction and modernisation in Russia include the Kuryanovsk wastewater treatment facilities reconstruction (Moscow) and the construction of pumping stations and water infrastructure in Saint-Petersburg, Ryazan and other large water utilities operators.



See information about
R&D PUMPS
on page 41

RUB 50 bn
has already been invested
from 2014 to 2017

> RUB 260 bn
planned to be invested
in the modernisation
of water utilities by 2027



Operational Overview

Backlog & Order Intake

Backlog grew to Rub 44.2 billion (+84%). All four business segments demonstrated growth, but the main driver was the oil & gas equipment and projects segment (OGEF).

The significant growth in all segments was fully due to a number of large integrated contracts signed and executed in the reporting period.

Backlog, Rub mn	2017 FY	2016 FY	Change yoy
Industrial pumps	14,467	10,317	40%
Oil & Gas equipment and projects	20,180	9,524	112%
Compressors	5,186	3,476	49%
Construction	4,323	719	502%
Total	44,155	24,035	84%

Order intake^[1] also hit a record high and reached Rub 65.5 billion (+61%). All four business segments of HMS contributed to this growth, especially the oil and gas equipment and projects one. The main driver was an outstanding growth of our large contracts portfolio. However, recurring business also demonstrated growth, of 3 percent yoy.

Order intake, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Industrial pumps	20,983	15,997	31%	8,762	5,127	71%
Oil & gas equipment	32,496	18,684	74%	4,025	2,752	46%
Compressors	7,202	5,172	39%	1,268	587	116%
Construction	4,818	771	525%	462	525	-12%
Total	65,499	40,624	61%	14,516	8,991	61%

Backlog in 2017

RUB44.2^{bn}
+84%

Order intake in 2017

RUB65.5^{bn}
+61%

Note on HMS' Backlog and Order intake:

The contract to deliver oil & gas equipment for reconstruction of a gas processing plant, signed in 2Q 2017 (Rub 23.3. bn) is still subject to uncertainty. The company hasn't received any advance payments, and hasn't even started any work. HMS isn't certain that the execution of this project will start in the near future.

This contract is not included in the company's Backlog and Order intake.

^[1] According to management accounts.

Financial Overview

Group Performance

Revenue increased by seven percent yoy and amounted to Rub 44.4 billion. The Oil & Gas equipment and projects and the Industrial pumps business segments contributed the most to this growth.

EBITDA was up by seven percent yoy to Rub 6.8 billion. The robust results of the compressors segment were the major driver to the company's EBITDA growth.

In terms of contracts' type, revenue from recurring business grew by 7 percent yoy, wherein machine-building product sales increased by 8 percent yoy. Large projects' revenue advanced 5 percent yoy. EBITDA from recurring business grew 2 percent yoy and large contracts jumped by 15 percent yoy, all that led to an EBITDA margin increase to 15.4% from 15.3% last year.

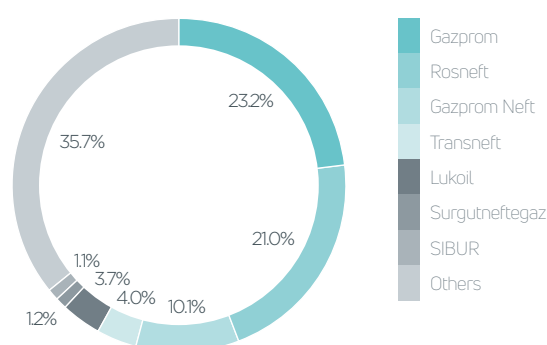
Cost of sales grew by six percent yoy to Rub 32.5 billion almost completely due to an increase in materials and components (+9%) and labour costs (+11%). However, the cost of sales as a percentage of revenue decreased to 73%. The lagging growth of costs led to an expansion in gross margin (2017: 26.8% vs 25.9% in 2016).

SG&A expenses increased by nine percent yoy, and as a share of revenue grew to 15.3% from 15.0%.

Total Operating expenses, excluding cost of sales, grew by eight percent yoy. As a share of revenue they also increased, to 16.5%. The main reason was an increase in labour costs due to the budgeted growth in wages.

Rub bn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	44,422	41,582	7%	13,011	11,266	15%
EBITDA	6,839	6,369	7%	1,852	1,681	10%
EBITDA margin	15.4%	15.3%		14.2%	14.9%	

Contribution of Top-7 clients in HMS revenue, 2017 %



Cost of sales, Rub mn	2017 FY	2016 FY	Change yoy	Share of 2017 FY revenue	Share of 2016 FY revenue
Cost of sales	32,536	30,799	6%	73.2%	74.1%
Materials and components	22,036	20,172	9%	49.6%	48.5%
Labour costs	5,116	4,627	11%	11.5%	11.1%
Construction and design and subcontractor engineering services	1,365	2,173	-37%	3.1%	5.2%
Depreciation and amortisation	1,307	1,340	-2%	2.9%	3.2%
Others	2,711	2,487	9%	6.1%	6.0%

Continue Financial Overview

Distribution and transportation expenses grew by five percent yoy to Rub 1.8 billion. The main reason was a growth in labour costs and transportation expenses. As a share of revenue, distribution and transportation expenses stayed almost unchanged at 4%.

General and administrative expenses grew by 11 percent yoy to Rub 5.0 billion due to labour costs' increase (+9%). As a share of revenue, general and administrative expenses grew to 11.3% from 10.9%.

Operating profit grew by 26 percent yoy to Rub 4.5 billion from Rub 3.6 billion. Operating margin increased to 10.3% from 8.7%.

Finance costs decreased by seven percent yoy. The main factor was lower interest expenses (-14%) due to lower interest rates as a result of debt portfolio refinancing. Within a one-year period, average rates decreased from 12.2% p.a. to 9.8% p.a.

Profit for the year increased 73 percent yoy to Rub 2.1 billion from Rub 1.2 billion.

Rub mn	2017 FY	2016 FY	Change yoy	Share of 2017 FY revenue	Share of 2016 FY revenue
Distribution and transportation	1,785	1,700	5%	4.0%	4.1%
General and administrative	4,999	4,523	11%	11.3%	10.9%
SG&A expenses	6,784	6,223	9%	15.3%	15.0%
Other operating expenses	547	548	0%	1.2%	1.3%
Total Operating expenses excl. cost of sales	7,331	6,771	8%	16.5%	16.3%
Finance costs	1,775	1,905	-7%	4.0%	4.6%

Finance costs, Rub mn	2017 FY	2016 FY	Change yoy
Finance costs	1,775	1,905	-7%
Interest expenses	1,725	2,009	-14%
Fees for early repayment of loans	48	-	Na
Finance lease expenses	2	1	85%
Foreign exchange loss/(gain), net	1	(105)	-100%
Interest rate, average	9.8%	12.2%	
Interest rate Rub, average	9.9%	12.4%	

Operating profit in 2017

RUB4.5^{bn}
+26% yoy

Profit in 2017

RUB2.1^{bn}
+73% yoy

Business Segments Performance

Industrial pumps

The industrial pumps business segment's revenue increased by five percent yoy to Rub 17.5 billion from Rub 16.7 billion. EBITDA grew by 13 percent yoy to Rub 3.1 billion. EBITDA margin was up to 18.0%, which is within the range of the pumps' "upper" profitability level.

Industrial pumps, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	17,488	16,720	5%	5,141	4,942	4%
EBITDA	3,148	2,791	13%	1,034	1,073	-4%
EBITDA margin	18.0%	16.7%		20.1%	21.7%	

Oil & Gas equipment and projects (OGEP)

The OGEP business segment's revenue advanced 28 percent yoy to Rub 21.5 billion from Rub 16.8 billion based on an impressive growth of both recurring business and large projects. However, the segment's EBITDA was down 12 percent yoy to Rub 2.6 billion due to less EBITDA, generated also by recurring business and large contracts.

OGEP, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	21,536	16,767	28%	6,499	4,790	36%
EBITDA	2,592	2,961	-12%	1,132	975	16%
EBITDA margin	12.0%	17.7%		17.4%	20.3%	

EBITDA margin declined to 12.0% on the back of a fall in yields of products sold in the reporting period.

Compressors

Revenue demonstrated growth of five percent yoy to Rub 9.1 billion. EBITDA almost doubled from Rub 619 million to Rub 1.1 billion in FY 2017. This impressive growth was based on an enhanced tender & large project management and a number of mid-size projects executed in 2H 2017. EBITDA margin increased to 12.5%.

Compressors, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	9,130	8,700	5%	2,481	2,027	22%
EBITDA	1,143	619	85%	47	-37	-227%
EBITDA margin	12.5%	7.1%		1.9%	-1.8%	

Construction

Construction increased its revenue by 53 percent yoy and reached Rub 1.0 billion from Rub 684 million in the comparative period. EBITDA continued to deliver weak results facing challenges within the oil & gas facility construction market.

Construction, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	1,045	684	53%	597	127	371%
EBITDA	(75)	(40)	88%	44	9	400%
EBITDA margin	-7.2%	-5.8%		7.4%	7.0%	

Continue Financial Overview

Cash Flow Performance

Working capital was down by 21 percent yoy to Rub 7.8 billion from Rub 10.0 billion in 2016. The sharp decrease of working capital was because of a number of payments received from customers and delivery of equipment produced under large contracts. As a share of revenue, working capital dropped to 18% from 24% at 2016-end.

In December 2017, the company obtained a few payments from customers that were budgeted for to be received at the beginning of 2018. As a result of the earlier payments in 2017, working capital in 1Q 2018 is expected to grow.

Capital expenditures grew by 27 percent yoy to Rub 2.2 billion. The company completed the second stage of the Localization project in 4Q 2017. Now the shop is in full operation. Total investment in the project was Rub 710 million in 2017. Capex, excluding the localization, was up by 40 percent yoy and reached Rub 1.5 billion.

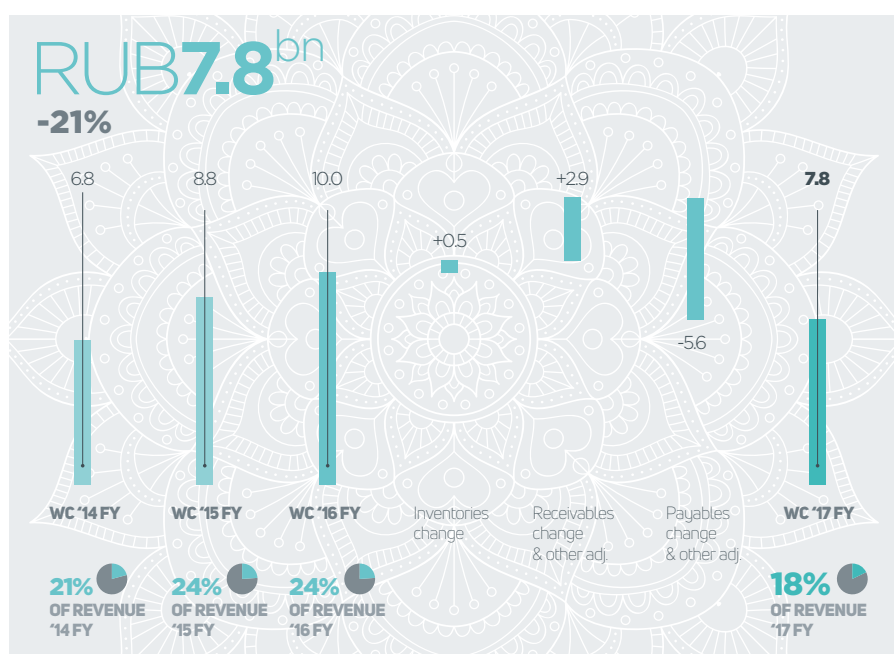
HMS Group generated a positive operating cash flow of Rub 5.2 billion that almost tripled.

Increased operating cash flow resulted in a positive free cash flow of Rub 3.1 billion.

Operating cash flow in 2017

RUB5.2^{bn}
+189% yoy

Working capital dynamics, 2014-2017



Working capital & Capex, Rub mn	2017 FY	2016 FY	Change yoy
Working capital	7,820	9,962	-21%
Working capital / Revenue LTM	18%	24%	
Capital expenditures	2,159	1,701	27%

Cash flow performance, Rub mn	2017 FY	2016 FY	Change yoy
Net cash from operating activities	5,233	1,808	189%
Net cash used in investing activities	(2,135)	(1,788)	19%
Free cash flow (FCF)	3,098	20	na
Net cash used in financing activities	(1,461)	(394)	270%
Cash & cash equivalents	4,621	2,990	55%

Debt Position

Total debt decreased by two percent yoy to Rub 16.0 billion from Rub 16.3 billion.

Net debt was down by 14 percent yoy to Rub 11.4 billion. The Net debt-to-EBITDA LTM ratio was down to 1.67x due to lower Net debt combined with higher EBITDA in the reporting period.

Leverage, Rub mn	2017 FY	2016 FY	Change yoy
Total debt	16,042	16,336	-2%
Long-term debt	13,065	12,770	2%
Short-term debt	2,977	3,566	-17%
Net debt	11,422	13,347	-14%
Net debt / EBITDA LTM	1.67x	2.10x	

Total debt in 2017

RUB16.0^{bn}
-2% yoy

Significant Events After the Reporting Date & Financial Management

Financial management

As of April 1, 2018, average interest rate decreased to 8.9% compared to 12.2% at the beginning of 2017.

Contracts

In January 2018, the company announced signing of a contract worth Rub 3.1 billion for delivery and installation of oil & gas equipment for a pre-transport gas treatment unit. The project is to be completed by the end of 2018.

In April 2018, HMS signed three export contracts worth c. US\$ 13.5 million to deliver pumping equipment to a power plant located in South Asia. Also, the company announced a Rub 1.9 billion contract to deliver compressor equipment to a gas production and treatment facility in Russia.

Dividends and HMS GDRs

During the period from December 11, 2017 up to and including April 25, 2018, HMS Group purchased 43,000 of its global depositary receipts ("GDRs"). As of today, HMS Group has purchased 1,076,887 GDRs (4.60 percent of its issued share capital).

On December 7, 2017, the Board of Directors approved payment of interim dividends in respect of the first 9 months 2017 in the amount of 5.12 rubles per ordinary share, i.e. 25.6 rubles per one GDR.

Based on strong and better than budgeted financial results of 2017, on April 24, 2018 the Board of Directors recommended the payment of final dividends in respect of FY 2017 in the amount of 6.83 rubles per ordinary share, i.e. 34.15 rubles per one GDR.

However, the company's long-term dividend policy stays unchanged – HMS targets to pay out total dividends in the region of 50% of the Profit attributable to shareholders for the year, subject to capital constraints such as its debt and liquidity position and forecast.

If approved at the Annual General Meeting of Shareholders, total dividends for 2017 will amount to 11.95 rubles per ordinary share or 59.75 rubles per one GDR.

HMS Key Projects & Events

Localization project, HMS Livgidromash

In 2017, HMS Group completed the construction of the 2nd stage production facilities dedicated to the Localization project.

New blocks are intended for the mechanical treatment of pump accessories and planting of protective paint coatings. The work sections are fitted with modern, sophisticated mechanical processing equipment, which allows them to conduct tuning and cutting, including drilling, threading, and polishing of casting and shaft part families, impellers and diffusers.

Within the frame of the project, work sections for heat treatment, sawing and welding, radiography, balancing of impellers and rotors were organized. The new work sections are used extensively for the realization of new landscape projects to manufacture and test pumping units for HMS' key clients.

Realization of the project and timely start-up of the new high-tech manufacturing will allow HMS Group to keep its leading positions in the domestic market and meet the highest up-to-date requirements for the company's products.

Total investments in the 1st and 2nd stages of the project amounted to Rub 2.4 billion. For the purpose of the project's realization, HMS Group, the Ministry of Industry and Trade of the Russian Federation and the Government of the Orlov region signed a Special Investment Contract. The Industrial Development Fund of the Russian Federation provided the company with a 5-year Rub 500 million targeted loan at 5% interest, recognizing the high innovative capacity of the project and its compliance with the import-substitution programme stated by the Russian Government.

Total investments in the 1st and 2nd stages of the project amounted to

RUB 2.4^{bn}

Modelling shop modernization, Nasosenergomash

NEM, HMS Group's Ukrainian facility, launched the brand new vertical machining centre Poseidon, intended to produce pattern equipment.

The large dimensions of the centre's working area make it possible to produce patterns for the entire product mix of both small and large castings, including promising items under development. The technical characteristics of the centre meet the best and most modern requirements for this kind of equipment. The processing centre also allows us to produce patterns from wood if it is required to manufacture a short castings run, as well as from a wide range of modern pattern plastics if it is required to manufacture a pattern with a higher standard of durability, reliability and precision machining.

The fitting of the NEM with the 5-axis Poseidon machining centre made it possible to significantly decrease the production time of patterns, along with an increase in general precision and quality, which is one of the key factors of reducing castings' production time for manufacturing of pumping units with higher quality.

The *Be Inspired* Award, Giprotyumenneftegaz

GTNG was shortlisted in the annual international competition "The *Be Inspired* Awards" held by Bentley Systems, in recognition of BIM advancements in infrastructure.

For 2017, ten independent jury panels selected the 51 finalists from more than 400 nominations submitted by organizations in over 50 countries.

GTNG presented a 3D information model of a Central production facility for the Novoportovskoye field, projected for Gazprom Neft, in the nomination "BIM Advancements in Manufacturing." The virtual 3D model of the facility comprises a complex of visualized engineering information of all object items, and provides easy access to informational resources. Currently the model is successfully used for project engineering support at the facility's construction and commissioning stages.

Export activities

Despite continuing fluctuations in the world's hydrocarbon prices in 2017, which led to suspension of many major international oil & gas projects.

The Export Backlog of HMS Group reached US\$ 63 million as of the beginning of 2018.

In 2017, HMS Group and its manufacturing facilities were further prequalified and enrolled into the Approved vendor lists of several important customers such as Gazpromneft Badra BV (Badra Project), Petrochina, SINOPEC, IRITEC, Pad Jam Petrochemical and others.

Cooperation with strategic customers such as BP, ENI, Petrofac, DAELIM, Technip, Tecnimont, Doosan and many others has successfully continued.

In 2017, HMS Group expanded international sales to include the water industries of Egypt. It secured a significant order from the Indian nuclear power industry as well (Kudankulam NPP).

HMS Group's export sales
revenue

RUB3.2^{bn}

The Export Backlog
of HMS Group reached

US\$63^{mn}

HMS Key Projects & Events

HMS New Projects

In 2017, several contracts were signed to deliver pumping equipment to nuclear power plants, with a total worth of Rub 4.7 billion.

The first part of the contracts involves **delivering almost 200 pumping units in 2018-2020 for Kursk Nuclear Power Plant Phase II, Russia**. These safety-significant pumping units, including main feed, auxiliary feed water and condensate pumps, primary cycle emergency cooldown pumps, spray pumps, and component cooling water pumps, will be designed according to the projects' requirements.

The second part of the contracts involves **delivering pumping equipment for Kudankulam Nuclear Power Plant, India**.

HMS Group will produce various types of safety-significant pumping units, including primary circuit emergency and planned cooling pumps, high-pressure safety boron injection pumps, deionised water pumps, etc., for the 3rd and the 4th power plant units. These contracts are a follow-up to contracts signed in 2016, still under execution, and contracts completed in 2004-2006 for delivery of main pumping equipment to the 1st and the 2nd units of this nuclear power plant.

In OGEP, HMS Group signed **two contracts totalling Rub 16.5 billion to deliver and install oil and gas equipment** for one of the largest gas fields in Russia.

In 2017, several contracts were signed to deliver pumping equipment to nuclear power plants, with a total worth of

RUB4.7^{bn}

In accordance with the contract, the company will manufacture and deliver a range of technologically integrated solutions, including helium concentrate membrane recovery units (skids 1st and 2nd stage), inter-stage compressor stations based on turbo-compressor units, and gas booster stations. Very few similar projects have been realised in the world, and **this is the first project of its kind in Russia**. HMS will design and manufacture equipment to operate under adverse climatic conditions. The substantial range of HMS-manufactured equipment, together with equipment made by other producers, imposed special requirements for procurement, logistics and project management.

In March 2017, KKM signed **a contract for delivery of compressor equipment worth almost Rub 3.9 billion**.

HMS' facility will produce major and accessory processing equipment for reconstruction of gas booster stations at the customer's oil and gas condensate field.

New Projects after the Reporting Date

In January 2018, HMS Group signed a Rub 3.1 billion contract for delivery and installation of technological equipment for a pre-transport gas treatment unit, to be enacted by the end of 2018.

In OGEP, HMS Group signed two contracts totalling

RUB16.5^{bn}

to deliver and install oil and gas equipment

Kursk Nuclear Power Plant Phase II, Russia, is being constructed based on the design by ROSATOM to replace Kursk reactors, which are to be decommissioned. The commissioning of the first two reactors within Phase II is planned to be synchronised with the decommissioning of the plant's existing reactors.

Kudankulam Nuclear Power Plant, India, is being developed by the Nuclear Power Corporation of India (NPCIL). Two 1,000 MW pressurised water reactor units based on Russian technology were erected in phase I of the project. The construction works of units 3 and 4 started in 2017 with the aim of making them operational by March 2021.

In April 2018, the company signed a

US\$13.5^{mn}

export contracts for delivery of pumping equipment for a power plant, located in South Asia

The Company announced a

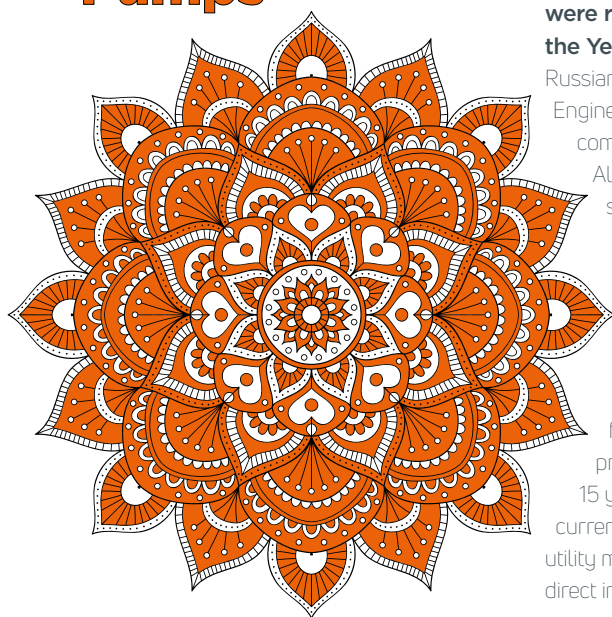
RUB1.9^{bn}

contract to deliver compressor equipment to a gas production and treatment facility in Russia

Research and Development

HMS Group believes that it has established the best Machine Building Research & Development and Engineering in Russia and the CIS countries

Pumps



In 2017, three **Sibneftemash engineers were ranked the Best Engineers of the Year**, summarizing the results of the all-Russian engineering competition "Top-100 Engineers in Oil & Gas Russia" and a regional competition "Engineer of the Year – 2016".

Also, one of the most experienced and strong scientists and inventors of Giprotymenneftegaz, Mr. Michael Tarasov, was named the **"Scientist of the Year, Innovations"**. He has been the Head of the oil, gas and water field gathering, transportation and processing laboratory of field gathering, transportation and processing of oil, gas and water for 15 years. Ten out of 15 of the institute's current patents on inventions and utility models were received through his direct involvement.

KRG series API 610 OH2 pumps

are the processing pumps in petrochemicals and gas refining. They are also widely used for transportation of liquefied petroleum gases, gas condensate and other liquids, which are similar by physical characteristics like gravity, viscosity and density, and their corrosion effect on pump parts.

"Top-100 Engineers in Oil & Gas Russia"

is the major all-Russian competition in the area of oil & gas design, engineering graphics and writing machine-specific instructions in real-time mode in one united technological area.

Oil and gas treatment

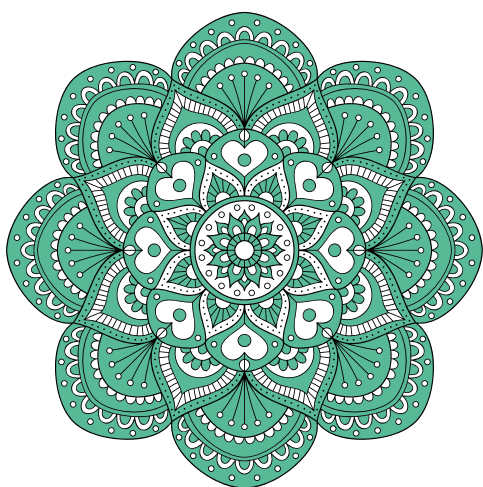
Under the localization project, HMS Livgidromash **set up production of KRG series API 610 OH2 overhung processing pumps**. The first pumps have been manufactured, successfully tested and certified according to TRCU¹¹¹ and supplied to a customer.

Bobruisk Machine Building Plant successfully projected, manufactured, tested and delivered **the first production units of the new NND series API 610 BB2 centrifugal processing pumps**. These pumps are intended for heavy usage in oil and gas treatment technological processes.

Bobruisk Machine Building Plant continues **the development of 2NKG API 685 centrifugal processing pumps with magnetic coupling**. These pumps have the absolute structural continuity of a cavity. The first production unit was introduced at the VII International Gas Forum in St. Petersburg, October 2017. Today, the company is performing a cycle of stand tests.

¹¹¹ TRCU – Technical Regulations of the Customs Union, established and applicable common regulatory requirements for products sold on the territory of the Customs Union (the Republic of Belarus, the Republic of Kazakhstan, and the Russian Federation).

Oil & Gas Equipment



Thermo-chemical Binary Mixture Technology

In 2017, HMS Group continued the realisation of the project "Development of the technology and equipment complex for thermo-chemical and oil-and-gas-bearing formation treatment, with the aim of increasing hydrocarbon production and restoring the ecological environment on oil and gas fields, instead of using the foreign technology of proppant-gel fracturing." The project is being carried out in cooperation with Tyumen State University and the Institute of Biochemical Physics of the Russian Academy of Sciences in accordance with a contract with the Ministry of Education of the Russian Federation.

The company accomplished the project's following milestones:

- Acquired industrial patent №2635800 on "Mobile unit for the preparation of binary mixtures for thermo-chemical treatment of oil-and-gas bearing formation"
- Acquired industrial patent №2638259 on "Two-phase mixing pump"
- Produced two pre-production units – an ammonium nitrate pumping unit and a sodium nitrite pumping unit (BM pumping units). The company carried out commissioning, preliminary and acceptance tests of the units
- HMS conducted a pilot run of the produced units on some clients' sites and received positive results.

Historically, chemicals were mostly used in the oil and gas industry for oil well cleaning or well-stimulation. Depending on the well and reservoir characteristics, the quantity of chemicals needed per well are around 10-100 tons or even more. On horizontal wells it can be up to thousands of tons.

These technologies are capital intensive, may have negative environmental impacts, and/or lead to quick irrigation or flooding of the fields.

Up till now, Russia's oil & gas companies have used multipurpose pumping units like SIN-32/SIN-600 or CA-320, which are not specially intended for such kind of operations. **HMS' Binary Mixture Pumping Units are purposefully projected and manufactured for the realisation of thermo-chemical binary mixture technology.**

Developments in gas treatment

HMS Group continued development of new technologies of associated and natural gas treatment and design of a next-generation product line of modular gas processing plants, and started organising their production:

- **Associated gas processing units, capacity 100 bn cmpa, for all-stage-oil-separation complex gas-processing**, including two-stage compression cycle up to 3.2 MPa, and that contain a LTCR block^[1] and a propane cooler,
- **Last-stage-separation gas-processing units with a technological LTCR block and a propane cooler**, which are intended for the 2nd and 3rd stages separation processing of LP^[2] gas with the use of compressor stations located on a customer's site.

Natural gas is a clean source of energy and a major feedstock for fertilizers and petrochemicals. Before reaching the customer, it has to pass several processing steps. These steps are partly necessary for the recovery of valuable components contained in the gas.

Plate Heat Exchangers

In 2017, HMS Neftemash continued commercialisation of the project "Development and production of plate heat exchangers for Russia's petrochemical facilities". Under this project, HMS set up production of gasketed plate exchangers, "Block"-type heat exchangers, and flue gas HRS^[3] units.

Hydromechanical drive for sucker rod pumping units

HMS Neftemash began the realisation of the project "Rodless oil extraction mechanism with pilot testing". The company developed working construction documentation, and is purchasing assembly units and components and conducting preparations for the production.

The main advantages of the hydromechanical drive developed by HMS Group are:

- No need to redevelop an oil-well for an offered technology;
- Release of sucker-rod-pumping-unit foundation land, improvement of the environmental security of surface management (elimination of oil product leaks through seals and stuffing-box seals of a rod);
- Reduction in metal consumption during replacement of the obsolete rocker-machines fleet;
- The no-sucker-rod enables mechanical dewaxing of a lift;
- Increase in pumps' volumetric efficiency, improvement of oil recovery efficiency, decreased level of power consumption;
- Option to use downhole-to-surface telemetry with online output to a dispatcher console with controllability of the main well measures (pressure, temperature, etc.);
- Conversion of wells from periodic to constant duty;
- Operation of wells with high content of aromatic hydrocarbons, gas and solids.

100^{bn cmpa}

capacity of associated gas processing units for all-stage-oil-separation complex gas-processing

^[1] LTCR Block – A low-temperature-condensation-and-rectification block.

^[2] LP gas – Low pressure gas.

^[3] Flue gas HRS – A flue gas heat recovery system.

Compressors



Compressors for Gazprom

HMS Group projected, manufactured, and put into operation a 7GC2-660/56-76 UHL 3.1 compressor, purposefully designed for the reconstruction of the Zavolzhskaya compressor station at the Yamburg-Western Border. The compressor unit is intended to operate instead of a previously used foreign analogue, under the import-substitution program. For the company, that was the first 25 MW capacity unit projected and supplied for a main pipeline.

Gazprom is a Russian energy company focused on geological exploration, production, transportation, storage, processing and sales of gas, gas condensate and oil, sales of gas as a vehicle fuel, and generation and marketing of heat and electric power. It holds the world's largest natural gas reserves, and is the largest producer and exporter of liquefied natural gas in Russia.

www.gazprom.com

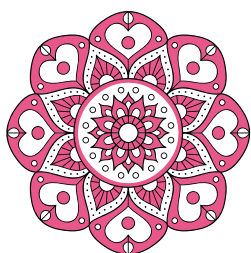
Kazankompressormash developed turbo-compressor units to operate as part of a helium concentrate membrane recovery unit on the Chayandinskoye oil, gas and condensate field. The projected and designed turbo-compressor units consist of three blocks: a gas transportation unit, a heavy condensate separator, and air-cooling units. HMS was the first company in the world to use two tandem double-sectional compression-barrels, the rotors of which are supported by active magnetic bearings.

The Chayandinskoye oil, gas and condensate field is one of the largest fields in eastern Russia. The field forms the backbone of the Yakutia gas production center and serves as a resource base for the Power of Siberia gas pipeline (along with the Kovyktinskoye field in the Irkutsk Region). It is a unique field in terms of C1+C2 reserves, which amount to 1.4 trillion cubic meters of gas and 87 million tons of liquid hydrocarbons. The field's annual design output is 25 billion cubic meters of gas, 1.9 million tons of oil, and 0.4 million tons of gas condensate. The Chayandinskoye produces multi-component gas with substantial amounts of helium.

25 MW

capacity of the first unit projected and supplied for a main pipeline

Engineering



In April, GTNG held its 17th annual Research and Practice Conference "IT in Engineering". Leading international and Russian companies, including Bentley Systems, AVEVA, NEOLANT, CSoft Development and "Russian SAPR" introduced their innovative IT-solutions for value-improving practices in project and engineering manufacturing. This year, the special focus was on the development of the information modelling and usage of information models for the purpose of project and design, construction, management and operation of infrastructural production objects. The Forum's sessions were devoted to the development and utilisation of cutting-edge information technologies such as 3D modelling technologies, GIS-technologies, and systems of dynamic analysis and project management.

In 2017, GTNG completed design and survey works on 22 projects for Russia's major companies, including Rosneft, Gazprom Neft, NOVATEK, and others.

Upon the results of the examination of project documentation and engineering surveys, all projects received positive findings from the State Expert Evaluation Department of the Russian Federation. For the last three years, **GTNG has not received a single negative finding on its projects.**

Legal Protection of Intellectual Property

The Group's current operating portfolio includes 227 patents, 52 registered trademarks and 30 registered computer programmes, reflecting our commitment to research and development

In 2017, HMS Group continues the complex protection of the exclusive rights to its products and the individualisation of goods produced and services that are provided, with the purpose of acquiring the right of exclusive use in the market. The company has received exclusive rights on 12 invention and utility model patents, including the newest mobile unit for the preparation of binary mixtures for thermo-chemical treatment of oil-and-gas bearing formation instead of hydrofracturing technology, and up-to-date schemes of centrifugal pumps and compressors, as well as their separate units and parts.

The stable annual dynamics for the registration of exclusive rights are related to HMS' discovery initiative, and the necessary provision of legal protection to the high-tech results of its intellectual activity.

227 patents

in current operating portfolio

22 projects

for Russia's major companies, including Rosneft, Gazprom Neft, NOVATEK, and others were completed in 2017

Corporate Social Responsibility

Primary Areas of Social Policy

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

The company has developed and implemented collective agreements, in-house policies and acts, which reflect social welfare issues, benefits, compensations and guarantees granted to the employees, including:

- Hardship-duty pays;
- Preservation of average earnings after transfer to easier work;
- Pecuniary aid in the event of the worker's death;
- Pecuniary aid for medical treatment, and purchase of expensive pharmaceutical drugs;
- Bonus payments to veterans;
- Maternity coverage on monthly basis;
- Additional holidays in case of significant events, and for continuous service with the company;
- Pecuniary aid to non-working veterans, including for public holidays;
- Events to support young people.

Support and building heritage:

- Honoring HMS' veteran workers on Machine Builders Day¹¹;
- Meetings with mentors;
- Professional skill competitions among young workers;
- Honoring best workers;
- Meetings of veteran workers (former employees) with the colleagues.

Local life

HMS Group fully participates in the local life of the regions where its facilities operate:

- Taking part in local creativity competitions, cultural, sport, charity and other events;
- Holding festivals;
- Helping schools, hospitals, childcare centres and religious organisations.

In August, KKM personnel held a mass event to clean up dead-wood, rubbish and flash on a 600-meter-long area. More than 100 employees took part in the event. The facility provided participants with transport, gardening tools and gloves. This volunteer clean-up was held to help Kazan city support environmental safety and aesthetics.

Organization of leisure time for workers and introduction to healthy living

HMS Group **continues to support youth-oriented sport**, including sponsorship of the Judo Federation of the Republic of Tatarstan.

The company **continues to sponsor** one of its engineers, Mr. Nikolay Kuzovlev, **the leading Russian athlete in Ice Climbing**. In February 2018, Nikolay won his **third gold medal** in the 2018 Ice Climbing World Season.

>100

employees took part in a mass event to clean up dead-wood, rubbish and flash on a 600-meter-long area

¹¹ Professional holiday of machine builders.

Safety and Health

HMS Group believes that achieving its strategic goals and maintaining its competitive advantages requires systematic management of labor health protection and the prevention of industrial injury and professional illness. Production facilities introduce modern methods of accident prevention and maintain hygiene and sanitary conditions, which prevent professional illnesses and ailments driven by workplace factors.

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

1

Prioritisation of its employees' health and safety

over business performance results and continuous improvement of work conditions and labor health protection at every working place.

2

Significant decrease of risks of industrial traumatism and professional illness

of the company's employees:

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

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

3

Compliance of HMS' activities with the requirements and expectations of all interested parties

in the area of labor health protection and regulations, established under legislation and normative technical documents:

- Regular examination of industrial safety, and
- Regular training in the area of industrial safety.

4

Establishment of personal responsibility

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



Corporate Social Responsibility

Charity and Social Assistance

HMS' charity initiatives are aimed at improving the social climate in regions where the company operates. The creation of jobs and business opportunities also strengthens local economies and provides support for the development of community projects.

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

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

The Environment

In general, the environmental impact of our production facilities is low due to the business specifics. Nevertheless, the management and personnel of HMS Group fully recognize their responsibility to nature and to future generations. The company continues to work on developing and selling energy-efficient products and service solutions. Apart from that, HMS Group set the following environmental goals, which are critical in the company's view:

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

In 2017, HMS Group's facilities conducted quarterly surveys of emission of harmful substances into the atmosphere and evaluations of the effectiveness of dust and gas catchers. The company conducted an examination of emission sources, revised a draft of maximum permissible emissions, received new permits for air emissions, and developed a set of actions to decrease the level of pollutant emissions under unfavorable weather conditions. For the last three years, no excess of the maximum allowable pollutant emissions has been discovered.

HMS measured noise level on the border between sanitary-hygienic zones and residential construction during the day and night in the warm and cold seasons. A single excess of the maximum permissible noise level at night was detected, and the company eliminated the violation by making an airshaft higher.

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

In 2017, HMS Group revised its programme of industrial environmental control to comply with changes in legislation and updates in projects. The company increased expenditure on the realization of nature protection measures as compared to 2016.

The Rostovsky Vodokanalproekt Institute, an HMS facility, conducted design and survey work on the project "Reconstruction of Kazan's BOSK. Construction of a plant for sediment reworking with mechanical dewatering shop" under the Programme "Environmental conservation, reproduction and use of natural resources of the Republic of Tatarstan in 2014-2020".

The main goal of the work is to use an innovative technology and the newest processing equipment for thermo-mechanical sediment treatment to receive a disinfected product with predefined characteristics which is ready for further usage. The realization of the projected plant will improve the ecological situation in Kazan due to the implementation of the best available technologies in the area of cleaning-up and neutralisation of discharges and emissions into the atmosphere.

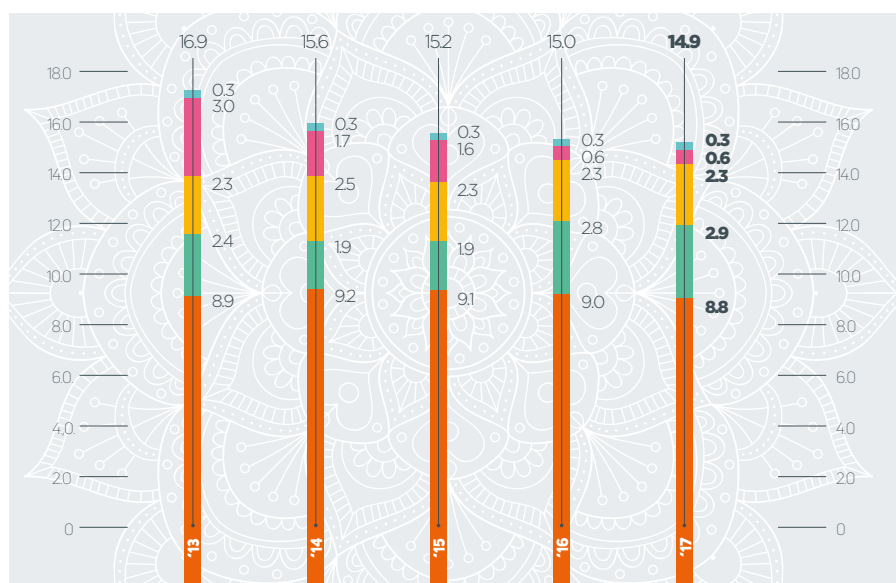
People

As an employer of almost 15,000 people, HMS is one of the major job creators across the cities where its facilities are located. Thus, we bear an enormous responsibility to the people affected by our operations. Employees are one of HMS Group's core assets, and the company encourages them and assists them in achieving their full potential.

In 2017, HMS continued staff training and education, with a focus on the areas of accounting and functional education, e.g. ACCA, accounting, etc. Training costs comprised 0.6 percent of personnel costs.

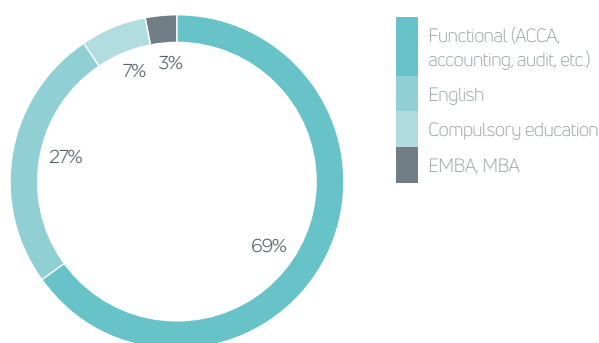
In 2017, the average headcount decreased by 135 people (-0.9% year-on-year) mainly due to the company's restructuring and attrition.

Average Headcount,
as of 31 December 2017, th. people



~15,000
employees

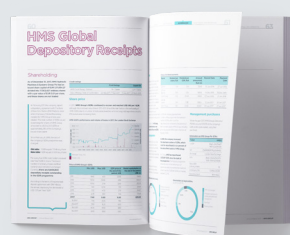
Training costs structure, 2017,
%



Employees are one of HMS Group's core assets, and the company encourages them and assists them in achieving their full potential.

Board of Directors

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



See information about
**HMS GLOBAL
DEPOSITORY RECEIPTS**
on page 60

The Board of Directors and Performance

General Overview

The Board of Directors consists of eight (8) members, three (3) of whom are Executive Directors.

Mr. Nikolay 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 Livgidromash (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

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.

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.

The Board of Directors consists of

8 members

Executive Directors

3 members

Well Balanced Management

Non-executive Directors

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 Unit, 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.

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 Chair 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 PLC (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 Tech with a degree in IT, Telecoms and Economics. He has been living in Russia since 2004.

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 Democritus University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

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 served as Vice President of Schlumberger Russia from 2003 to 2008. 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.

Mr. Vladimir V. Lukyanenko

Member of the Board of Directors

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in July 2016. He is also the member of the Remuneration Committee, the Audit Committee and the Strategy and Investments Committee. Currently he is the Director General of PROFITPROM LLC. From 2006 to 2008, Mr. Lukyanenko was the Vice-President of Hydraulic Machines LLC. From 2006 to 2008, Mr. Lukyanenko was the Vice-President of HMS Group. He has served as the Chairman of the Supervisory Board of Sumy Frunze NPO PJSC (Ukraine) from 2003 until 2007. He graduated from Moscow Chemical Engineering Institute (currently – Moscow State University of Engineering Ecology) with a degree in machine building in 1991. Mr. Lukyanenko has over 18 years of experience in the industry.

Continue Board of Directors

Principal Activities of the Board of Directors in 2017

The Board of Directors held four meetings in 2017, all of which occurred in 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 program for the management of the Company and general corporate development. In December 2017, the Board of Directors approved the payment of an interim dividend to the shareholders of the Company.

At its meetings, the Board of Directors also 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. Each Committee has its own internal terms of reference which set forth its duties and responsibilities, as well as qualifications for Committee membership, procedures for Committee member appointment and removal, Committee structure and operations and reporting lines to the Board of Directors. A brief description of the main activities of these Committees in 2017 is set out below.

Audit Committee

General Overview

The Audit Committee comprises three independent Directors and is expected to meet three to four times per year. Currently, the Audit Committee is chaired by Mr. Philippe Delpal; its other members are Mr. Gary S. Yamamoto and Mr. Vladimir V. Lukyanenko.

The Audit Committee is responsible for considering, amongst other matters:

- ❶ the integrity of the Group's financial statements, including its annual and interim financial statements;
- ❷ the effectiveness of the Group's internal controls and risk management systems;
- ❸ auditors' reports on the Group; and
- ❹ 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 codes of conduct. The Audit Committee also supervises the Group's submission of financial information and a number of other audit-related issues, and assesses the efficiency of the work of the Chair of the Board of Directors.

Activities in 2017

Three meetings of the Audit Committee were held in 2017. The main issues that the Audit Committee oversaw during the year were the preliminary review of IFRS financial statements, 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.

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 advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2017, 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 2016. Deloitte remains appointed for the 2017 audit.

Remuneration Committee

General Overview

The Remuneration Committee comprises four 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 N. Yamburenko, Mr. Philippe Delpal and Mr. Vladimir V. Lukyanenko. 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 2017

Two meetings of the Remuneration Committee were held in 2017. The main matter reviewed by the Remuneration Committee was the implementation of the Group's Long-Term Incentive Program for instance the 2017 Program targets and the list of participants.

The Remuneration Committee adopted decisions and made recommendations to the Board of Directors regarding the gross total non-Executive Board compensation package. This recommendation was based on the benchmarking comparison of Board compensations for comparable Russian publicly listed companies.

Strategy and Investments Committee

General Overview

The Strategy and Investments Committee comprises four 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 N. Yamburenko and the other members are Mr. Gary S. Yamamoto, Mr. Yuriy N. Skrynnik and Mr. Vladimir V. Lukyanenko.

The Strategy and Investments Committee is responsible for considering, amongst other matters:

- ① strategic business combinations;
- ② acquisitions, mergers, disposals and similar strategic transactions involving the Company; and
- ③ fundamental investments of the Company.

Activities in 2017

One meeting of the Strategy and Investments Committee was held in 2017. The main matter reviewed by the Committee was the updated strategy and financial model of the Group for 2018.

Directors' Compensation

The total compensation of the Chairman of the Board was EUR 270,115 for the year ended 31 December 2017.

The total compensation of the independent Directors, as set out in the Group's consolidated statement of profit or loss and other comprehensive income, was EUR 275,000 for the year ended 31 December 2017.

Diversity policy statement

The Company operates in accordance with the fundamental principles of equality, diversity and non-discrimination and the Charter of Fundamental Rights of the European Union. All career, training and development opportunities are afforded on the basis of gender, religious and other possible forms of equality. Decisions and policies in respect of remuneration and recognition are similarly based on the principles of equality, merit and ability. In the Board's opinion, this approach, which incorporates equality and diversity as qualitative measures, achieves its aims better than a formal diversity policy focused on quantitative measures, and for this reason the Company does not have a formal diversity policy in place. Nevertheless, the Board maintains a regular review of this position.

Litigations involving the Company

Grigorishin Litigation. In February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the "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.

Risk Management and Internal Control

Governance Risk & Internal controls

Overview

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

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

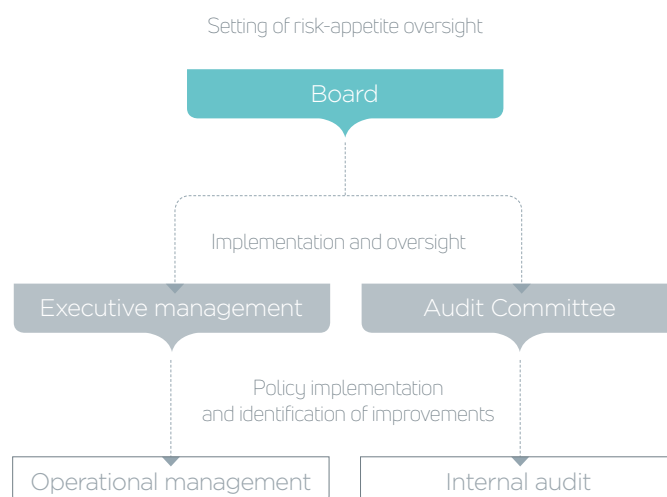
Key features of the internal control system over financial reporting

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

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

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

- Financial statement audits performed by external auditors. Discussion by the Audit Committee of the results of the audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters.
- 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.
- Review and formal approval of the financial results by the CEO, CFO, Audit Committee and the Board.
- 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.
- Board and sub-committee approval and monitoring of operating, financial and other plans.



Continuous improvement

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

The key features of the risk management process include:

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

Principal risks and uncertainties

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

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

Risk\Strategy	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing longterm 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	📍	📍	📍	📍		

Continue

Risk Management and Internal Control

Global political and economic risks

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

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

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

The Ukrainian economy has been continuously recovering from the economic and political crisis of previous years, which has resulted in real GDP smooth growth of around 2.5% (2016: 2.4%) and the stabilisation of both the average rate of inflation (2017: 13.7%) and the national currency.

This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decreasing the required share of foreign currency proceeds sale to 50 percent and obtaining permission for dividends remittance:

- As of today, Ukrainian companies can pay dividends to foreign investors in foreign currency at the amount of under US\$ 7 million per month regardless of when such dividends were accrued. Previously, investors could only be paid abroad up to US\$ 5 million per month for dividends accrued in 2014-2016 for 2016 inclusively and up to US\$ 2 million per month for 2013 and earlier;
- Now resident borrowers can make early repayment of external loans and credit in foreign currency within a monthly limit of US\$ 2 million;
- The Bank expanded the list of business operations, revenues from which will not be subject to the surrender requirement of 50 percent. It will not be applied to funds that a resident company obtained as foreign loans and credit for refinancing the current debt to nonresidents or authorised banks under other loans or credit.

However, certain other restrictions were prolonged. Significant external financing is required to support the economy. In 2015-2016, Ukraine received the first tranche of extended fund facilities agreed with the International Monetary Fund. In September 2017, Ukraine successfully issued US\$ 3 billion Eurobonds, of which US\$ 1.3 billion went towards new financing, with the remaining amount aimed at refinancing the bonds due in 2019. The National Bank of Ukraine expects that Ukraine will receive another US\$ 3.5 billion from the IMF in 2018. To receive the next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as the pension system, anti-corruption regulations, and privatisation.

The Group has still not been significantly affected by the recent developments in Ukraine. However, in the event of a deterioration of that country's situation, the Group's operations in Ukraine (including export of production to Russia), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

The company has mitigated these risks by taking some actions, such as completing the Localisation project in the Orlov region, and redirecting Nasosenergomash sales from Russia to other countries.

Sanctions: The introduction of new regulations or the imposition of trade barriers or a new round of sanctions over Ukraine against Russia could disrupt the Group's business activities or impact the Group's customers, suppliers or other parties with whom it does business, though amid fairly high crude oil prices the influence of these actions could be smoothed out.

We consider the additional imposition of targeted personal sanctions to be most probable. They alone will hardly create systemic risks and financial stability risks. Such measures could return certain private capital to Russia and put some pressure on the Russian ruble amid relatively high oil prices (over US\$ 50 per barrel).

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

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

Sales

The Group's business depends on 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 that of other nations, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment and other support for the Group's customers and for state-sponsored infrastructure projects.

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

Project execution risks

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

Human Capital

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

The success of the Group's businesses depends heavily on the continued service of its key senior managers. These individuals possess industry-specific skills in the areas of sales and marketing, engineering, and manufacturing, which are critical to the growth and operation of the Group's business areas. 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, the results of operations, and its prospects may be adversely and substantially affected.

Continue Risk Management and Internal Control

Acquisitions

The Group cannot be certain that the anticipated cash flows, synergies and cost savings from acquisitions or other transactions will materialise or reach expected levels. Since its formation in 1993, the Group has completed a number of acquisitions involving the purchase of companies that manufacture industrial pumps and modular equipment, compressors and EPC service companies.

The Group does not expect to make additional acquisitions in the foreseen future, so it considers this risk immaterial.

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. If necessary, the results of such investigations are provided to the CEO, the Board, the management and the Audit Committee, as necessary.

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

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

Legislation and regulations

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

Information technologies

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

In June 2017, the company experienced a cyber attack which was carried out with a complex combination of specially crafted hacker software tools. There were no modern antivirus scanners able to detect that particular malicious code at the time of the attack. The attack was not specially targeted against HMS Group and hit the company by accident. Attackers weren't aiming at leaking passwords or other sensitive data or receiving any repayment or ransom in exchange for the possibility of data recovery.

The main damage from the attack was the downtime due to the need for PCs and servers to be reinstalled and to restore application data from backups.

The use of more advanced and modern backup equipment and software, along with the increased skills of field staff and more stringent regulation of the backup and recovery process itself, will reduce both total downtime and the amount of irrecoverable losses.

Short-term priority measures were primarily defensive actions against cyber attacks similar to the one in June. All the planned measures have been implemented.

By the end of 2017, we completed an independent information security audit at every facility of HMS Group. HMS Group has developed a company-wide information security (IS) strategy and a road-map based on the audit results. The action plan will be realised in 2018-2019, including the creation of an Information Security department. Moreover, the company has planned other long-term measures which will mitigate the risk of information security breaches: development of an Information Security Policy, perimeter protection, segmentation of the network, TDS/IPS, two-factor authentication, etc.

Financial risk

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

Foreign exchange risk

The Group has no material foreign exchange mismatch. The company operates primarily in Russia, with the majority of its revenue generated in Russian rubles. Operating costs are also mainly Russian ruble denominated and 98 percent of debt is also in Russian rubles.

Credit and liquidity risks

In 2017, the company smoothed its repayment schedule with the major repayments of Rub 10.2 billion falling in 2020. At 2017-end, HMS Group had Rub 4.6 billion of available cash. Coupled with the available undrawn credit facilities of Rub 9.9 billion, it should be enough to cover the Group's short-term debt (15% of total debt portfolio). Considering all the above factors as well as positive free cash flow of Rub 3.1 billion, HMS considers its exposure to credit and liquidity risks as immaterial.

HMS Global Depository Receipts

Shareholding

As of December 31, 2017, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of EUR 1,171,634.27 divided into 117,163,427 ordinary shares with a par value of EUR 0.01 per share, and these shares are not traded

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

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

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

For every five GDRs held, holders received one "new" GDR in return. The issued number of ordinary shares and their nominal value remained unchanged. Currently **there are 9,600,800 depository receipts outstanding in the GDR programme**.

According to the terms of the amended deposit agreement with BNY Mellon, the annual depository fee decreased to US\$ 0.01 per "new" GDR.

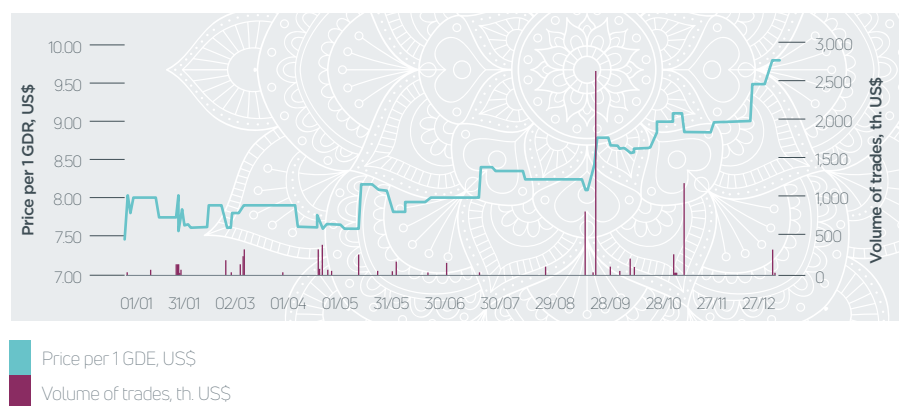
Credit ratings

	Fitch Ratings	Expert RA
HMS Credit Rating / Outlook	B+ / Stable	ruA+ / Stable
Date of Rating / Date of Confirmation	22 Feb 2017 / 7 Sept 2017	11 July 2017 / 23 March 2018

Share price

In 2017, HMS Group's GDRs continued to recover and reached US\$ 9.80 per 1 GDR, although this is a lower value than in 2011-2013. One of the main factors is the low liquidity of HMS' GDRs due to a number of institutional investors, which not only hold large shares since its IPO, but are also increasing them.

HMS GDR's performance and volume of trades in 2017, the London Stock Exchange



Price of HMS Group's GDRs

	Min, US\$	Max, US\$	GDR price at the end of the period, US\$	Market capitalization at the end of the period, US\$ mn
2011	19.90	41.21	22.05	516.69
2012	19.50	29.90	21.10	494.43
2013	10.50	21.15	12.50	292.91
2014	1.30	12.50	1.30	30.46
2015	1.30	4.50	2.76	64.67
2016	2.05	8.01	7.46	174.81
2017	7.46	9.80	9.80	229.64
1Q 2017	7.46	8.00	7.90	
2Q 2017	7.60	8.20	8.00	
3Q 2017	8.00	8.80	8.69	
4Q 2017	8.60	9.80	9.80	

Dividends

In 2016, the HMS Board of Directors approved an updated Dividend Policy reflecting the Group's strategy to maximize shareholder returns.

As a general rule, the company aims to pay our total dividends for a given reporting period in the region of 50% of the "Profit attributable to Shareholders of the Company" for the year, as set out in its IFRS Consolidated Financial Statements, subject to capital constraints such as Debt and Liquidity position and forecast. HMS also plans to pay out dividends basically twice a year (interim and final). Dividends are announced per one ordinary share.

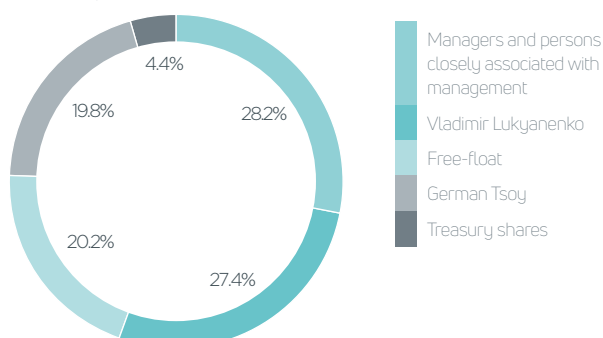
For the periods ended in 2016, **HMS Group paid Rub 8.53 total dividends per one ordinary share (Rub 42.65 per one GDR)**

Buyback programme

HMS Group started its buyback programme in 2012. The company planned to invest up to US\$ 25 million in the repurchase of GDRs. The main objectives of the programme's implementation were to maximize shareholder value as well as reduce the effect of external shocks on GDR's price.

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

Shareholding by holders (effective share), as of 31.12.2017, %



History of dividend payments

Period	Dividend per oshare, Rub	Dividend per GDR, Rub	Amount announced, Rub mn	Record Date	Payment Date
2013 FY	3.41	3.41	399.5	10 Jun 2014	27 Jun 2014
2015 9m (interim)	3.25	3.25	380.8	14 Dec 2015	30 Dec 2015
2015 FY (final)	5.12	25.60	599.9	03 Jun 2016	21 Jun 2016
2016 9m (interim)	3.41	17.05	399.5	12 Jan 2017	26 Jan 2017
2016 FY (final)	5.12	25.60	600.0	09 Jun 2017	27 Jun 2017

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

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

As of the end of 2017, **HMS has repurchased 1,033,887 GDRs since the start of the programme**. The Buyback programme will end as soon as the total amount of acquired securities has reached the maximum amount specified (1,405,961 GDRs) or, if earlier, on June 20, 2018.

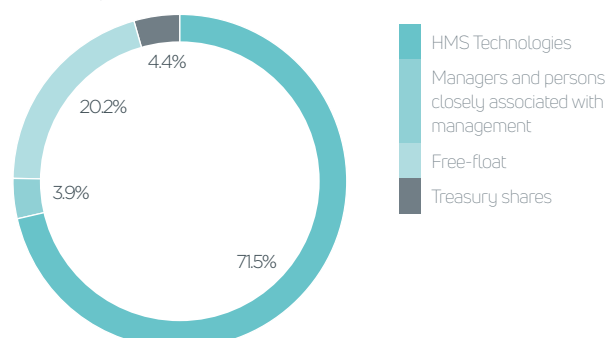
Management purchases

Within the year 2017, HMS Group's Directors/ PDMRs acquired 93,978 of the company's GDRs on the open market, using their own funds.

Information on HMS Group Plc GDRs:

Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
LEI	254900DDFETNLASV8M53
Exchange	London Stock Exchange
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR: ordinary shares	1:5
Underlying ISIN	CY0104230913
Depository bank	BNY Melon

Shareholders by legal entities, as of 31.12.2017, %



Information for Shareholders

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

General information	
Company Name	HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC
Company Type	Public
Fiscal Year-End	December 31
Disclosure	The London Stock Exchange
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov
Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
LEI	254900DDFETNLASV8M53
Exchange	London Stock Exchange
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR:ordinary shares	1:5
Underlying ISIN	CY0104230913
Depository bank	BNY Mellon

Global Depositary Receipts shareholders' contacts:

General Shareholder enquiries and Investor Relations contacts

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

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**
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Tel: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
Website: www.bnymellon.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

Vocabulary

Units of measurement

bcm	Billion cubic meters
bn	Billion
cub.m.	Cubic meter
Cmpa	Cubic meter per annum
km	kilometer
kW	Kilowatt
m	Meter
m ³	Cubic meter
mn	Million
MPa	Megapascal, a unit of pressure measurement
MW	Megawatt
Nm ³ /Hour	Normal cubic metre per hour
Rub/RUB	Russian ruble
Scm ³ /hour	Standard cubic meters per hour
t	Ton / tonne
tcm	Trillion cubic meters
US\$	US Dollar

Abbreviations & contractions

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

Calculations and Formulas

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

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

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

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

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

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

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

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

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

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