



control the flows

////////// annual report 2019



about HMS

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

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

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

52,196

↓ 7% yoy

Order intake → Rub mn

2019	52,196
2018	55,891
2017	59,679
2016	40,624
2015	32,979

44,693

↑ 5% yoy

Backlog → Rub mn

2019	44,693
2018	42,634
2017	39,067
2016	24,035
2015	24,409

14,369

↑ 9% yoy

Net debt → Rub mn

2019	14,369
2018	13,163
2017	11,422
2016	13,347
2015	12,388

24,321

↑ 25% yoy

Total debt → Rub mn

2019	24,321
2018	19,458
2017	16,042
2016	16,336
2015	15,884

4,824

↓ 27% yoy

EBITDA → Rub mn

2019	4,824
2018	6,621
2017	6,839
2016	6,369
2015	7,446

51,413

↓ 2% yoy

Revenue → Rub mn

2019	51,413
2018	52,619
2017	44,422
2016	41,582
2015	37,296



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

See our Online Report at 2019.grouphms.com

///contents

4	Overview
6	Who We Are
10	Chairman Statement
11	Ceo Statement
12	Investment Thesis
14	Our History
16	Our Strategy
18	HMS Business Model
21	HMS Markets & Macroeconomics
22	Macroeconomic Environment in 2019
24	Market Trends
28	HMS Performance In 2019
30	Financial & Operational Overview
38	2019 Calendar of Events
42	HMS Key Projects, Development & Innovations
48	Modernization
50	Corporate Social Responsibility
54	Corporate Governance
56	Board of Directors
60	Risk Management & Internal Control
66	HMS Global Depositary Receipts
70	Information for Shareholders and Disclaimer
72	Appendices
74	Vocabulary, Calculations and Formulas

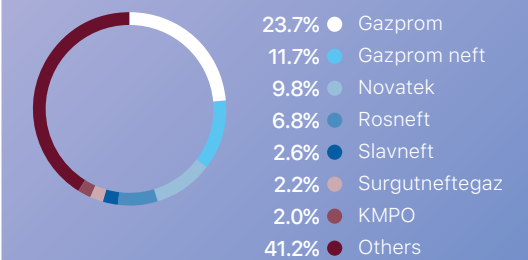
overview

- 6 Who We Are
- 10 Chairman Statement
- 11 Ceo Statement
- 12 Investment Thesis
- 14 Our History
- 16 Our Strategy
- 18 HMS Business Model

who we are

HMS Group is one of the largest privately-owned machine-building companies in Russia and the CIS. The company specializes in production of industrial machinery based around pumps, compressors as well as oil & 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. Today, HMS is the company with a sustainable place in the market and loyal high-profile customers, such as Gazprom, Rosneft, NOVATEK, Transneft, Gazprom Neft, Rosatom, LUKoil, BP, ENI, and others.



Revenue structure by client → %

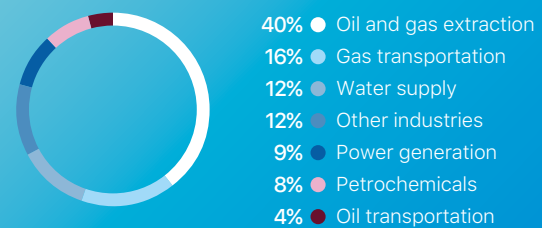
The company produces both serial and/or standard models (recurring business) and customized configurations (large integrated projects). The execution of large projects includes implementation of the crucial project's work as well as large-scale projects' turnkey execution, from project and design to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

12

manufacturing facilities in Russia, CIS countries and Germany

6

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



Revenue structure by industries → %

A well-diversified client base includes "blue-chip" clients, i.e. the largest oil & 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.

~6,000

well-diversified client base

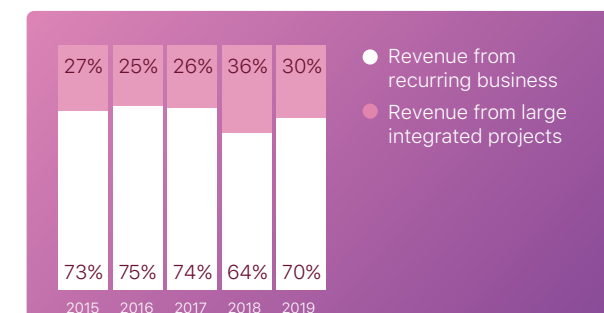
~14,000

employees

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

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

The Group consists of 12 manufacturing facilities in Russia, CIS countries and Germany, plus 6 Research & Development centres, including one of the largest pump-testing facilities in Europe, and employs 14 thousand people.



Revenue structure by contract's type → %

/// who we are

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

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

industrial pumps

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

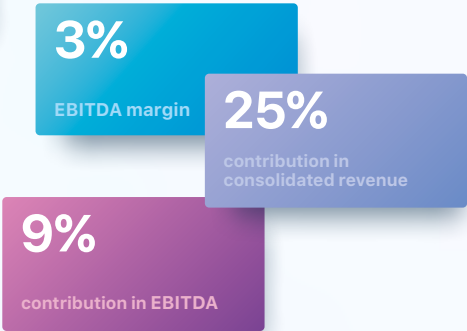


oil & gas equipment and projects

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

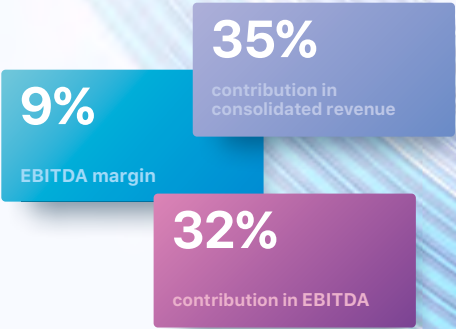


compressors

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

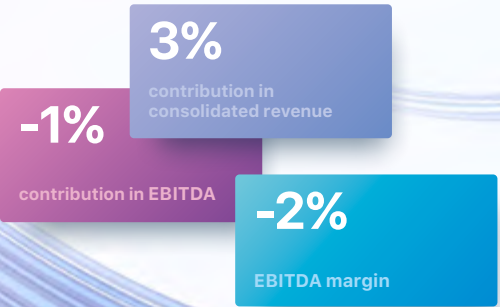


construction

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



chairman statement



HMS Group is one of the leading producers of pumps, compressors and oil & gas equipment in Russia and the CIS, and we intend to maintain our market share in the future.

In 2019, HMS Group became one of the suppliers of gas transportation units for GAZPROM. Also, we started to actively engage in LNG projects of PAO NOVATEK as one of the suppliers of compressor-based equipment. We commercialized a new product line of double-entry pumps for water industry, and today we are involved in development of a new product line of water overhang pumps. The company continues to build a sizeable portfolio of orders for nuclear pumps.

In 2019, we continued to build long-term relations with our core customers. So, for example, in autumn 2019 we signed a Memorandum on Strategic Partnership with PAO NOVATEK which will allow us to organize a more effective collaborative work in the field of development of new products for natural gas treatment and liquefaction. In the context of cooperation, HMS Group intends to develop not only compressors but pump-based equipment, like submersible cryogenic pumps for LNG loading, and other diverse oil and gas equipment.

In 2019, HMS Group started active developing of a new activity area – Process Engineering in Oil and Gas Processing. We have built a team of highly-skilled professionals in the field of technological engineering. The company opened a Moscow branch of GTNG, which became the competence center of the institute in the area of oil and gas treatment, and petrochemicals. Consequently, today we can supply not only separate equipment, but complete technological package for oil & gas extraction facilities, petroleum refineries and gas chemical facilities as well. Our unique sci-tech competences allow us to develop and localize the production of the majority of equipment types independently within a short time if requested by our customers, from preparation of design and detailed documentation to construction supervision, installation supervision and commissioning works.

As a part of the import substitution program, HMS Group produced and delivered compressor units for the Yamal LNG project (PAO NOVATEK). These units were developed by Kazankompresormash in sci-manufacturing tandem with NIITurbokompressor involving the use of the domestic technology of natural gas liquefaction named Arctic Cascade and patented by NOVATEK. The scientific novelty of the technology is the use of the ambient temperature in the Arctic climate for natural gas liquefaction process. The experimental industrial line will be implemented at the Yamal LNG project, and its capacity will be 0.9 mln t of LNG per annum. PAO NOVATEK plans to create the whole industry – construction of LNG production lines, and, thanks to successful execution of the project, HMS Group is one of the main developers and producers of innovation-based equipment.

In 2019, HMS developed the technology of production of pump body castings, where ceramic running system with siphon CFF-filtering of liquid melt input was used. This technology will be used in production of AS-1D200-90-A pumps for nuclear power plants, which will have the safety class 2. The produced two units successfully passed all non-destructive control tests.

In the short term, we observe a number of interesting projects to participate in. We will continue playing an active role in implementation of ambitious projects in the oil & gas industry, in projects to develop nuclear and thermal power sectors, and in the national projects of the Russian Federation, primarily, with environmental focus.

Your faithfully,
Nikolay YAMBURENKO



CEO statement

The 2019 year was challenging for the company, facing the influence of several factors which affected its financial results. One of them was weak results of the oil & gas equipment business segment that were the main reason of HMS' revenue and EBITDA downswing. We believe that implemented business optimization and cost reduction demonstrated their effectiveness, given that the oil & gas equipment business segment had shifted from the losses towards a good level of profitability.

We consider HMS' entry into the domestic market of LNG equipment to be one of the company's breakthroughs.

The Memorandum on Strategic Partnership, signed with PAO NOVATEK in 2019, set the general principles of mutual cooperation in the area of development of domestic technological basis for LNG projects of PAO NOVATEK that will allow to equip LNG plants under construction with high-tech equipment made in Russia.

The fruitful cooperation of HMS Group and PAO NOVATEK in the field of LNG equipment production resulted in signing a contract to manufacture 6 main compression units for a natural gas liquefaction for the Obsky LNG in March 2020. The contract requires the supply of three types of gas compression units, developed by HMS' specialists, and equipped with high-capacity gas turbine drives.

HMS Group continues its work on winning profitable large contract. As of today, orders backlog grew 5 percent year-on-year. Based upon current pipeline of large contracts and a stable inflow of recurring business, we feel optimistic about the future, despite the challenging situation in the world.

Your faithfully,
Artem MOLCHANOV

investment thesis

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

Mature Business Platform

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

Entering new markets

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

Optimisation of the business portfolio

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

3. Management focuses on maintaining a moderate debt position

- The current Net debt-to-EBITDA ratio is conservative
- 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

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

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

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

4. Well-diversified quality client base

- Over 6,000 small and medium clients generate on average 70–80% 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

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

our history

1993

1998

foundation

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

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

1999

2003

ambitions for market leadership

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

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

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

2004

2008

from sales to production

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

The investment industrial group Hydraulic Machines & Systems was established as an industrial holding (since 2008 – HMS Group plc.)

HMS Group continued to develop long-term relations with its key customers

The company successfully implemented its first large projects in specialist pumps for nuclear power plants in India (Kudankulam) and China (Tianwan)

The shareholders established HMS Group Management Company LLC. The extended management team was formed to achieve new ambitious goals

26 years: from a start-up to the industry leader

2009

2013

diversification and complex solutions

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

HMS Group acquired Giprotymenneftegaz, the leading project and design institute for oil and gas fields, as well as new production assets: Sibneftemash, Dimitrovgradhimash, Bobruisk Machinery Plant, and Apollo Goessnitz, and entered the market of equipment for oil refining and petrochemistry

HMS Group ran a successful IPO on the London Stock Exchange in 2011

The company gained access to the compressor market via acquisition of the alliance: Kazankompressormash – NIIturbokompressor, the largest manufacturer of compressor equipment in Russia and the CIS

HMS Group became the provider of key technological units for large projects in oil extraction and transport: Vankor oilfield, the system of export pipelines BPS-2, ESPO-1, ESPO-2, Zapolarye-Purpe, Purpe-Samotlor and many others

The Group introduced a new line of pumps for oil trunk pipelines (NM, NPV, and NOU series) and mastered production of large-scale technological modules, as well as tanks, vessels and heat exchangers

2014

2019

engineering and gas technologies

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

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

Livgidromash plant expanded its engineering and manufacturing capabilities. The new mechanical treatment shop and the new unique testing unit were built

The Group implemented a large-scale investment programme covering all production units, renewed and expanded the product portfolio, and developed new product lines for pumps, compressors, measuring and other equipment for oil & gas

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

- Technological equipment for ROSPAN INTERNATIONAL (East-Urengoykoye field, Rosneft);
- Equipment for the extraction, transportation and processing of liquid hydrocarbons (Nadym-Pur-Taz region, Gazprom);

- Helium concentrate membrane separation unit (Chayandinskoye field, Gazprom);
- Equipment for LNG plants based on the “Arctic cascade” technology (PAO NOVATEK), followed by the Memorandum on Strategic Partnership, signed with PAO NOVATEK in 2019, as a part of the import-substitution program.

In 2019, total revenue, generated by the gas sector, reached almost a third of HMS’ consolidated revenue, improving diversification.

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

our strategy

vision

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

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

strategic goals and priorities

Organic growth

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

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

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

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

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

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

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

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

corporate responsibility

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

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

We carry out charity activities and offer support to charitable foundations for children and the disabled. In 2019, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions of our business activities.

sustainable development

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

In the face of a rapidly changing environment, we work on maintaining an effective organisation, management and corporate culture. The company is strengthening its competences in marketing, engineering and R&D.

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

After 26 years in business, HMS Group is a full-cycle machine-building company that has achieved a leading position among Russian players. The company follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements of the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.

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

HMS business model

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

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

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

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



Marketing
& sales



Research
& development



Procurement
& manufacturing



After-sales service
across all of its business units

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

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

We continued to implement our large-scale capital expenditures program (Rub 1.6 billion in 2019) to develop our manufacturing capacities and retain the highest level of product quality. The biggest investments include the construction of a new shop for large steel casting at Kazankompressormash and the expansion of machinery shops for new lines of water pumps (DeLium, Kordis series) at HMS Livgidromash.

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

In 2019, HMS' overall sales volumes equaled Rub 51.4 billion (-2% yoy). Our direct client list comprised over 6,000 names in Russia and abroad. Industrial pumps division accounted for the largest part of the revenue – Rub 19.4 billion (+11% yoy).

Outside of Russia, HMS' sales offices are currently located in Germany, the UAE, as well as in Belarus and Kazakhstan. We are also growing our presence in new markets and developing relations with oil & gas, energy and international EPC companies in Russia and abroad.

markets &

22 Macroeconomic Environment in 2019
24 Market Trends

macro- economics

macroeconomic environment in 2019

The Russian GDP grew by 1.3% yoy in 2019 (2.5% yoy in 2018).

The main factors of this moderate growth were decrease in exports (-2.3% yoy compared with 5.5% yoy in 2018) and lower final consumption expenditure (2.4% yoy compared to 2.8% yoy in 2018), including household consumption (2.5% yoy compared with 3.3% yoy in 2018). Increased imports (+3.4% yoy compared with 2.6% yoy in 2018), gross capital formation (1.5% yoy compared with 0.2% yoy in 2018) and public spending (+2.2% yoy compared with 1.3% yoy in 2018), supported by the launch of the National projects, did not provide enough to ensure higher growth.

2.4%

✓ 2.9% in 2018

The industrial production growth → %

The industrial production grew by 2.4%, which is 0.5% less than in 2018 (2.9%). The highest growth was observed in basic pharmaceutical products and preparations (+19.6% yoy), fabricated metal products (+8.9% yoy), computers, electronic and optical products (+8.0% yoy), furniture (+6.8% yoy), wood and products of wood and cork (+5.3% yoy). Machinery and equipment declined (-2.4% yoy), while the most significant decline was in the segment of transport equipment (-12.1% yoy).

In 2019, consumer inflation in Russia (the Consumer Price Index) remained low (3.0%). The unemployment rate reached 4.6% at the end of the year, being one of the lowest in the history of the country.

1.3%

✓ 2.5% in 2018

The Russian GDP → %

3.0%

✓ 4.3% in 2018

consumer inflation in Russia → %

In 2019, the world GDP growth slowed down to 2.9% against 3.6% in 2018: advanced economies grew by 1.7% compared with 2.3% in 2018, and emerging markets and developing economies (EMDEs) grew by 3.7% compared with 4.5% in 2018. The main factors of the slow-down included the trading tensions between the United States and China and stagnation in the main European economies. The price of Brent crude oil averaged to US\$ 64 per barrel in 2019, US\$ 7 per barrel lower than its 2018 average (US\$ 71).

64.6bn

✓ 113.7 billion in 2018

current account surplus → US\$

6.25%

✓ 7.75% in 2018

CBR key rate → %

Industrial Producers Price Index declined by 4.3% in 2019. The Central Bank of Russia decreased the key rate 5 times in 2019 (from 7.75% to 6.25%) to support the economic activity on the back of low inflation, which made the loans more available for both business and households.

As a result, the total corporate debt reached Rub 41.9 trillion (+5% yoy) at the end of 2019, while loans to individuals grew up even faster, to the level of Rub 19.1 trillion (+19% yoy), so that the Central Bank of Russia took control measures to limit the credits to individuals with high credit-risk profiles.

Despite the continued sanctions of the United States and the European Union **the Russian ruble remained stable** in 2019: it declined by 3% against the US Dollar (average USD/RUB: from 62.6 to 64.8) and grew by 2% against the Euro (average EUR/RUB from 74.1 to 72.4).

The year 2019 was marked by the beginning of the pension reform in Russia, which will result in the retirement age increase by 5 years for both men (increase from 60 to 65 years) and women (increase from 55 to 60 years). The reform will eventually increase the country's available labor force in the face of the ageing population.

Starting from January 1, 2019, the Value Added Tax in Russia increased from 18% to 20%, which will bring additional revenue into the Russian budget.

The current account surplus was at the level of US\$ 64.6 billion for 2019 (lower than US\$ 113.7 billion in 2018).

Commodities Exports amounted to US\$ 417.9 billion, with US\$ 121.6 billion coming from crude oil, US\$ 66.3 billion – from oil products, US\$ 41.5 billion – from gas, US\$ 8.4 billion – from LNG (total sum of oil and gas exports, including oil products reached US\$ 237.8 billion). Commodities Imports reached Rub 254.8 billion. Direct investments amounted to US\$ 26.9 billion, a significant increase compared to US\$ 5.9 billion in 2018. Exports of services reached US\$ 63.6 billion, while Imports of services amounted to US\$ 98.3 billion.

500bn

^ 9.9% yoy

total external debt of Russia → US\$

The Russian Budget showed a surplus of Rub 1.9 trillion, equal to 1.8% of the GDP. Budget revenue increased by 3.8%, while spending grew by 9.0%. Total external debt of Russia (both government and corporate) increased by 9.9%, to the level of US\$ 500 billion.

As the result of favorable economic conditions, the MOEX Russia Index increased from 2,369 points at the end of 2018 to 3,046 points at the end of 2019 (+29%), with a total capitalization of Rub 11.8 trillion. The RTS Index growth was even higher, from 1,069 points to 1,549 points (+45%) during 2019, with a total capitalisation of US\$ 190.4 billion.

market trends

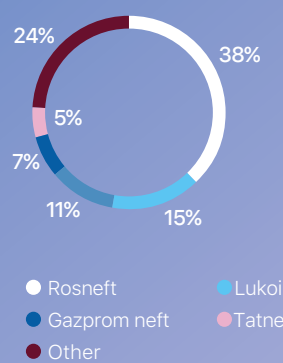
oil and gas industry

In 2019 extraction of minerals brought 12.6% to the Russian GDP (-0.6% yoy). The oil and gas share in total income of the Federal Budget of Russia decreased from 46% in 2018 to 39% in 2019, as a result of decline of Urals oil price from US\$ 70 per barrel to US\$ 64 per barrel. Yet, the oil price was sufficient to ensure the funding of the Russian Budget and further CAPEX of oil and gas companies.

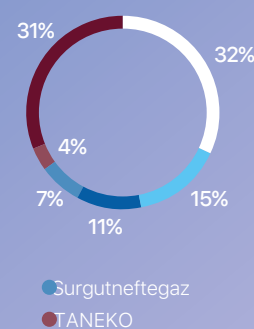
Russian oil industry consists of a number of large players, 5 largest companies account for 3/4 of country's oil production and refining, while Gazprom is the major gas company in Russia.

About a half of the oil produced is processed at the Russian refineries, while the other half is exported.

Top oil producers in Russia, 2019 → %



Top petroleum refiners in Russia, 2019 → %

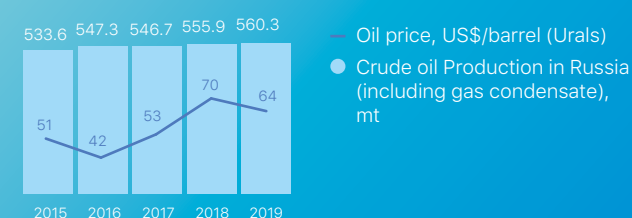


upstream

The overall situation on the oil market remained stable in 2019. Russia increased its production of oil to 560.3 million tons in 2019 (+0.9% yoy). During the year, the country's well stock increased from 181.7 thousand units to 187.1 thousand units (+3% yoy). The total measured drilling depth declined by 1% yoy to 28.4 thousand meters.

Total investments in oil & gas production increased by 7% yoy in 2019, to Rub 2 trillion.

In 2019, 569 wells on new oilfields (not older than five years) were put into operation, including newly launched the Zapadno-Erginskoye, the Traygorodsko-Kondakovskoye and the Lenskoye fields.



Crude oil production in Russia and Urals oil price dynamics

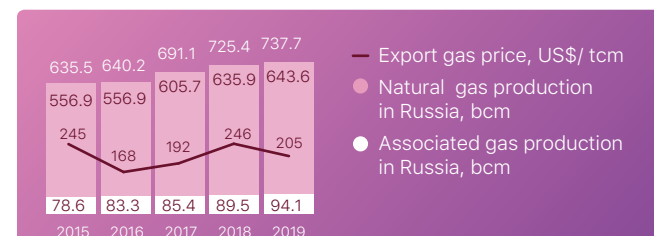
Natural gas extraction in Russia hit the 2018-year record – 737.59 bcm were produced (+1.7% yoy), the average export prices declined by 17% yoy to US\$ 205 bcm, because of growing competition from LNG producers.

In 2019, Gazprom launched the Chayandinskoye gas field – one of the largest fields in Eastern Siberia and continued development of a number of other large projects, including the Kovyktinskoye field and the Achimov deposits of the Urengoyenskoye field.

29.5mt

^ 9% yoy

The volume of LNG produced in Russia → mt



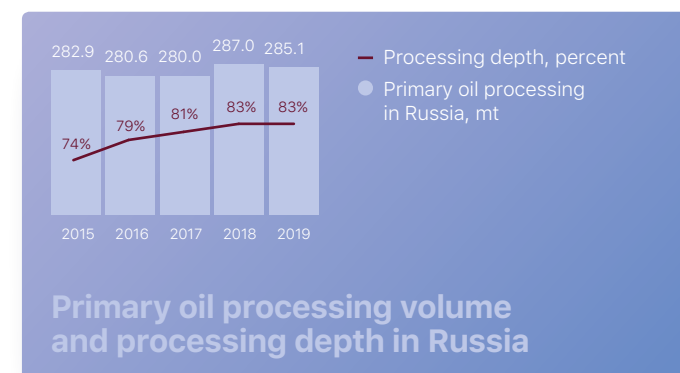
Natural and associated gas production in Russia, and average export price of gas

midstream

As Russian oil fields and gas fields are widespread across the country, Russia has the largest oil and gas pipeline networks in the world, which has been significantly developed during the last ten years.

Transneft is the major operator of the Russian oil trunk pipeline system (51,600 km) and oil-product trunk pipeline system (16,700 km). The annual CAPEX in the oil transport system exceeded Rub 266.7 billion in 2019 (+3% yoy).

The total length of the Russian gas transportation system is ~172,600 km; the only operator of gas pipelines is Gazprom. In 2019, Gazprom launched the Power of Siberia that will supply gas to China, finalized works on the Turk Stream, and continued construction of other pipelines, such as a part of the Sakhalin-Khabarovsk-Vladivostok and the Ukhta-Torzhok (Yamal) pipelines.



Primary oil processing volume and processing depth in Russia

downstream

There are 39 large oil refineries in Russia with total crude oil distillation capacity of 0.8 million tons per day. Rosneft, the leading Russian oil company, is the largest refinery operator owning 12 major refineries. LUKOIL, with 4 major refineries, is the second-largest refineries operator. In Russia, primary oil processing reached 285.1 million tons, a decrease by 0.6% yoy, compared with 2018. The depth of processing remained 83 percent, at the level of 2018.

In 2019, total CAPEX in oil & gas downstream grew by 28% yoy to Rub 0.5 trillion.

A number of future projects on the modernisation of oil refineries as well as new construction are planned on the horizon until 2025. Examples of projects include the construction of new units at Taneco (Tatneft), Khabarovsk refinery (NNK), Orskneftegazsyntez (Safmar).

In 2019, seventeen large gas-processing plants in Russia (processing over 1 bcm per year each) and nineteen smaller plants processed in total 122.37 bcm of natural gas and petroleum associated gas (+13.4% yoy). The main trend in gas processing is the steadily increasing share of LNG production. The volume of LNG produced in Russia reached 29.5 mt compared with 19.8 mt the previous year (+49% yoy). The largest LNG projects include the Yamal LNG and the Arctic LNG-2 (NOVATEK).

///market trends

power generation

In 2019, Russia continued to increase its electricity output, which reached 1,096.2 billion kWh (+1.2% yoy). Total installed capacity of Russian power system increased by 2.96 GW (+1.1% yoy) and amounted to 252 GW.

Total number of large power plants in Russia is 805 (with installed capacity higher than 5 MW each). The structure of the installed capacity in the Unified power system remained practically unchanged in 2019: thermal power plants accounted for 67 percent of installed capacity, hydro power plants – 20 percent, nuclear power plants – 12 percent.

Total investments in the energy industry declined by 8.8% yoy to Rub 962.1 billion.

Russian energy companies continued construction of new power plants, such as nuclear Kursk-2 NPP, Leningrad-2 NPP, Novovoronezh-2 NPP, conventional Primorskaya TPP, Voronezh TPP (new 115 MW unit) and other.

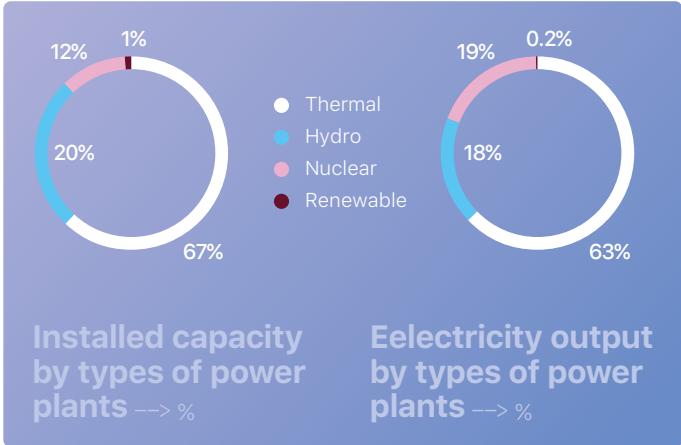
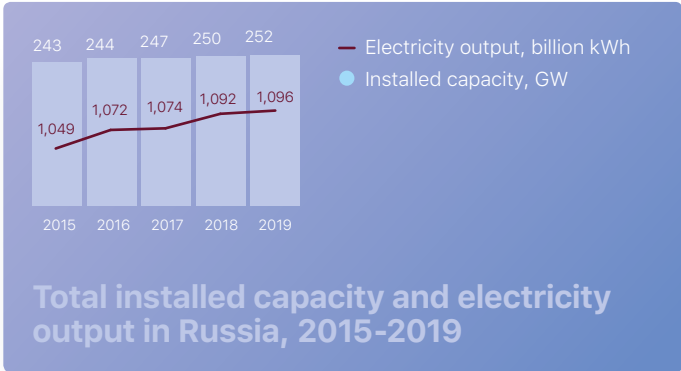
The State Atomic Energy Corporation, ROSATOM, also runs a number of projects on NPP construction abroad with Russian technology and equipment, such as: Akkuyu NPP in Turkey, Kudankulam NPP in India, Buzher NPP in Iran, Belarusian NPP, Tianwan-2 NPP in China and has a number of projects under negotiation.

A new program of TPP modernization was launched in 2019 – new capacity of 17.2 GW will be built in 2022-2025, with total CAPEX over Rub 200 billion.

93.3bn

^ 27% yoy

Crude oil exports brought Russian companies in 2018 → US\$



3.1% yoy

^ in 2019

Overall extraction of mineral resources → %

metals and mining

Mining industry in Russia is highly concentrated, and consists of large companies, which typically have a full production cycle from ore mining to the production of metal products with high value added.

In 2019, overall extraction of mineral resources grew by 3.1% yoy, where:

- Extraction of metal ores increased by 5.2% yoy;
- The volume of coal production amounted to 439.2 million tons, a 0.2% yoy decrease compared with 2018;
- Coal exports decreased to 192.4 million tons (-0.4% yoy).

In 2019, overall investments in metal ores extraction slightly declined to Rub 274.9 billion (-0.2% yoy), while investments in coal industry reached Rub 179.2 billion (+18% yoy).

In 2019, overall production of metals increased by 0.6% yoy, where:

- Production of cast iron was at the level of 51.2 million tons (a 1.2% decrease yoy), while production of stainless steel reached 199 million tons (+4.4% yoy);
- Production of some rare and precious metals showed even higher growth: gold production grew by 17% yoy, cobalt by 5.7% yoy, and titan by 3.6% yoy.

Total investments in the production of metals grew by 6.3% yoy to Rub 324.1 billion.

Russian metals and mining companies continue to implement large-scale investments programs. EVRAZ, Severstal, Rusal, Nor Nickel and others are running long-term programs on development of new mines and construction of new production units (coke batteries, new furnaces, etc.) that will ensure investments in the industry for the next years.

water utilities

Municipal water utilities were supported by the continued growth of tariffs. For example, in 2019, tariffs for cold water supply increased by 5.0% yoy, hot water supply – by 4.1% yoy, and sewerage – by 6.0% yoy.

Total investments in water utilities and waste utilization in Russia reached Rub 158 billion (+5.7% yoy). Some of the most important ongoing projects in water utilities construction and modernization in 2019 were at St. Petersburg, Belgorod and Saratov water facilities.

In 2019, the implementation of the National project "Ecology" (consisting of 11 Federal projects) continued, that will ensure large modernization of water facilities all over the country, yet it was going much slower than the plan. By November 2019, only 27.1 percent of the planned for the period budget had been spent (Rub 15.4 billion), including only 12.4 percent of the "Clean Water" Federal project budget. The main reason for this delay was the lack of expertise in preparation, approval and implementation of such investment projects.

158bn

^ 5.7% yoy

Total investments in water and waste utilization → Rub

performance

- 30 Financial & Operational Overview
- 38 2019 Calendar of Events
- 42 HMS Key Projects, Development & Innovations
- 48 Modernization
- 50 Corporate Social Responsibility

financial & operational overview

///FY 2019 financial results

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	52,196	55,891	-7%	15,970	25,176	-37%
Backlog	44,693	42,634	5%	44,693	42,634	5%
Revenue	51,413	52,619	-2%	14,732	20,757	-29%
EBITDA	4,824	6,621	-27%	1,432	2,302	-38%
EBITDA margin	9.4%	12.6%		9.7%	11.1%	
Profit for the period	151	1,946	-92%	(45)	772	-106%
Depreciation & amortization	2,296	1,843	25%	597	521	14%
Free cash flow	23	(139)	na	2,646	1,854	43%

group performance

Order intake declined by 7% yoy to Rub 52.2 billion, compared with Rub 55.9 billion for 2018FY, mainly due to a decrease in the compressors business segment because less large contracts were signed in the reported period.

Backlog, in contrast, grew to Rub 44.7 billion by 5% yoy, compared with Rub 42.6 billion last year, based on growth in the pumps and the oil & gas equipment. In terms of contracts type, the recurring business was the main contributor to this growth.

Revenue decreased to Rub 51.4 billion, down by 2%, compared with Rub 52.6 billion for 2018FY, due to weak results of the oil & gas equipment business segment.

EBITDA was down to Rub 4.8 billion compared with Rub 6.6 billion (-27% yoy) mainly because of the oil & gas equipment projects and partly because of the compressors.

Revenue from recurring business increased by 8% yoy, and revenue from large projects declined by 19% yoy. EBITDA from recurring business increased by 56% yoy, and from large projects contracted by 62% yoy.

EBITDA margin was down to 9.4%, compared with 12.6% for 2018FY.

Profit for the 2019 year declined to Rub 151 million, compared with Rub 1.9 billion for 2018FY, down by 92% yoy.

Depreciation & amortization was up 25% yoy to Rub 2.3 billion, compared with Rub 1.8 billion for 2018FY because of assets acquired in 2019.

Free cash flow grew to Rub 23 million, compared with Rub (139) million for 2018FY, mainly due to a decrease in working capital (-3% yoy).

HMS austerity program

In 2019, HMS experienced the influence of several negative factors that affected the company’s financial results:

- Change in a mix of large contracts portfolio, where compressor-based large contracts increased their share, and they traditionally have lower margins compared with pumps and oil & gas equipment:

HMS addressed this by working on prospective profitable contracts. As a result, today the company has signed already a sustainable volume of large contracts in the pumps and the compressors segments. In the oil & gas equipment and projects segment, the portfolio of large contracts is improving. Also, based on a current pipeline of large projects, the oil & gas equipment and projects segment has a potential of the further portfolio’s development.

- Weak results of the oil & gas equipment and projects business segment in recurring business:

HMS had analyzed the factors that affected financial results of the segment, and has taken actions to mitigate their impact on 2020FY results.

- Postponement of a number of the oil & gas equipment signed and budgeted deliveries from 3–4Q 2019 to the 2020 year due to HMS customers’ decisions:

One the one hand, this factor affected 2019 FY financial results, and on the other hand, it should positively influence 2020 FY financial results.

- The “Arctic Cascade” project of PAO NOVATEK, the first ever HMS project in the field of designing and manufacturing of compressors for liquefaction of natural gas:

HMS Group had analyzed the project, and has taken actions to prevent losses in foreseeable projects of that kind. The equipment was manufactured under the innovative proprietary natural gas liquefaction technology called the “Arctic Cascade” patented by PAO NOVATEK in 2018.

The aim of the project was to localize the manufacturing and assembly of LNG equipment to decrease the overall cost of liquefaction and develop a technological base within Russia. While the participation in the project incurred losses for the company due to the fact that HMS has developed a new product, the project’s successful execution has given the access to the new and prospective LNG market in Russia.

- Austerity measures time lag:

HMS had started the cost-optimization program at the end of 1H 2019. It has taken several months from the implementation of austerity measures to the decrease of fixed costs and increase of profitability, which were clearly seen at the improved results of 2H 2019.

The cost-optimization program of HMS Group consists of two types of austerity measures – short-term and long-term. The short-term measures have been already implemented and realized. In 2020, the short-term ones will be partly complimented or replaced by long-term measures.

The short-term measures include (1) a temporarily decrease of wages, which has been already realized in 2H 2019, and (2) a decrease or cancellation of dividend payments in 2020, which decision will depend on 2019 FY results and general situation with large contracts portfolio in the spring 2020.

The long-term austerity measures include, among others:

- Rightsizing (personnel optimization);
- Minimization of operating costs including optimization of procurement processes and improvement of products’ design solutions;
- Reduction of capital expenditures to Rub 1.5 billion per annum (pure maintenance level);
- Strengthening of control over working capital;
- Analysis of non-performing assets for further decision-making regarding restructuring of HMS business.

1. Herein, materials & components, labour costs and social taxes, construction & design were additionally derived from Change in work in progress and finished goods, thereby do not coincide with the note in the financial statement

/// financial & operational overview

expenses and operating profit

Cost of sales was up to Rub 41.8 billion by 3% yoy, compared with Rub 40.6 billion for 2018FY, due to the increase in Materials and components (+1% yoy). The main reason of the increase was large compressor contracts, which had a higher share of outsourced components in their costs of sales.

Gross profit was down 20% yoy to Rub 9.6 billion, compared with Rub 12.0 billion for 2018FY.

Distribution and transportation expenses grew by 2% yoy, due to the grown transportation expenses (+25% yoy) that was because of increased deliveries of equipment produced under large contracts to the remoted regions of Russia.

RUB mn	2019 FY	2018 FY	Change yoy	Share of FY 2019 revenue	Share of FY 2018 revenue
Gross profit	9,609	12,002	-20%	18.7%	22.8%
Distribution and transportation	1,961	1,916	2%	3.8%	3.6%
General and administrative	5,395	5,636	-4%	10.5%	10.7%
SG&A expenses	7,356	7,551	-3%	14.3%	14.4%
Other operating expenses	196	250	-22%	0.4%	0.5%
Operating expenses ex. Cost of sales	7,553	7,802	-3%	14.7%	14.8%
Operating profit	2,057	4,200	-51%	4.0%	8.0%
Finance costs	1,785	1,611	11%	3.5%	3.1%

RUB mn	2019 FY	2018 FY	Change yoy
Finance costs	1,785	1,611	11%
Interest expenses	1,764	1,598	10%
Interest rate, average	8.56%	8.72%	
Interest rate Rub, average	8.69%	8.91%	

RUB mn	2019 FY	2018 FY	Change yoy	Share of FY 2019 revenue	Share of FY 2018 revenue
Cost of sales ¹	41,804	40,617	3%	81.3%	77.2%
Materials and components	27,957	27,628	1%	54.4%	52.5%
Labour costs incl Social taxes	7,060	7,276	-3%	13.7%	13.8%
Depreciation and amortization	1,954	1,567	25%	3.8%	3.0%
Construction and design and engineering services of subcontractors	2,467	2,102	17%	4.8%	4.0%
Others	2,365	2,045	16%	4.6%	3.9%

As a share of revenue, distribution and transportation expenses was up to 3.8% compared with 3.6% last year.

General and administrative expenses were down by 4% yoy to Rub 5.4 billion, compared with Rub 5.6 billion last year, due to the sizable 9% yoy totaling decrease in labor costs and social taxes. As a share of revenue, general and administrative expenses decreased to 10.5% from 10.7% for 2018FY.

SG&A expenses¹ declined to Rub 7.4 billion, compared with Rub 7.6 billion (-3% yoy), and as a share of revenue, declined to 14.3% from 14.4%.

Operating profit was down to Rub 2.1 billion, compared with Rub 4.2 billion last year (-51% yoy).

Finance costs were up to Rub 1.8 billion, compared with Rub 1.6 billion for 2018FY, due to the increase of interest expenses (+10% yoy) because of a higher level of total debt. Average rates decreased to 8.56% p.a. compared with 8.72% p.a. last year.

business segments performance

/// industrial pumps¹

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	22,792	19,573	16%	6,369	6,141	4%
Backlog	19,572	17,152	14%	19,572	17,152	14%
Revenue	19,770	17,811	11%	5,866	6,613	-11%
EBITDA	2,599	2,390	9%	728	1,191	-39%
EBITDA margin	13.1%	13.4%		12.4%	18.0%	

Order intake of industrial pumps grew by 16% yoy based mainly on large contracts.

Backlog grew by 14% yoy to Rub 19.6 bn due to both recurring business and large contracts, mainly in the sphere of pumps for nuclear power plants.

Revenue was Rub 19.8 bn, up 11% yoy, compared with Rub 17.8 bn for 2018FY. The growth was based on both recurring business and large contracts.

EBITDA increased to Rub 2.6 bn, by 9% yoy, from Rub 2.4 bn for 2018FY due to recurring business. And EBITDA margin was 13.1%, compared with 13.4% for 2018FY, with a minor drop, because recurring business generated a larger share of EBITDA compared with 2018FY.

There are two low-margin production facilities in the pumps business segment, and their negative effect has been already reflected in the company's financial results. Currently, HMS is working on an optimization strategy of their operations.

1. SG&A expenses - Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

/// financial & operational overview

///oil and gas equipment" & projects (OGEP)

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	11,887	12,023	-1%	791	3,203	-75%
Backlog	7,426	6,658	12%	7,426	6,658	12%
Revenue	13,160	20,859	-37%	4,562	4,346	5%
EBITDA	430	2,883	-85%	601	166	261%
EBITDA margin	3.3%	13.8%		13.2%	3.8%	

Order intake slightly declined to Rub 11.9 bn, compared with Rub 12.0 bn for 2018FY, and totally consists of recurring contracts.

Backlog was up by 12% yoy to Rub 7.4 billion, compared with Rub 6.7 bn for 2018FY, also based on recurring contracts.

Revenue decreased by 37% yoy to Rub 13.2 bn, compared with Rub 20.9 bn for 2018FY. EBITDA declined to Rub 430 mlnn, compared with Rub 2.9 bn, and EBITDA margin was 3.3% vs. 13.8% for 2018FY.

The main reason of the decline were absence of new large contracts under execution in 2019FY compiled with a low profitability of recurring business in 1H 2019.

When its backlog of large projects decreased in mid-2018, the production facility didn't manage to cut quickly its fixed costs. Also it didn't manage to sign a sufficient volume of profitable recurring contracts to replace large contracts. The combination of the above-mentioned factors resulted in a decrease of revenue and margins in the period from 4Q 2018 to 2Q 2019. Consequently, recurring business generated less EBITDA than expected.

HMS Group has changed management at HMS Neftemash to speed up the costs reduction. Implemented austerity measures align with more profitable orders portfolio resulted in a recovery of the oil & gas equipment and projects segment's financial results.

HMS Neftemash postponed deliveries from 3-4Q 2019 to 2020, worth c. Rub 0.4 billion EBITDA, that should positively influence 1H 2020.

///compressors"

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	17,363	23,883	-27%	8,785	15,811	-44%
Backlog	16,067	16,688	-4%	16,067	16,688	-4%
Revenue	17,884	14,678	22%	4,558	9,371	-51%
EBITDA	1,546	1,758	-12%	280	1,320	-79%
EBITDA margin	8.6%	12.0%		6.1%	14.1%	

Order intake was down 27% yoy to Rub 17.4 billion, compared with Rub 23.9 billion, because of a lower volume of large contracts signed. Recurring business orders, in contrast, grew by 7% yoy.

Backlog decreased by 4% yoy to Rub 16.1 billion, compared with Rub 16.7 billion last year, also because of less large contracts signed.

Revenue was up by 22% yoy to Rub 17.9 billion, compared with Rub 14.7 billion, based on both recurring business and large contracts. EBITDA declined by 12% yoy to Rub 1.5 billion, compared with Rub 1.8 billion for 2018FY. EBITDA margin was down to 8.6% compared with 12.0% for 2018FY.

In the 2nd half of 2018, HMS Group started execution of the pilot "Arctic Cascade" project. That was a project to supply a main 25 MW gas compression system for the Yamal LNG project of PAO NOVATEK.

Since HMS had developed a new product, it has incurred losses for the company, and that was one of the main factors that affected the compressors segment's EBITDA. But on the other hand, the company had analyzed the project, has taken actions to prevent them and is fully prepared for execution of similar projects in the future.

The "Arctic Cascade" allowed HMS to develop competencies in the new area of equipment for liquefaction of natural gas and penetrate the Russia's booming LNG market.

The successful execution of the "Arctic Cascade" turned PAO NOVATEK into one of HMS largest clients. In September 2019, PAO NOVATEK and HMS Group signed the Memorandum on localization of LNG equipment.

In 2019, PAO NOVATEK and HMS Group signed two large compressor contracts worth Rub 3 billion rubles. And in 2020, another large contract was signed, to engineer and manufacture 6 main gas compression units to deliver and install at the Obsky LNG processing plant.

///construction"

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	4Q 2018	Change yoy
Orders	155	411	-62%	25	20	25%
Backlog	1,628	2,137	-24%	1,628	2,137	-24%
Revenue	1,394	1,795	-22%	295	537	-45%
EBITDA	(29)	(138)	na	(78)	23	na
EBITDA margin	-2.1%	-7.7%		-26.4%	4.2%	

Order intake equaled Rub 155 million. Backlog was Rub 1.6 billion.

Revenue was down to Rub 1.4 billion, compared with Rub 1.8 billion for 2018FY. EBITDA was Rub (29) million, compared with Rub (138) million last year.

/// financial & operational overview

/// working capital and capital expenditures

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	3Q 2019	Change qoq
Working capital	8,846	9,115	-3%	8,846	11,522	-23%
Working capital / Revenue LTM	17.2%	17.3%		17.2%	20.1%	
Capex	1,571	2,335	-33%	367	403	-9%
Acquisition	670	(112)		-	-	

working capital and capital expenditures

Working capital was Rub 8.8 billion, down by 3% yoy, compared with Rub 9.1 billion for 2018FY. As a share of revenue, working capital slightly declined to 17.2%.

Capital expenditures were Rub 1.6 billion, down by 33% yoy, compared with Rub 2.3 billion last year, as the result of the implemented austerity measures.

debt position

Total debt increased to Rub 24.3 billion, up by 25% yoy, compared with Rub 19.5 billion for 2018FY. Net debt was Rub 14.4 billion, up by 9% yoy, compared with Rub 13.2 billion for 2018FY.

Net debt to EBITDA LTM ratio increased to 2.98x compared with 1.99x last year.

shareholding and HMS GDRs

In December 2019, the major shareholder of HMS Group, JSC HMS Holding ("HMS Holding"), completed the process of cancellation (disposal by HMS Holding) of 2,924,207 global depositary receipts issued under the Company's depositary receipts program representing 14,621,035 shares in the Company (the "Underlying Shares") and withdrawal of (acquisition by HMS Holding of) the Underlying Shares from the depositary (the Bank of New York Mellon) in the name of HMS Holding (the "Conversion").

As a result of the Conversion, HMS Holding retains full control over the majority shareholding in the Company being a direct holder of 71.51 percent of the Company's issued share capital, and, consequently, the Conversion neither triggers an obligation of the Company or HMS Holding to make any mandatory offer to the GDR holders, nor lead to any change in corporate governance of the Company.

/// debt position

RUB mn	2019 FY	2018 FY	Change yoy	4Q 2019	3Q 2019	Change qoq
Total debt	24,321	19,458	25%	24,321	21,115	15%
Net debt	14,369	13,163	9%	14,369	16,960	-15%
Net debt / EBITDA LTM	2.98	1.99		2.98	2.98	

significant events after the reporting date & financial management

large contracts

After the reporting date, HMS announced the signature of a large compressor contract with PAO NOVATEK, to deliver main compression units to the Obsky LNG processing plant.

debt refinancing

In February 2020, the Group made a full Rub 3 billion redemption of its bonds, issued in 2017, at 100% par value. In 4Q 2019, HMS Group attracted Rub 3 billion bank credit, that was deposited, for this bonds redemption.

covid-19 and fall in oil prices

Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

In addition to that, in March 2020, oil prices dropped by more than 40%, which resulted in immediate weakening of Russian Rouble against major currencies.

Management considers the outbreak of COVID-19 coronavirus infection and the reduction in oil prices to be non-adjusting events after the reporting period.

The Group developed a stress scenario of the possible impact of the current operating environment on the Group's business, including the analysis of possible deviations in execution of large contracts, included in the Group's budget for 2020, as well as assessment of probability of reduction in revenues on recurring business, the analysis of factual liquidity and debt position of the Group at the date of issuance of these consolidated financial statements, its future expected cash inflows and outflows and the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.

- i.

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

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

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

The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.

2019 calendar of events

january

● The major shareholder of HMS Group, H.M.S. Technologies Limited, transferred 2,000,000 (two million) ordinary shares in HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC comprising 1.7070 percent of the total number of shares in its share capital to JSC HMS Holding, the subsidiary undertaking of H.M.S. Technologies Limited, in the form of the shareholder's asset contribution for nil consideration. This transaction was completed as part of the ongoing restructuring of the core shareholders' shareholding in the Company and does not lead to any change in their effective interest in the Company.

february

● Apollo Goessnitz GmbH participated in the Egypt Petroleum Show that took place within February 11–13 in Egypt International Exhibition Center (Cairo). At the exhibition the company exposed models of the pumping equipment product line for oil and gas upstream, midstream and downstream. All the equipment is compliant with widely recognized industry standards and highly esteemed by the customers for reliability and great operating performance.

Apollo Goessnitz presented the following equipment:

- KRH/KRHA series overhang radially split process pumps (type OH2, API610) that features low operational costs and ease of maintenance due to back pull-out design with de-mountable coupling and retrofittable runners;
- AMG series between bearing axially split process pumps (type BB3, API610) featuring high reliability low vibration due to back to back impellers design;
- TL/TG series barrel multistage radially split process pumps (type BB5, API610) with cartridge pull-out that enables changeover of inner case on-site without dismantling the outer case.

● HMS Group repurchased 1,200 of its global depositary receipts representing 0.01 percent of the Company's issued share capital during the period from February 4, 2019 up to and including February 8, 2019. Since the start of the programme, the Company has repurchased 1,144,769 GDRs in total (representing 4.89 percent of its issued share capital).

march

● The major shareholder of HMS Group, H.M.S. Technologies Limited ("HMST") registered at Cyprus, transferred its entire shareholding in the Company to JSC HMS Holding ("HMS Holding"), registered at Russia, the subsidiary undertaking of HMST, via the following transactions:

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

As a result of this restructuring:

- HMS Holding became a direct holder of 69,159,421 ordinary shares in the Company and 2,924,207 GDRs comprising in aggregate 71.51 percent of the Company's issued share capital; and
- HMST remains the sole voting shareholder of HMS Holding retaining control over the majority shareholding in the Company, and

consequently none of the transactions made as a part of the restructuring triggers an obligation of the Company, HMST or HMS Holding to make any mandatory offer to the GDR holders.

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

● HMS Group repurchased 59,380 of its global depositary receipts representing 0.55 percent of the Company's issued share capital during the period. Since the start of the programme, the Company has repurchased 1,204,149 GDRs in total (representing 5.14 percent of its issued share capital).

● One of HMS' managers acquired 14,500 of HMS Group's GDRs using his own funds

● Three screw compressor systems made by KKM were placed in pilot operation as part of a new associated petroleum gas (APG) compressor station at the preliminary water knock-off unit No. 34 (Bashneft-Dobycha) under the target program of APG utilization increase implemented by ANK Bashneft.

The TAKAT compressor systems with a unit capacity of 2,329 Nm³/h and discharge pressure of 7 bar are based on single-stage oil-injected screw compressors with a common lube oil system. The systems have block-container design and equipped with 200 kW electric motors as well as automation system operated from a separate room. These systems were designed and manufactured in accordance with the requirements of international (API 619) standards

///2019 calendar of events

april

● HMS Group participated in the 23rd International Exhibition of machines and equipment for mining, processing and transportation of minerals MiningWorld Russia 2019. The HMS Group exposition featured the pumping equipment for the main processes of the mining industry, including a new HDP series slurry pumps with capacity up to 8,000 m³/h and head up to 100 m for abrasive hydraulic mixtures with solids content up to 200 mm. The exposition also included the samples of the new advanced pump series:

- DeLium – new generation double suction pump for process water circulation systems
- VVN water-ring vacuum pump for steam-gas mixtures removal in the ore processing
- Sidus submersible drainage pump for transfer of liquids with a high content of solid particles
- 2NK overhung pump for chemical solutions supply in the ore dressing process

● HMS Group repurchased 133 of its GDRs. Since the start of the buyback programme, the Company has repurchased 1,204,282 GDRs in total (representing 5.14 percent of its issued share capital)

● One of HMS' managers acquired 975 of HMS Global depositary receipts using his own funds

● HMS Group signed two contracts to deliver gas transportation units worth Rub 4 billion. The manufactured equipment is to be delivered by the end of 2019

june

● KKM completed testing of the main gas compression system manufactured for NOVATEK's "Arctic Cascade" liquefied natural gas (LNG) production technology. The system was designed to operate in the natural gas liquefaction complex of the 4th stage of Yamal LNG project. The integrated compressor unit consisting of three centrifugal compressors designed to handle three process gases (methane, nitrogen and ethane). All three compressors are driven by a single Russian-made 25 MW gas turbine through a multi-shaft gearbox with one input and three output shafts. One of the compressors is designed as a multi-shaft unit of five compression stages

july

● Fitch Ratings affirmed JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDR)s of "B+", the outlook "Stable". The full text of Fitch's press release is available on the agency's website <https://www.fitchratings.com/site/pr/10084287>

august

● HMS signed a contract to engineer and procure compressors and complementary equipment worth Rub 1.7 billion to a compressor station. The manufactured equipment will be delivered in 2020.

● HMS signed a contract to engineer and procure gas transportation units worth Rub 3 billion to a gas booster station. The manufactured equipment will be delivered in 2020.

september

● HMS signed a contract to engineer and procure gas transportation units worth Rub 2.3 billion for an oil & gas condensate field. The manufactured equipment will be delivered in 2020

● HMS signed Euro 16 million contract to engineer and procure compressors for an oil processing plant in Russia. The manufactured equipment will be delivered by the end of 2020

● HMS signed two contracts to engineer and procure nuclear pumps and pump-based solutions worth a total Rub 1.9 billion. The manufactured equipment will be delivered in 2021-2022

● HMS signed two contracts to engineer and procure oil & gas equipment worth a total Rub 1 billion. The manufactured equipment will be delivered in 1H 2020

● HMS Group refinanced a number of credits worth a total Rub 5 billion with payment due in 2020-2021, shifting repayment dates to the 2022 year. Average interest rate of refinanced credits was decreased on 0.21 percent

october

● HMS signed a contract to engineer and manufacture gas transportation units worth Rub 6.1 billion. The equipment is to be delivered in 2021.

● The company and PAO NOVATEK signed the Memorandum on Strategic Partnership, which aims the further development of mutual cooperation in a field of design and manufacture of first-of-its-kind-in-Russia equipment for LNG projects. The Memorandum set the general principles and main directions of mutually beneficial cooperation. It composes the long-term intention of the Parties to pursue a wide-scale cooperation to localize the manufacturing of compressors, pumps and other equipment for NOVATEK's LNG projects.

Taking into account a successful experience of cooperation between HMS Group and NOVATEK on design and manufacture of the key compressor-based equipment under the "Arctic cascade" technology (home-grown technology of natural-gas liquefaction, which was developed by NOVATEK), the Parties fixed their mutual interest in cooperative development of new types of high-performance equipment for natural-gas liquefaction as well as further localization of equipment for large-capacity LNG projects and their raw-material base.

Prioritized directions of cooperation, fixed in the Memorandum, comprise design, manufacture and testing of hi-tech pumping and compressor equipment, including submersible cryogenic LNG-unloading pumps, as well as column, heat-exchanging and vessel equipment for natural-gas treatment and liquefaction units.

december

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

● HMS signed a Rub 1.4 billion follow-up contract to a recently signed Rub 3 billion compressor contract. The manufactured equipment will be delivered in 2020

● KKM produced and delivered a centrifugal compressor system with a capacity of up to 1 Mtpa for a LNG complex in Sabetta (Yamal-LNG, NOVATEK)

HMS key projects, development & innovations

export activities

Export sales revenue of HMS Group outside the FSU has reached US\$ 56 million including international nuclear power plants projects, showing steep 37% yoy increase versus a previous year.

Adding up sales revenue from projects involving international EPC companies in Russia and the CIS of US\$ 12 million makes total HMS export sales revenue figure equaling US\$ 68 million, i.e. 103% of the HMS Group Export Sales strategy adopted by the HMS Board of Directors in 2016.

Signing in 2019 high value contracts in Persian Gulf/ MENA region has anchored considerable export sales revenue backlog for 2020 amounted in c. US\$ 90 million , including international nuclear power plants projects that keeps export sales growth pace at the challenging level of over 30% yoy compared to 2019.

In 2019, Export sales directorate has broadened the export sales product portfolio starting sales of centrifugal compressors and static equipment for international EPC projects in Russia.

56mn

^ 37% yoy

Export sales revenue → US\$

30% yoy

^ in 2019

export sales growth pace → %



HMS Group follows best practices and international standards in R&D, manufacturing and quality management in order to meet the growing requirements on the market. We actively participate in the government-initiated process of import substitution, which allows us to broaden our product portfolio and attract a large number of clients.



research and development

PUMPS

In 2019, the company set up smelting of high-alloy nickel cast iron, analogy of foreign Ni-resist ASTM A 436 cast iron. Production of wetted part casting from this kind of cast iron will allow improve operating properties of pumps and increase their performance life in aggressive environment.

Nuclear power generation

HMS Group developed the technology of production of pump body castings, where ceramic running system with siphon CFF¹-filtering of liquid melt input was used. This technology will be used in production of AS-1D200-90-A pumps for nuclear power plants, which will have the safety class 2.

The produced two units successfully passed all non-destructive control tests.

Sewage water

HMS Group continues to expand the range of standard sizes of mass-produced rotor-dynamic pumps intended for sewage water, type CD. Centrifugal CD pumps and electric pump units, made on their base, are used for urban and industrial waste waters and other non-aggressive liquids with a possible additions of petroleum products of max 2 percent.

	Capacity (rated), m³/h	Head, m	Pressure at the pump inlet, MPa, maximum	Power consumption of the pump (max.), kW	Rotational speed, rpm	Positive suction head, m, maximum
CD 100/40	100	40	0.25	26	2,900	9.0
CD 100/40a	90	32	0.25	20	2,900	9.0
CD 100/40b	80	28	0.25	17.8	2,900	9.0
CD 250/22,5	250	22.5	0.25	32	1,450	5.0
CD 250/22,5a	225	18.5	0.25	26	1,450	5.0
CD 250/22,5b	205	16	0.25	20	1,450	5.0

¹ CFF – ceramic foam filter, is used to remove inclusions which are generated between the refining system and the mold table. The ability of the ceramic foam filter to capture these inclusions is critical to maintaining a clear ingot during to solidification of metal.

///HMS key projects, development & innovations

Liquid-packed ring vacuum pumps

HMS Group continues to expand the range of mass-produced liquid-packed ring vacuum pumps of VVN type and started the serial production of VVN2-50 pumps. These pumps and units, made on their base, are applicable in petrochemicals, metals & mining, pulp & paper industries, agriculture, construction and medicine. The pumps are intended for exhaustion of air, water-insoluble inert or aggressive gas, depending on the flow part's material, to create or maintain vacuum. The pump is produced in 3 standard sizes: rotational speed of 500 rpm, 600 rpm and 750 rpm with 40m3/hour, 50m3/hour and 60m3/hour ensure capacity respectively.



OIL & GAS EQUIPMENT

Thermo-Chemical Binary Mixture Technology (TCBXT)

In 2016-2018, HMS Group was developing the technology and the equipment complex for thermo-chemical and oil-and-gas-bearing formation treatment, with the aim of increasing hydrocarbon production and restoring the ecological environment on oil and gas fields, instead of using the foreign technology of proppant-gel fracturing. The project was being carried out in cooperation with Tyumen State University and the Institute of

Biochemical Physics of the Russian Academy of Sciences in accordance with a contract with the Ministry of Education of the Russian Federation.

In 2019, the Group concentrated on promoting and commercialization of the new technology. Also, the company acquired the industrial patent # 2696714 for a thermochemical treatment of oil-and-gas-bearing formation.

HMS aimed at oil & gas companies, which expressed interest in the implementation of the new technology. As an example, PAO "Tatneft" signed the first commercial contract to treat 10 wells on a number of its oil & gas fields.

The company entered into cooperation with the Kazan University regarding conduction of laboratory and stand research of different binary systems under diverse reservoir conditions. Also, in Tyumen, HMS organized laboratory experiments, laboratory and stand testing of cores, subsamples of crude oil and oil-field water.



Mobile Secondary Reference Metrology Complex

In 2019, HMS continued research and development upon an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex mounted on a cross-country chassis.

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

The company successfully completed the following project's milestones:

- Completion of 3D-model and the electronic paste-up of the unit;
- Completion of research testing of the electronic paste-up. Completion of simulation of circulation of multi-phase flows inside the complex's elements. Evaluation of working effectiveness of the complex;
- Completion of engineering analysis of the complex's core elements by the finite-element method;
- Development of design & operational and design & technological documents;
- Completion of a design of a crude oil analyzer. Completion of its 3D-model and corresponding engineering analysis;
- Completion of development of the complex's APCS software.

Hydromechanical drive for sucker rod pumping units

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.

In 2019, HMS Neftemash continued the project on a rodless oil extraction mechanism. Following the results of the factory acceptance testing, the company modernized and put the finishing touches to the mechanism:

- Implemented an additional fine filter in a delivery line of a hydraulic unit to enhance reliability of the unit and a hydraulic motor;
- Increased a diameter of a transmission shaft of a protector module to 25 mm for its vibration isolation at a high idle;
- Upgraded an axial piston pump, which complies with technological and weight-size requirements

A pilot run was coordinated on a number of oil & gas fields.



///HMS key projects, development & innovations

COMPRESSORS

Compressor units for NOVATEK

HMS Group continues to expand As part of the import-substitution program, Kazankompressormash developed a number of compressor unit for NOVATEK.

The main gas transportation unit for NOVATEK’s 4th stage of the Yamal LNG project. The unit consists of three centrifugal compressors and is intended for compression of three technological flows: feed gas, nitrogen and ethane. All three compressors are driven by a single 25 MW gas turbine, made in Russia, though a multi-shaft gearbox with one input and three output shafts. One of the compressors was designed as a multi-shaft unit of five compression stages.

The first-of-its-kind solution makes it possible to reduce the mutual thermodynamic impact of compression stages and reduce significantly the overall dimensions and the mass of the entire compressor system of the LNG production complex. All elements were designed and produced in accordance with the API standards and were completed with a local automatic control system.

HMS Group designed and manufactured a centrifugal compressor system with a capacity of up to 1 mtpa for Yamal-LNG. The complete boil-off gas compressor system is intended to compress a boil-off gas flow and supply into feed gas, which is to be liquefied. The 6.87 MPa discharge pressure system is designed in accordance with the API 617 and ASME PTC-10 international standard requirements and is capable to operate on a cold gas.



The system is designed under the “Arctic Cascade” technology patented by NOVATEK, and it helps to reduce the capital costs and develop the engineering base for LNG projects in Russia through the domestic equipment application.

Compressor impellers

Kazankompressormash began embracing of alternative technologies of production of self-balancing unicycle (compressor impeller). Today, impellers are cut from a unitary block of a forging, which means a low capacity ratio and a high level of labour inputs. The time period from a project to a developmental prototype made in metal takes 120 days.

In 2019, Kazankompressormash implemented the additive manufacturing technology, 3D printing. The new technology shortened the time period from a project to a prototype to 10 days.

The printed and tested impeller was produced from titan in accordance with the method Selectiv. During the overspeed test, the pilot compressor impeller was put on the maximum 23,500 rpm, and didn’t demonstrate any configuration’s changes or defects in the form of cracks in the metal.



ENGINEERING

In 2019, GTNG started active development of a new activity area – Process engineering in oil and gas processing, oil extraction and petrochemical industry, where the facility provides with the full range of services:

Project activities:

- Concept development
- Preparation of a technical inquiry
- Preparation of a business case and a cost-benefit analysis
- Basic design
- Customization of a basic design and FEED according to Russian codes and standards
- Preparation of documents to assessment of environmental impact
- Project approval by the Russia’s State Expert Evaluation Department
- Project approval by the Russia’s State Environmental Expertise
- Detailed design
- 3D-project design
- Update of 3D-project design to “As built”

Project management:

- Interaction with the leading world licensors
- Analysis, comparison and selection of the best possible technology
- Organization of complex engineering surveying
- Preparation of land surveying documentation
- Development of the project’s specific technical specifications
- Interaction with the Russia’s State bodies
- Development and supervision of project schedule and budget
- Construction supervision
- Installation supervision and commissioning works.

In 2019, GTNG completed more than 10 innovative research projects for Russia’s oil & gas companies, and patented the invention “Method of individual-group metering of the oil well cluster’s product flow and the metering system”. Also, GTNG was ranked the best regional “Innovative company of the Year”.



LEGAL PROTECTION OF INTELLECTUAL PROPERTY

HMS’ current operating portfolio consists of more than 300 objects of intellectual property, including 241 patents, 31 registered computer programmes, and 54 registered trademarks.

In 2019, the company received exclusive rights to 12 inventions and utility model patents, and filed applications for 9 patents including the international PCT procedure.

300

^ current operating portfolio

Objects of intellectual property → amount

12

^ in 2019

New registered inventions and utility model patents

→ amount

modernization

PUMPS

Machining

In 2019, HMS Livgidromash continued modernization of its machining production shop and placed in operation a CNC¹ lathe machining center PUMA V8300MR developed by DOOSAN (South Korea).

The vertical turning center is intended for heavy duty and high precision cutting over long-term operations, including cutting of large diameter workpieces and complete milling, drilling and tapping operations in a single setup. The facility uses the center for processing of pump bodies, seal cases, impellers and bearing caps. Since the center was placed in operation, the labour intensity of details processing decreased by 16.2%, and the machining quality of pump parts significantly improved.

Also, the facility placed in operation a CNC lathe machining center PUMA 2600B developed by DOOSAN as well. This high-performance and multifunctional turning center is intended for fine turning, milling, drilling and screwcutting of stainless, tempered and heavy-duty materials.

Since placed in service, the labour intensity was down by 9.2%.

In 2019, the facility purchased a 4-plate roll bending machine HRB-4 2035 developed by DURMA. After it is placed in service, HMS Livgidromash will be able to produce circular rings, conical billets and other radius parts from sheet materials 20-60 mm thick and up to 2,050 width. Commissioning of this roll bending machine will allow production of circular rings for further manufacturing of heavy bodies for pumps used in petrochemicals, nuclear power generation, etc. The facility plans to start its industrial use in 1H 2020.

In 2019, Livnynasos was equipped with two new CNC horizontal lathe machining centers PUMA 2600Y by DOOSAN, that allowed to reach the new level of precise and high-quality surface machining. These centers are utilized for complex mechanical machining of pump parts with simultaneous milling, drilling and tapping, that significantly decreased labour intensity and excluded additional movement of parts between drilling and milling machines.

Also, the next step in sophistication of the facility's production process was the implementation of a CNC vertical turning machine EMAG VL-2 (Germany) intended for machining of space sleeves of ECV 8 pumps. The utilization of the center improved preciseness and quality of parts, i.e. reliability of pump parts' friction.



In 2019, the Ukrainian facility of HMS Group, NEM, placed in operation a multifunctional CNC machining center SKODA HCW 1. The center provides with high precise complex machining of bodies and caps, pump cradles, and other pump parts and pieces.

Colouring and Dyeing of metals

NEM installed a spay booth with inside dimensions 6990x4500x3000mm. The booth is equipment with an intake-outtake air filtering system as well as coloring & dying temperature monitoring system. Due to the full insulation of coloring and dying from other kinds of work, the facility reached the high quality of anti-corrosion coating.

16,2% yoy

✓ in 2019

labour intensity of details processing → %

COMPRESSORS

Foundry

Kazankompressormash continued an investment project on the foundry re-equipment to create the modern foundry complex on its base. The modernization will expand the range of sizes and materials and enhance quality and accuracy of production the castings of a wide range of alloys, including the steel ones of a large size. The smelting complex comprises three furnaces made by EFAS (Turkey) with 8, 6, and 3 tons capacity, which are automatically operated and have an option of gas purging through a molten metal. The new shot-blasting machine made by Tachtech (Czech) with an overhead conveyor for the large castings shorten finishing operations time by three times.

A complex of four heat-treating furnaces with a total capacity up to 90 tons was put into pilot operation also. The heat-treating complex allows heat treatment of castings, forgings, assemblies and other large-sized parts with an in-process temperature range from 550 to 1200°C.

The foundry complex is intended, primarily, for production of large-size castings and is capable of simultaneous smelting up to 17 tons of liquid metal to produce high-quality steel castings with weight up to 9 tons and cast iron castings with a weight up to 13 tons.

The facility expect to complete the third stage of the upgrade by the end of 2020, that comprises foundation of the molding area for large-sized castings and a pattern shop equipped with three- and five-axis machining centers.

¹ CNC – computer numerical control

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 Day ;
- Meetings with mentors;
- Professional skill competitions among young workers;
- Honoring best workers;
- Meetings of veteran workers (former employees) with the colleagues.

Local life

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

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



The company continues to sponsor one of its engineers, Mr. Nikolay Kuzovlev, the leading Russian athlete in Ice Climbing. In 2019, he clinched the Ice Climbing World Cup.

In 2019, HMS Group took part in the Awards "The most socially responsible company in the oil & gas industry of Russia" hold by the Ministry of Energy of Russian Federation. The goal of the Awards was to promote social policies of fuel-and-energy companies, identify and survey the most active socially responsible companies, which reached a high efficiency in accomplishment of social tasks, improvement of quality of employees' work environment and life, and to popularize the oil and gas industry.

HMS Group won in nominations "Interaction with professional education institutions. 10 to 100,000 work force company" and "Employees' motivation and building their loyalty. Additional benefits granting to employees".

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 in the area of labor health protection with the requirements and expectations of all interested parties, and with rules and regulations, established under legislation and normative technical documents:

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

4. Establishment of personal responsibility by company 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

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

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

- Social support and protection of citizens, including improvement of the financial position of the indigenous peoples, social assistance to the unemployed, 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.

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

Besides targeted aid to schools, foster homes, indigenous people and others, the Group continues being one of the main sponsors of The Tatarstan Judo Federation.

Every autumn, the festivals of professions are hold for 6-11 class pupils in Russia's regions. These are the main events as a part of the project "Ticket to the future", and are hold by the international organization, WorldSkills International. **The "Ticket to the future" is the leading educational platform in the form of professional tests, that unites pupils, industry experts, teachers and career-guidance specialists.** The workshop consists of several clusters: Health, Urban environment, IT, Novel materials, Transport, Agriculture and Power generation. The career-guidance is given in the form of practical training under tenure of an experienced mentor.

The employees of HMS Neftemash participated as experts in this event for the first time, and represented the facility in the cluster "Novel materials". They told pupils about modern technologies, used for production of metal work and steels test methods, which won't fade in the future. Also, the experts demonstrated capabilities of HMS Neftemash modern lab equipment. More than 400 pupils received the basic skills of work with the lab equipment, including operational principles of a spectrometer.



As a part of strategy to develop the corporate culture and internal communications, HMS Group hold a number of social events, such as the Pancake Week, Victory day, New Year celebration, volunteer clean-ups and environmental campaigns.

On the yearly basis, HMS' facilities hold sporting competitions with participation of all organization units in checkers, kettlebell lifting, shooting, ski, biathlon, running, and other kinds of sport.

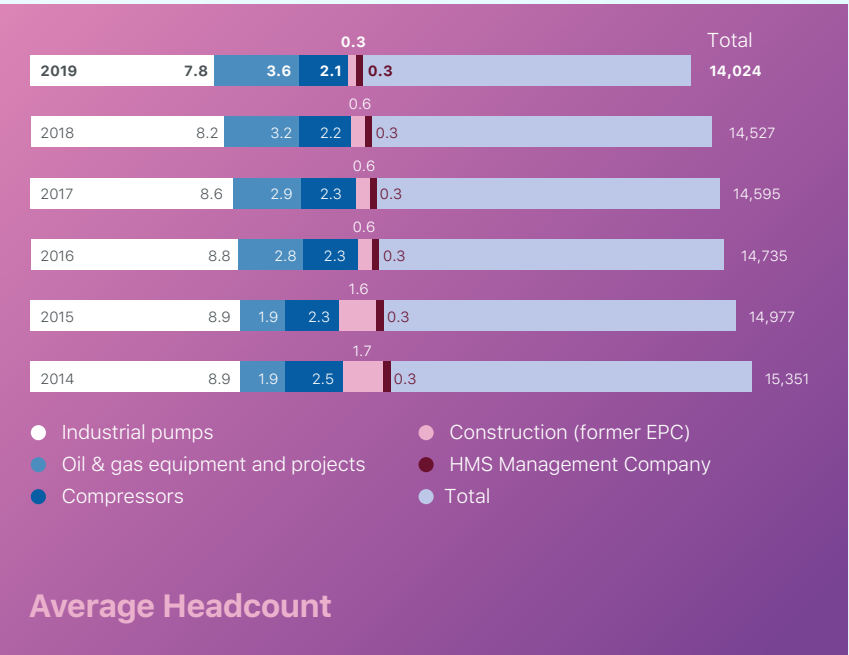
the environment

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 recognise 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.

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 unfavourable weather conditions. For the last three years, no excess of the maximum allowable pollutant emissions has been discovered.

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



people

As an employer of 14 thousand people, HMS is one of the major job creators across the cities where its facilities are located. Employees are one of HMS Group's core assets, and the company encourages them and assists them in achieving their full potential.

In 2019, HMS continued staff training and education, with a focus on the areas of accounting and functional education.

As part of the national project "Workforce productivity and employment support", KKM placed 14 core operations executives for a "Productivity leaders" training and 1 executive for "Export growth accelerator" training. Also, KKM took part in the federal project "The Older generation", and as part of this project placed 30 soon-to-retire employees for skills training and additional skills training. Also, the facility held "Lean management" and "Effective management of large projects" trainings for top-management and core operations executives.

HMS Neftemash placed 1,216 employees for skills training and reskilling. 149 of them were placed for training under the "Workforce productivity and employment support" federal program. 734 employees were placed for training as a part of the internal technical instruction.

Sibneftemash placed 236 employees for all kinds of trainings, including targeted skills improvement. 187 employees were placed for training under the "Workforce productivity and employment support" federal program.

In 2019, the average headcount decreased by 503 people (-3.5% yoy) mainly due to the Industrial pumps personnel optimization and a decrease in the Construction because of business downturn. Oil & gas equipment and projects grew because of the asset, acquired at the beginning of the year.

corporate

- 56 Board of Directors
- 60 Risk Management & Internal Control
- 66 HMS Global Depository Receipts
- 70 Information for Shareholders and Disclaimer

governance

board of directors

Good governance generates trust and engagement between a company and its stakeholders and contributes to the company’s long-term success. Accountability, integrity, transparency, fairness, equity, sustainability and ethics are all fundamental values of good governance.

The Board of Directors of HMS Group is committed to the highest standards of corporate governance and aims to ensure on an ongoing basis that the Company is a modern, transparent, competitive and sustainable organization. By adopting best practices in corporate governance and corporate administration, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to the successful implementation of its strategy.

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.

performance

General Overview

As at 31 December 2019, the Board comprised of nine (9) Directors: the Group Chairman who was independent on appointment, three (3) Executive Directors and five (5) Non-executive Directors. During the year ending 31 December 2019, Mr. Vyacheslav G. Tsoy was appointed as a Director of the Company by the Board of Directors.

Chairman

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 Livhydromash (HMS Pumps), 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 the HMS Group since its establishment in 1993. Mr. Molchanov became the President of the 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 the 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 the 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.

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 the HMS Group, he served as the Chief Representative of JSC "Sumy Frunze NPO" (Ukraine) in Russia from 1999 to 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of "Machines, Equipment, Technologies, Products and Services" Ltd. from 1992 to 1999. He served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) from 1986 to 1988. Mr. Skrynnik has more than 20 years of science and management experience. He graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and creator of 20 inventions.

Non-executive Directors

Mr. Ezio Vergani

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

Mr. Vergani was appointed as an independent non-executive member of the Board of Directors in June 2018.

Mr. Vergani is the owner and the President of Asco Pompe, an Italian company which produces, distributes, supplies and integrates products and technological systems for fluid handling, monitoring and water treatment. Prior to joining Asco Pompe, from 1985 to 2008, Mr. Vergani was the CEO and major shareholder of Finder Pompe, one of the European leading companies in the design and manufacture of engineered pumps and systems for oil & gas. Mr. Vergani has received a Master’s degree in Mechanical Engineering from the Politecnico University of Milan, Italy and the Executive Program Certificate of the Stanford Business School, Palo Alto, California, USA. He has served as a Board member in Confindustria Lecco since 2014.

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

///board of directors

Mr. Giorgio Veronesi

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

Mr. Veronesi was appointed as an independent non-executive member of the Board of Directors in June 2018.

He has graduated in Chemical Engineering at the University of Padua, Italy and has over 35 years of experience in the international engineering and construction sector. Mr. Veronesi has held various senior positions at leading engineering companies Foster Wheeler, Tecnimont, Siirtec Nigi and Techint.

He has been the Commercial Manager in Techint E&C since 2012.

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 the 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.

Mr. Vyacheslav Tsoy

Member of the Board of Directors

Mr. Tsoy was appointed as Non-executive Member of the Board of Directors in April 2019. Currently he is General Director of "ITS" LLC, a manufacturer of prefab modular equipment. Prior to joining "ITS" LLC from 2006 to 2011, Mr. Tsoy served the position of analyst and deputy director of capital markets at HMS Group. From 2003 to 2006 Mr. Tsoy was the analyst at "Smith Barney", private wealth management Company. Mr. Tsoy graduated with honors from Drew University, New Jersey, USA with a degree in Economics and Finance in 2003.

principal activities of the board of directors in 2019

The Board of Directors held four meetings in 2019, 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.

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

In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, the Board has delegated certain responsibilities to committees of the Board. The principal committees are 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 2019 is set out below.

Audit Committee

General Overview

As at 31 December 2019, the Audit Committee comprises three independent Directors and is expected to meet two to four times per year. Currently, the Audit Committee is chaired by Mr. Ezio Vergani; its other members are Mr. Giorgio Veronesi and Mr. Nikolay N. Yamburenko.

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

- the integrity of the Group's financial statements, including its annual and interim financial statements;
- the effectiveness of the Group's internal controls and risk management systems;
- auditors' reports on the Group; and 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 2019

Two meetings of the Audit Committee were held in 2019. 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.

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 2019, 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 2018. Deloitte remains appointed for the 2019 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. Giorgio Veronesi; its other members are Mr. Nikolay N. Yamburenko, Mr. Ezio Vergani 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 2019

Four meetings of the Remuneration Committee were held in 2019. The main matter reviewed by the Remuneration Committee was the development and further implementation of the Group's updated Long-Term Incentive Program as well as the 2019 Program targets and the list of participants. The Remuneration Committee also adopted decisions and made recommendations to the Board of Directors regarding the CEO's contract

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. Vladimir V. Lukyanenko and the other members are Mr. Giorgio Veronesi, Mr. Yuri N. Skrynnik and Mr. Nikolay N. Yamburenko.

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

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

Activities in 2019

One meeting of the Strategy and Investments Committee was held in 2019. The main matter reviewed by the Committee was the updated strategy and financial model of the Group.

Directors' Compensation

The total compensation of the Chairman of the Board was Euro 270,115 for the year ended 31 December 2019.

The total compensation of the independent Directors, as set out in the Group's consolidated statement of profit or loss and other comprehensive income, was Euro 260,000 for the year ended 31 December 2019.

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.

risk

management

& internal control

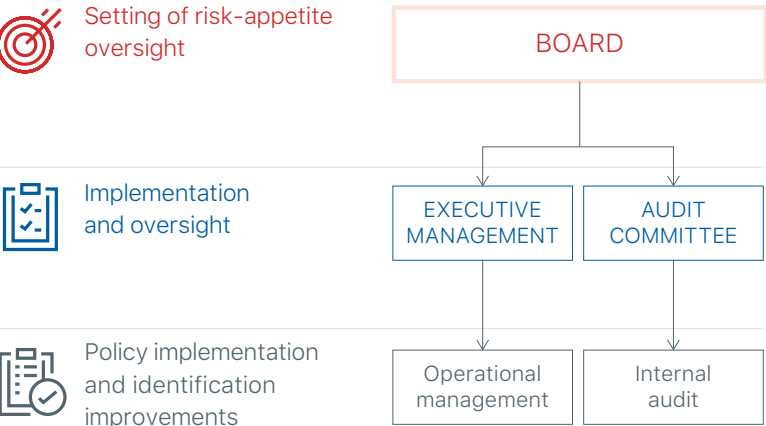
overview

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.

///system of internal control



key features of the internal control system over financial reporting

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

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

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

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

continuous improvement

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

/// risk management and internal control

///categories of the risks

RUB mn	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	○	○	○	○		

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.

global political and economic risks

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

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

The introduction of new regulations or the imposition of trade barriers or a new round of sanctions against Russia could disrupt 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.

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 2019, Ukraine and Russia widened the range of sanctions imposed on each other. In March 2019, Ukraine broadened sanctions against 294 Russian companies and 848 citizens. In response, in addition to individual sanctions against certain companies and Ukrainian citizens, Russia widened the list of goods restricted of import in Russia from Ukraine, including starch, fruit-sugar, certain medical equipment, heaters, central heating boilers and certain machine-building products.

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.

contract execution risks

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

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

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

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

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

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

- Legal risks are verified at the stage of contracts' preliminary qualification and vetting as well as their further support;
- Regarding risks (a)–(c): contracts execution security to guarantee adequate sources of costs covering in the case of contracts nonfulfillment is maintained through:

- Usage of different kinds of collateral and non-material securities provided by a counterparty when entering into an agreement in the form of independent guarantees (banking, corporate) for advance payments/ contract performance, third-party guarantees, collateral and others;
- Withholding of an advance payment till the provision of a security; if it is not provided, then payment after delivery;
- Management of the contract commitments chain "client – producer", which assures the receipt of the payment at the time of cash flow passing

- Regarding (d) risks: control and organization of the work to fix legally important facts and circumstances through putting together evidential documentation (letter, acts, protocols, etc.), identified factors of contractual nonfulfillment (a customer's fault), with subsequent claims settlement by signing amendments to the contract;
- Regarding (e) risks: monitoring of changes and control of deals compliance with the current legislation of the Russian Federation;

/// risk management and internal control

- Regards (f) risks: processing of patent search, due diligence, and record-keeping of intellectual activity results.

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

human capital

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

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

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

mergers & acquisitions

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

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

Tightening of anti-corruption control over government-owned corporations (Gazprom: the Ashurkovs’ case, arrests on corruption charge of a number of executives of daughter enterprises of Rosneft and Gazprom) can affect a pattern of interaction of HMS Group with its largest Russian customers in mutual trust and confidence.

Tightening of anti-corruption control over state authorities (arrests and cases against ministers, governors and other state officials), often accompanied by media publications with political complexion, can affect mutual trust and confidence between business and state authorities as well.

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

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

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

legislation and regulations

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

information technologies

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

HMS Group has developed a company-wide information security (IS) strategy and a road-map based on the audit results. The action plan was 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.

In 2019, in accordance with the developed strategy, HMS Group completed the implementation of a series of technical and administrative measures to further mitigate the above mentioned risks, i.e.:

- The brand new Information Security department has been established.
- A number of hardware and software solutions against malicious code, alongside with elaborated monitoring tools has been deployed, namely:
 - perimeter firewall and threat emulation appliances, endpoint software anti-virus agent from Checkpoint;
 - threat emulation and intrusion detection appliances from Group IB;
 - security information and event management solution from IBM.

- Further hardened regulations for the privileged user accounts have been developed and implemented.

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.

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.

credit and liquidity risks

In 2019, the company continued work with its debt portfolio. As a result, HMS smoothed its repayment schedule with the major repayments of Rub 6.0 billion falling in 2021. At 2019–end, HMS Group had Rub 3.5 billion repayments falling in 2020, where Rub 3 billion was in the form of corporate bonds. In 4Q 2019, HMS Group attracted Rub 3 billion bank credit from VTB Bank that was deposited for bonds redemption in February 2020.

At the end of 2019, the Group accumulated Rub 10.0 billion of available cash. Considering all the above factors, HMS considers its exposure to credit and liquidity risks as immaterial.

HMS global depository receipts

shareholding

As of December 31, 2019, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of Euro 1,171,634.27 divided into 117,163,427 ordinary shares with par value of Euro 0.01 per share, and these shares are not traded.

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

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

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

For every 5 GDRs held, holders received 1 "new" GDR in return. The issued number of ordinary shares and their nominal value remained unchanged. After the ratio change, there were 9,600,800 depository receipts outstanding in the GDR program.

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

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

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

As a result of this restructuring:

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

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

Then in December, 2019, the new major shareholder of HMS Group, JSC HMS Holding completed the process of cancellation (disposal by HMS Holding) of 2,924,207 global depository receipts issued under the Company's depository receipts program representing 14,621,035 shares in the Company and withdrawal of (acquisition by HMS Holding of) the Underlying Shares from the depository (the Bank of New York Mellon) in the name of HMS Holding (the "Conversion").

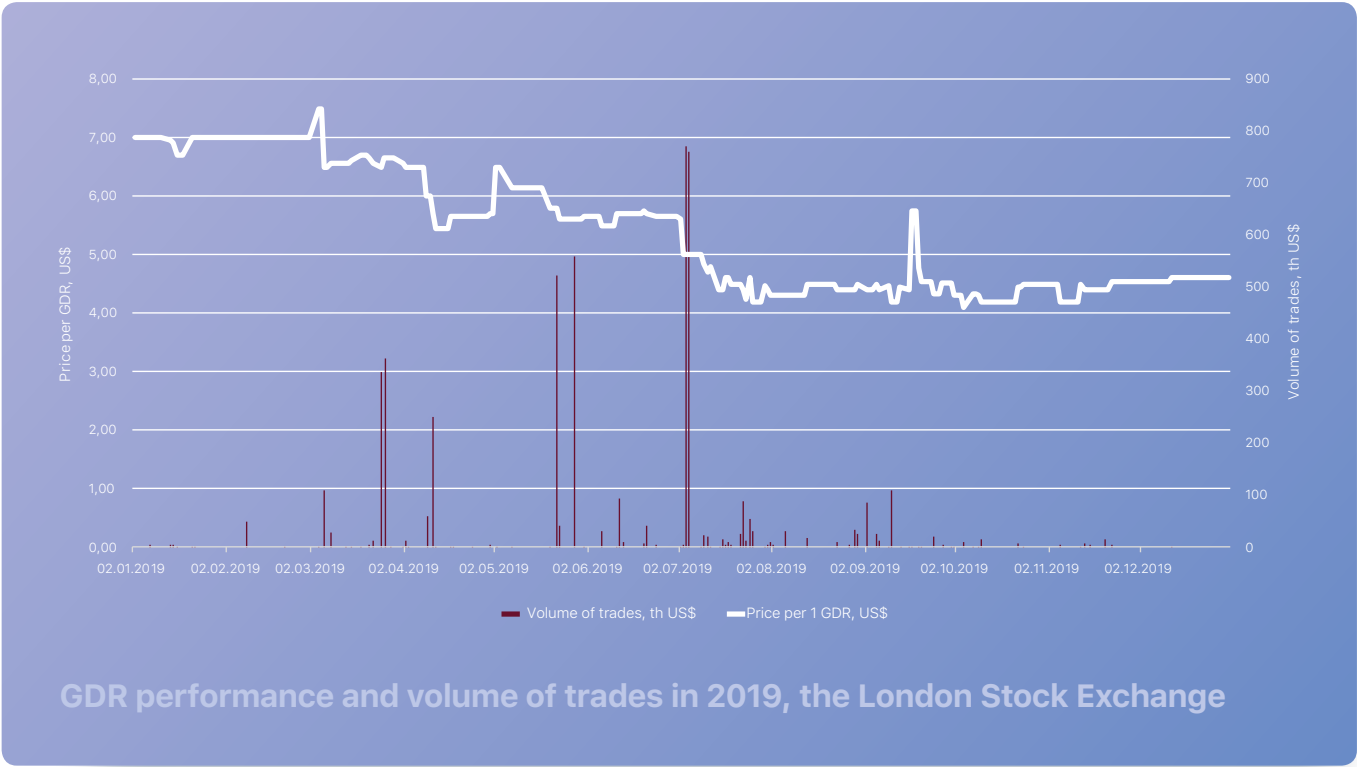
long term incentive plan

As a result of the Conversion, HMS Holding retains full control over the majority shareholding in the Company being a direct holder of 71.51% of the Company's issued share capital, and, consequently, the Conversion neither triggers an obligation of the Company or HMS Holding to make any mandatory offer to the GDR holders, nor lead to any change in corporate governance of the Company.

The issued number of ordinary shares and their nominal value remained unchanged. Currently **there are 6,676,592 depository receipts outstanding in the GDR program.**

credit ratings

Fitch Ratings	Expert RA
B+ / Stable	ruA / Negative
22 Feb 2017 / 30 July 2019	11 July 2017 / 5 August 2019



/// HMS global depository receipts

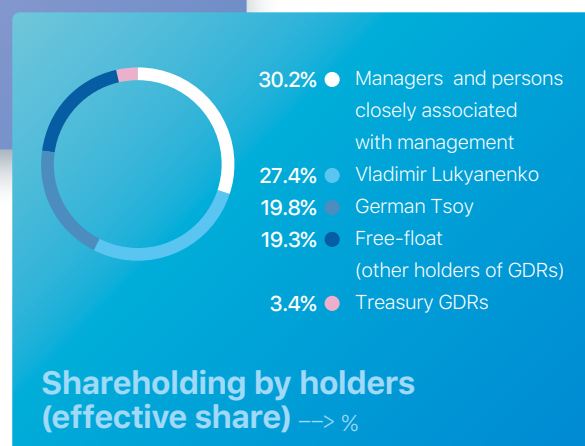
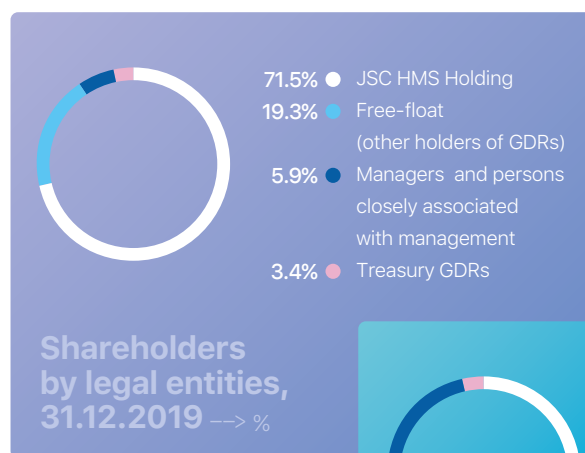
/// price of HMS Group's GDRs

	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
2018	6.60	11.30	7.00	164.03
2019	4.10	7.50	4.60	107.79
1Q 2019	6.50	7.50		155.83
2Q 2019	5.45	6.55		132.39
3Q 2019	4.20	5.75		105.92
4Q 2019	4.10	4.60		107.79

management purchases

Within 2019 year, Directors/PDMRs of HMS Group acquired the company's 15,475 GDRs on the open market, using their own funds.

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



dividends

In 2016, the HMS Board of Directors approved an updated Dividend Policy reflecting the Group's strategy to maximize shareholder returns. As a general rule, the company targets to pay 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 1 ordinary share.

For the period ended in 2018, **HMS Group paid Rub 9.81 total dividends per 1 ordinary share (Rub 49.05 per 1 GDR).**

buyback program

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

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

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

/// history of dividend payments

Period	Dividend per share, 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
2017 9m (interim)	5.12	25.60	600.0	12 Jan 2018	26 Jan 2018
2017 FY (final)	6.83	34.15	800.2	15 Jun 2018	03 July 2018
2017 FY total	11.95	59.75	1,400.2		
2018 9m (interim)	3.84	19.20	450.0	11 Jan 2019	25 Jan 2019
2018 FY (final)	5.97	29.85	699.5	14 Jun 2019	01 Jul 2019
2018 FY total	9.81	49.05	1,149.5		

In 2016, the company increased the maximum number of GDRs, which could be repurchased, to 6% of the subscribed capital of HMS Group. As of today, HMS has repurchased 1,204,282 GDRs since the start of the program.

The Buyback program will end as soon as the total amount of acquired securities has reached the maximum amount specified (1,405,961 GDRs) or, if earlier, in June 2020.

/// HMS Group Plc GDRs

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

information for shareholders and disclaimer

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
	132.39
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR:ordinary shares	1:5
Local exchange	Not traded
Underlying ISIN	CY0104230913
Underlying CFI	ESVUFR
Depository bank	BNY Melon

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

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

global depository receipts shareholders’ contacts:

Contacts for inquiries regarding:

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

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

General Shareholder enquiries and Investor Relations contacts

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

disclaimer

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

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

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

appendices

vocabulary, calculations and formulas

///units of measurement

red.	
bcm	Billion cubic meters
bcma	Billion cubic meters per annum
bn	Billion
cub.m.	Cubic meter
cmpa	Cubic meter per annum
km	kilometer
kW	Kilowatt
M	Meter
m3	Cubic meter
mn	Million
MPa	Megapascal, a unit of pressure measurement
Mt	Millions of tonnes
MW	Megawatt
Nm3/Hour	Normal cubic metre per hour
Rub/RUB	Russian ruble
Scm3/hour	Standard cubic meters per hour
t	Ton / tonne
tcm	Trillion cubic meters
US\$	US Dollar

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

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

///abbreviations & contractions

red.	
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	Giprotyumenneftegaz
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