



Annual Report  
**2020**

Stand by  
to move forward



# About HMS

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

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

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



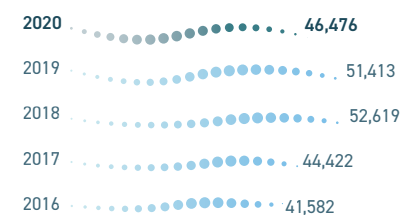
You can find more information on our website:  
[grouphms.com/shareholders\\_and\\_investors/](http://grouphms.com/shareholders_and_investors/)

See our Online Report [ar2020.grouphms.com](http://ar2020.grouphms.com)

RUB **46,476**mn

Revenue in 2020

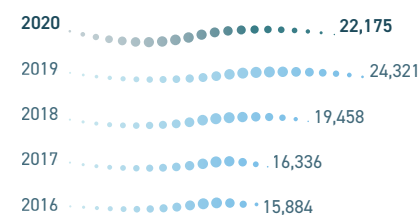
▼10% YOY ▲3% CAGR 2016–2020



RUB **22,175**mn

Total Debt in 2020

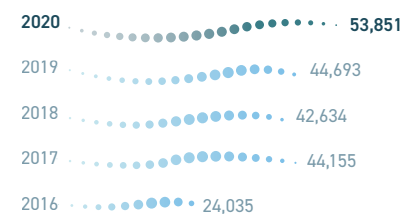
▼9% YOY ▲9% CAGR 2016–2020



RUB **53,851**mn

Backlog in 2020

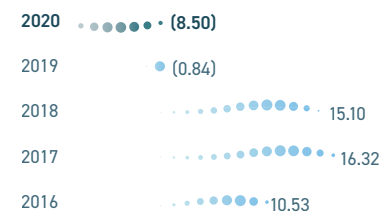
▲20% YOY ▲22% CAGR 2016–2020



RUB **(8.50)**

EPS in 2020

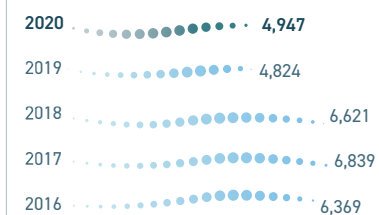
NA



RUB **4,947**mn

EBITDA in 2020

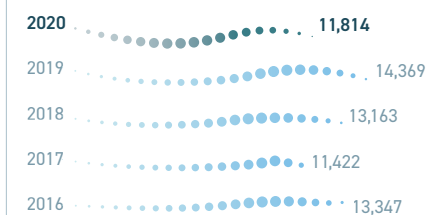
▲3% YOY ▼6% CAGR 2016–2020



RUB **11,814**mn

Net Debt in 2020

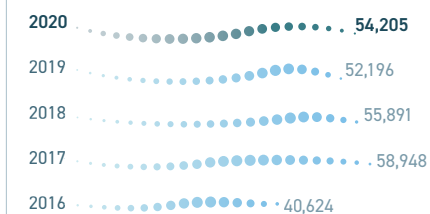
▼18% YOY ▼3% CAGR 2016–2020



RUB **54,205**mn

Order Intake in 2020

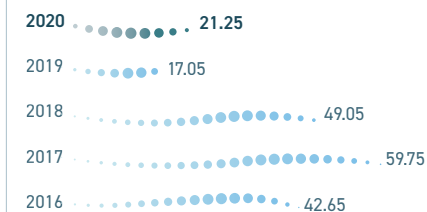
▲4% YOY ▲7% CAGR 2016–2020



RUB **21.25**\*

Dividend per 1 GDR in 2020

▲25% YOY



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\* Subject to the approval at the AGM on June 24, 2021



# Overview

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

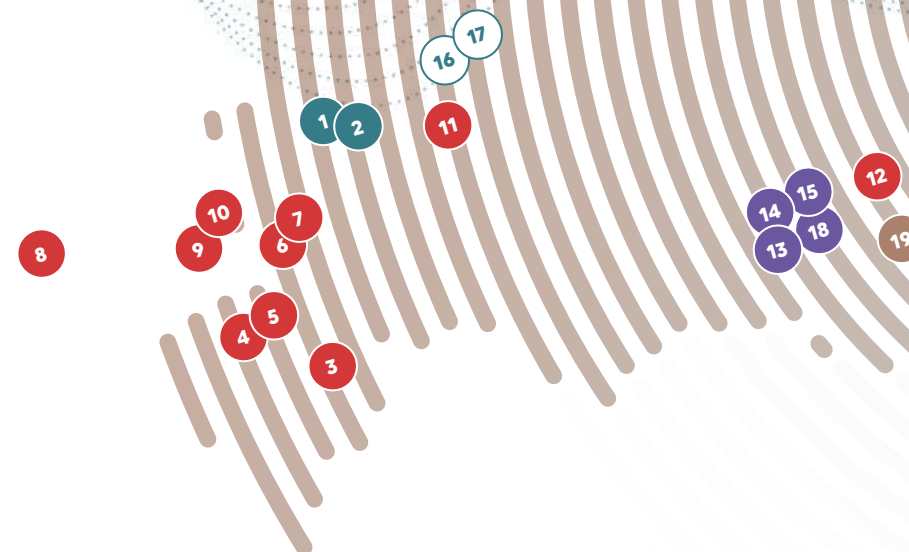
R&D centres,  
including one of the largest pump-testing  
facilities in Europe

## ~6,000

well-diversified client base

## ~13,000

employees



- Industrial pumps
- Oil & gas equipment and projects
- Compressors
- Construction
- Headoffice & trade company

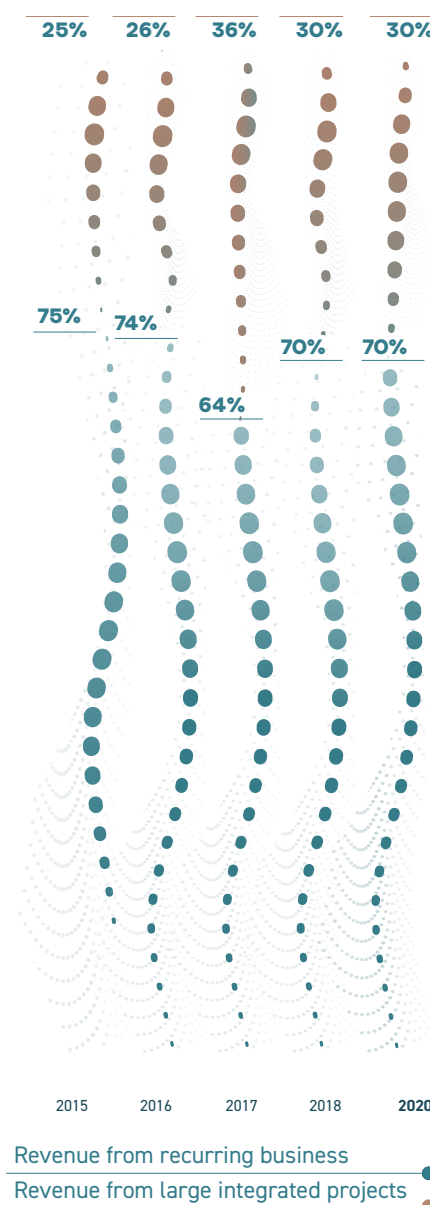
## Who We Are

HMS Group is one of the **largest privately-owned machine-building companies** in Russia and the CIS.

The company is specialized 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 parent holding company is HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the Republic of Cyprus). It listed its securities in the form of Global Depositary Receipts at the London Stock Exchange on February 14, 2011.

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.

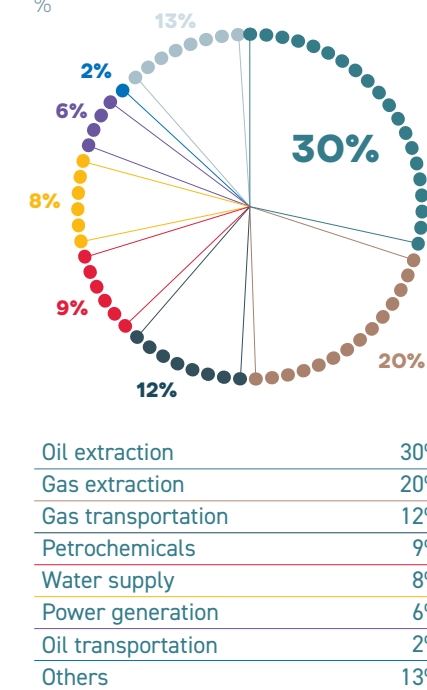


The company produces both **serial and/or standard models** (recurring business) and **customized configurations** (large integrated projects). The execution of large projects includes implementation of the crucial project's work as well as large-scale projects' turnkey execution, from project and design to commissioning and launching. **Revenue from recurring business contributes 74% on average.**

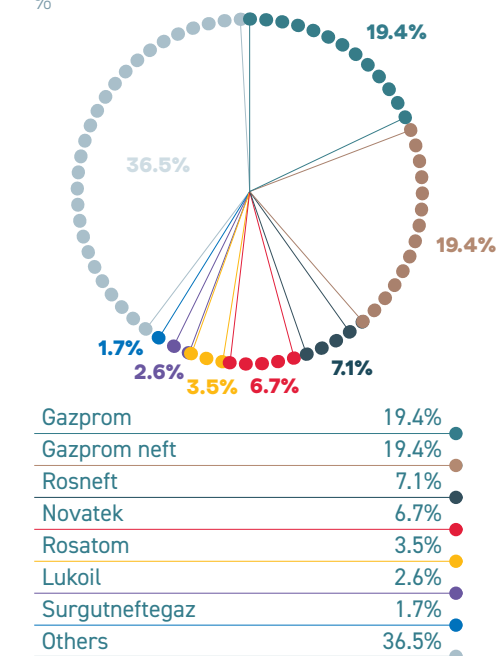
A well-diversified client base includes **"blue-chip" clients**, i.e. the largest oil & gas companies in Russia and the CIS. Our clients operate through numerous contracts in different subsidiaries, which take independent purchasing decisions. A significant portion of HMS' revenue is generated by the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

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.

Revenue structure by industries, %



Revenue structure by client, %





# Who We Are

Continued

## 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.

15%

EBITDA margin

43%

Contribution in consolidated revenue

59%

Contribution in EBITDA

### CORE PRODUCTS AND SERVICES:

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

## OIL AND 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.

2%

EBITDA margin

23%

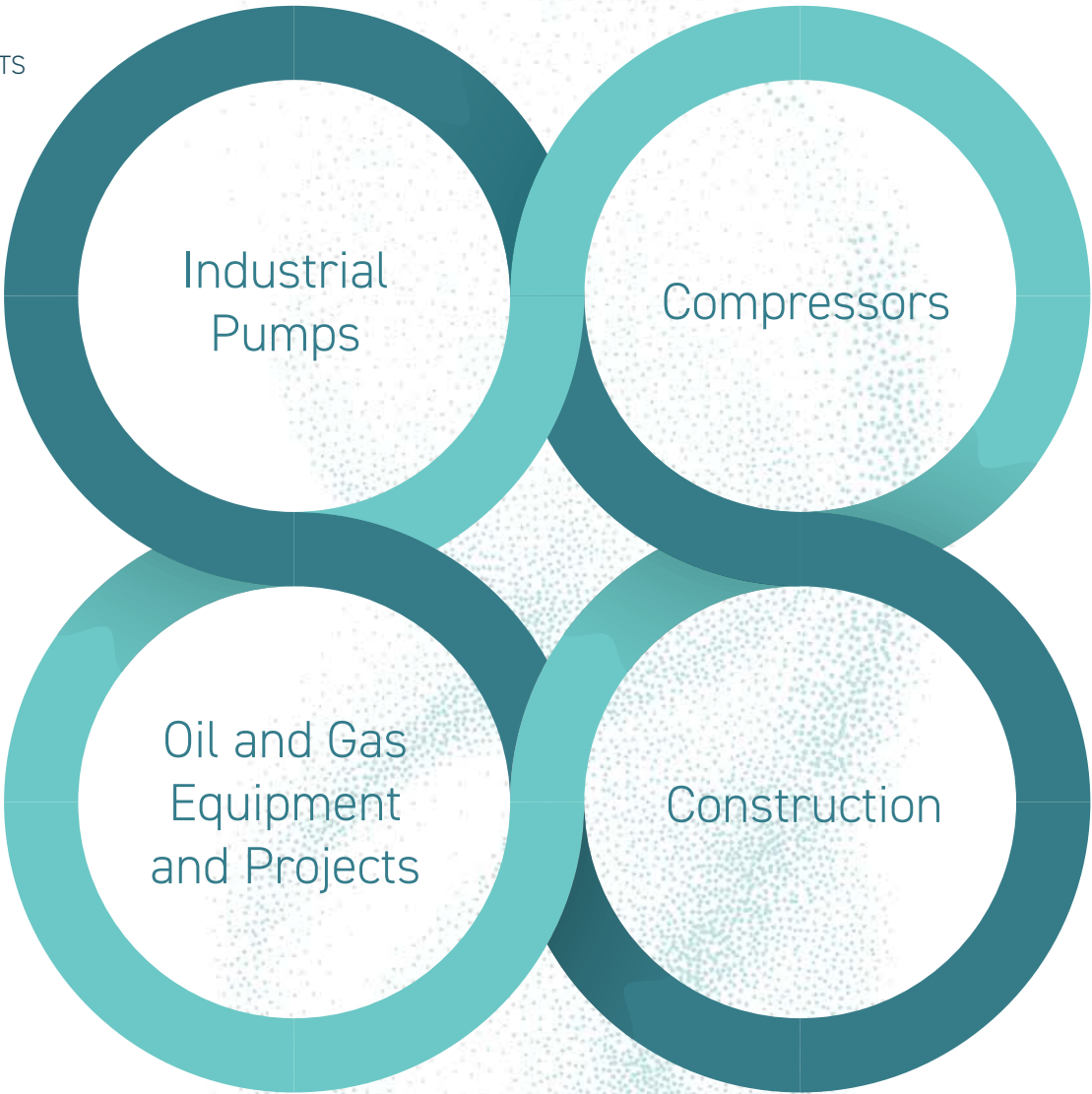
Contribution in consolidated revenue

5%

Contribution in EBITDA

### 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.

13%

EBITDA margin

32%

Contribution in consolidated revenue

39%

Contribution in EBITDA

### 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.

(9)%

EBITDA margin

2%

Contribution in consolidated revenue

(1)%

Contribution in EBITDA

### 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

I can state the fact, with a huge sense of relief, that we have passed 2020 almost without losses

In spring 2020, as soon as alarm news about the COVID-19 pandemic started to spread, HMS froze manufacturing operations for several weeks, whereby we analyzed and developed appropriate security measures. HMS procured individual protective equipment, sanitizers, organized temperature screening at entrance checkpoints of our production facilities and offices. Huge work on organization of trouble-free operations of the majority of our office personnel in the remote mode was carried out.

And I can state the fact, with a huge sense of relief, that we have passed this tough time almost without losses.

HMS Group ended the 2020 year with order intake at Rub 54.2 billion. Though revenue was down to Rub 46.5 billion, EBITDA grew to Rub 4.9 billion thanks to the optimization program implemented in the 2nd half of 2019.

Our EBITDA margin grew to 10.6% despite weak results of the oil & gas equipment business segment.

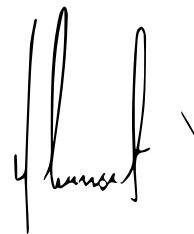
A development team, consisted of representatives of Gazprom and HMS Group, was rewarded with the Russian Federation Government Prize in Science and Engineering for development and implementation of a modular compressor unit, intended for boosting of gas pressure in gas-collecting systems of oil and gas condensate fields.

HMS Group successfully launched a new type of a compressor — a flash gas compressor — for the 4th stage of the Yamal LNG project (NOVATEK). That was the first solution of that kind, made in Russia, and made fully of equipment made in Russia.

We signed the large Rub 7.5 billion contract for the delivery of equipment for the helium concentrate membrane recovery unit. The contract was follow-up, owing to a successful realization of the first one, unique and the first of this kind in Russia project on development and manufacture of such a unit. The unit, developed and made by HMS, allows to extract helium concentrate — the strategically valuable element — directly from produced natural gas.

We also take part in a range of interesting projects, and plan to further advance our competences in realization of high-scale projects.

Yours faithfully,  
**Nikolay Yamburenko**



# CEO Statement

We see the growing opportunities on the market and believe that we have strength and skills to seize them

The 2020 was the extraordinary year, year of the pandemic. The worst pandemic in a century has cost over hundred thousand and millions lives. It continues to adjust behaviors and trends, which most probably will transform the post-COVID-19 world.

The COVID-19 pandemic has frozen economic activity for a while as countries imposed tight restrictions on movement to halt the spread of the virus. Trade restrictions and supply chain disruptions have affected execution of a number of contracts, postponed a launch of anticipated tenders and projects, etc. Quarantine restrictions were introduced, factories were put on lockdown for weeks, and the pandemic and efforts to halt it resulted in an unprecedented collapse in oil demand and a crash in oil prices.

In our view, the company have passed successfully this crisis, though 2020 was tough for HMS. We have faced impact of several factors which affected financial results of HMS Group. It included weak results of the oil & gas business segment due to a temporary decrease in demand on production in the oil extraction.

We believe that tried in 2019 and continued in 2020 the programs of business optimization and cost-cutting clearly demonstrated their effectiveness, because our EBITDA grew 3% YoY, in comparison with 2019.

Today, our backlog grew by 20% YoY, compared with 2019, due to both compressors and oil & gas equipment. A wave of deferred demand came back to the previous level after the most quarantine restrictions in summer 2020 were removed, though we haven't managed to compensate the first six months losses by the end of the year.

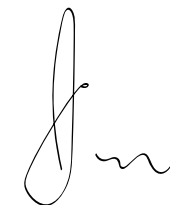
The successfully completed investment project to localize heavy pumps, including for petrochemicals and nuclear power, in 2020 continued to deliver growth of orders for the products produced. Also, we have developed and launched production of a new range of pump sizes. Currently, we work on a large more than Rub 2 billion follow-up contract to deliver pumps to a foreign nuclear power station to be signed in the nearest future.

We ended the 2020 year with an acceptable level of debt. Net debt-to-EBITDA LTM ratio was down to 2.4x, which is lower than bank and internally-set covenants.

In tough environment, HMS Group successfully placed two bond issues, refinanced and prolonged current credit lines that minimized 2021-year repayment and maintained a solid cash cushion.

We see the growing opportunities on the market and believe that we have strength and skills to seize them.

Yours 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 has acquired main production and project capacities
- The company has “know-how” production documentation and certificates
- The company has established long-term relations with its clients
- HMS Group has decided to exit the construction segment and significantly reduced its exposure to construction

## Targets

- Growth of export to the CIS and far abroad
- National project “Ecology of Russia”: These are new markets, supported by state financing and with limited competition, where HMS has already experience and competences
- HMS expects further development in the field of LNG

## Achievements in the past few years

- HMS has entered into a market of gas transportation units for Gazprom. There is growth of revenue from cooperation with Gazprom not only in the field of compressors but of gas transportation units
- The Group has two new large clients — strategic cooperation with Gazprom Neft and NOVATEK
- Revenue grows from nuclear pumps and oil processing pumps
- Revenue from construction reduces
- HMS has entered into the LNG market (compressors, pumps, special equipment)
- The company has completed a pilot “green” project (BOSK)

## Factors of Business Sustainability:

1.

### Delivery of Mission-critical equipment

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

2.

### Leader in both large projects and standard production segments

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

3.

### Management focuses on maintaining a moderate debt position

- The target level of Net debt-to-EBITDA LTM ratio is 2.5 despite any extraordinary events and M&As. When the ratio exceeds the 2.5x level, imposition of step-by-step constraints on dividend size is started
- 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
- Conservative budgeting of debt level

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

5.

### Low capex needs and flexible dividend policy

- HMS Group is a fully invested business with modest maintenance capital expenditure needs at c. Rub 1-1.5 billion
- All major acquisitions have already been completed
- There are no strict dividend commitments, which allows us to minimize payments in a harsh market environment

# Our History

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

## Foundation and bearing on the largest base of installed equipment in Russia

### 1993—1998

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

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—2007

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

## Growth of market share on traditional HMS' markets, entry into new markets

### 2009—2013

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 — Nilturbokompressor, 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

### 2007—2008

The investment industrial group Hydraulic Machines & Systems was established as an industrial holding (since 2008 — HMS Hydraulic Machines & Systems 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

### 2014—2020

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), and other projects

The top management developed the new strategy for sustainable growth with a focus on operational efficiency and leadership in the market of technological units for large-scale investment projects as well as entry into the new markets, i.e. gas transportation units and LNG-equipment



# Strategy

## Vision

HMS Group is one of the leading Russian machine-building companies with focus on industrial pumps and compressors, modular technological units, and also a provider of integrated solutions for various industries, such as oil & gas, petrochemistry, energy generation, metals and mining, water and wastewater utilities.

We consider our customer benefits to be our highest priority: building long-term relations with clients has always been a key priority 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

Our objective is to **maintain our leadership** across all the Company's business segments: Industrial Pumps, Industrial Compressors, Oil & Gas Equipment and Projects.

On the one hand, we **expand traditional client base** by developing new products and more sophisticated solutions. High level of capital investments ensures improvement and modernization of our production sites. On the other hand, HMS Group successfully **broadens its client base** not only in **Russia and the CIS**, but also **in Europe, the Middle East and Asia**.

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

### Business efficiency

HMS Group concentrates on profitability and further development in order to create value for shareholders. We implement systematic **approach to increase the efficiency** of our business, from standalone plants up to the entire Group.

Our technical expertise and proven experience in delivery of technological units allows us to participate in **high-margin large projects**. We intend to strengthen partnerships with industry leaders to take part in multiple large-scale projects across a number of industries.

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

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

### Sustainable development

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

In the face of a rapidly changing environment, we work on maintaining **an effective organisation**, management and corporate culture. The Company strengthens 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 focus on the **culture of innovation 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-supported process of import substitution, which allows us to broaden our product portfolio and attract a large number of new clients.

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

## Corporate Responsibility

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

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

We carry out charity activities and offer support to charitable foundations for children and the disabled. In 2020, we continued to provide support to a number of charity funds, schools, and civic and sport organisations in the regions of our business activities.



# Business Model

HMS Group's business consists of **three product-oriented business units**: Industrial Pumps, Compressors, Oil & Gas Equipment and Projects. All of them imply production of standard products (recurring operations), as well as delivery of complex solutions and technological units for our clients.

HMS' main customers are large and medium-sized industrial companies and infrastructure facilities. We also approach end customers that belong to small business 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, metals and mining industry, water and wastewater utilities.

HMS business comprises the **whole value chain: research & development, procurement and manufacturing, as well as after-sales service and delivery of spare parts** across all our business units. We can outsource certain components and technologies for HMS integrated solutions from specialized external suppliers as well.

Our main competence is research & development in a broad range of rotating equipment. We develop new products and offer state-of-the-art solutions to maintain our clients' benefits. We also have broad expertise in project design and EP/EPC projects for oil & gas sector, water and wastewater utilities. HMS' expertise in engineering allows us to design efficient solutions that meet the highest customer requirements.



- Marketing & sales
- Research & development
- Procurement & manufacturing
- After-sales service across all of its business units

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

**The Company continues its large-scale capital expenditures program** to develop production capacities and retain the highest level of quality. The recent investments increased our manufacturing capabilities in centrifugal pumps and centrifugal compressors as well as oil & gas equipment, enabled us to produce high-quality steel casting up to 9 tons.

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

**HMS Group aims to increase and strengthen its relations with leading Russian and international companies in oil & gas upstream and downstream, nuclear and conventional energy, metals and mining, water and wastewater utilities.**



# Markets &

## Macroeconomic Environment in 2020

The global GDP decreased by 3.3% in 2020, the largest decline since 2009 (−0.1%). The advanced economies became the main contributors to the decline: the US GDP decreased by 3.5%, the German one — by 4.9%, the French one — by 8.2% and the British one — by 9.9%. At the same time the Chinese GDP grew by 2.3%, still a significant slow-down compared to 5.8% in 2019.

As a result of unfavorable macroeconomic conditions, the Russian economy declined by 3.0% in 2020. The largest decline was observed in tourism (−55.4%), air transportation (−46.8%), food and lodging industry (−24.5%), production of vehicles (−16.3%). At the same time some sectors managed to demonstrate growth: manufacturing of drugs and pharmaceutical products increased by 22.2%, production of furniture grew by 8.0%, financial and insurance business — by 7.3%, **production of machinery and equipment (excluding transports) — by 6.1%.**

In the beginning of March 2020 OPEC+ agreement was suspended which resulted in a rapid decline of oil prices to the level of US\$ 16 per barrel (Europe Brent Spot Price) by the end of March. The next agreement was signed only on in April. Oil prices reached the level of US\$ 40 per barrel by the beginning of June, never growing higher than US\$ 52 per barrel in December.

Following decrease of oil prices Russian ruble also showed negative dynamics: the exchange rate of Russian ruble to US dollar fell from Rub 66 at the beginning of March to 78 at the end of the month, Euro — from Rub 74 to 88. The average US\$/Rub exchange rate amounted to 72 rubles in 2020, Euro/Rub — to Rub 83.

The current account surplus declined to the level of US\$ 33.9 billion in 2020 (compared to US\$ 64.8 billion in 2019). Total exports amounted to US\$ 379.1 billion, while total imports reached US\$ 304.7 billion. Exports of crude oil declined to US\$ 72.4 billion (−41% compared to 2019), exports of natural gas declined to US\$ 25.2 billion (−40% compared to 2020).

**(3.0)%**

The Russian GDP



**6.1%**

production of machinery and equipment growth



**4.9%**

consumer inflation in Russia



**4.25%**

CBR key rate



Rub **33.9** bn

Russia's account surplus



US\$ **467.9** bn

Total external debt of Russia



In 2020 the world economy experienced an unprecedented shock caused by COVID-19 pandemics which led to numerous lockdowns, slow-down of consumer and business activity and as a result had a negative impact on the prices of natural resources: oil, natural gas, coal

By the end of 2020, consumer inflation in Russia (the Consumer Price Index) increased to the level of 4.9% (3% in the previous year). Industrial Producers Price Index reached 3.6% by the end of 2020. The average unemployment rate in 2020 reached 5.8% compared to 4.6% in 2019.

The Central Bank of Russia decreased the key rate 4 times in 2020 (from 6.25% at the beginning of the year to 4.25% in July) to support the economic activity on the back of halting production and trade in 2Q 2020, and to make the loans more available for both business and households.

Consequently, the total corporate debt (excluding international debt) reached Rub 46.7 trillion (+12% YoY) at the end of 2020, and loans to individuals grew up to the level of Rub 21.6 trillion (+13% YoY).

As the result of low key rate banks also lowered deposit rates, so households and businesses were stimulated to switch to financial instruments, such as corporate bonds and stocks, etc. Thereby the MOEX Russia index (counted in rubles) grew to 3,289 index points at the end of 2020 (+8% compared to the end of 2019). At the same time RTS Index (counted in US dollars) declined to 1,387 points (−10%) during 2020.

The Russian Budget showed a shortage of Rub 4.1 trillion, equal to 3.8% of the GDP. Budget revenue decreased by 7.3%, while spending grew by 25.3% compared to 2019. Total external debt of Russia (both government and corporate) decreased by 4.8%, to the level of US\$ 467.9 billion).

# Macroeconomics

# Market trends

## Oil and gas industry

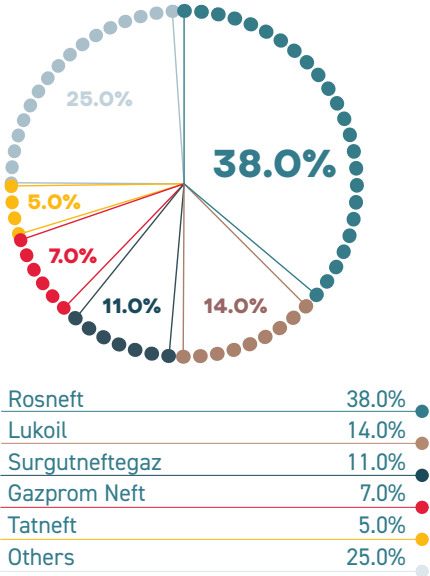
### Upstream

Russian oil industry consists of several vertically integrated companies. Five of them account for 3/4 of the country's oil production and refining, and a number of smaller companies, typically comprising one or several oilfields. About half of produced oil is processed at the country's refineries, while the other half is exported.

The oil extraction declined from 561.2 to 512.7 million tons of product in 2020 (–8.6% YoY), as a result of lower demand for energy caused by COVID-19 and limitations set by the new OPEC+ agreement. Average Urals oil price decreased from US\$ 64/barrel in 2019 to US\$ 42/barrel in 2020.

During the year, the country's operating well stock decreased by 1.0% to 178,712 units (including 6,957 new wells). The total drilling volume declined by 1.7% to 28 million meters.

### Top 5 oil producers in Russia in 2020



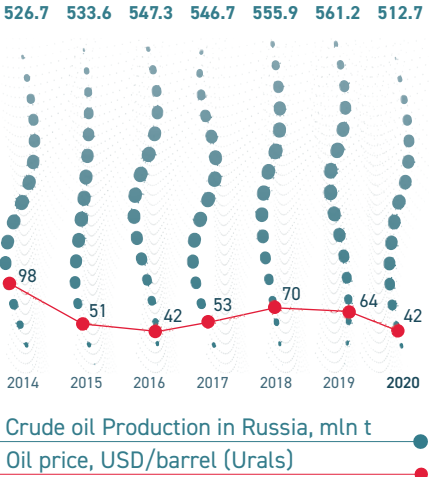
Several new oilfields were put into operation, such as Erginskiy license area and Severo-Danylovskoye oilfield (Rosneft), Komandirshorskaya group of fields (Lukoil), oil rims of Chayandinskoye field (Gazprom Neft). A number of large oilfields are expected to be launched in the next few years, including Lodochnoye and Severo-Komsomolskoye fields (Rosneft), and Grayfer field (Lukoil).

The major gas company in Russia, Gazprom, accounted for 65% of gas production in Russia in 2020. The second largest producer, NOVATEK, produced 11% of all natural gas volume.

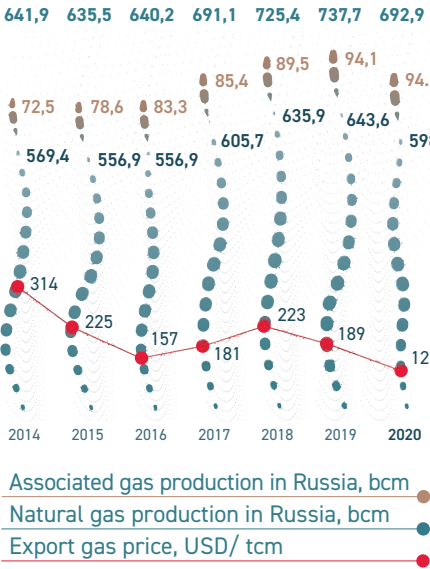
Natural gas extraction in Russia reduced from 737.7 to 692.9 bcm (–6% YoY), the average export prices decreased to US\$ 127/mcm, with the most significant decline to US\$ 98/mcm observed in 2Q 2020.

Gazprom has plans to launch a number of new large gas fields, including Kharasaveyskoye and Kovyktinskoye (currently in pilot production), while Rosneft plans to start works on Kharampur field (gas formations).

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



### Natural and petroleum associated gas production in Russia and average export price of gas



512.7 mln t

Crude oil Production in Russia ▼9.2% YOY

### Midstream

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

Transneft is the major operator of the Russian oil trunk pipeline system (50.8 thousand km), and oil-product trunk pipeline system (16.4 thousand km) with over than 500 of oil pump stations.

The total length of the Russian gas transportation system is over 170 thousand km, comprising over 250 gas compressor stations. The main operator of gas pipelines is Gazprom. In 2020, the company started construction of the Khovykta-Chayanda pipeline (a part of the Power of Siberia pipeline). The main prospective projects for the next years is the construction of the Power of Siberia-2 (from the Yamal Peninsula to China), Bovanenkovo-Ukhta-3 and Ukhta–Torzhok pipelines.

### Downstream

The total number of large oil refineries in Russia is 35, and together with smaller refineries they processed 270 million tons of crude oil in 2020 (total capacity is over 315 million tons), a decrease by 5.4% compared to 2019. Rosneft, the leading Russian oil company, is the largest refinery operator with twelve major refineries. LUKOIL, with four major refineries, is the second-largest refineries operator, Gazprom Neft operates 2 refineries.

The production of all main petroleum products declined in 2020: gasoline — by 4.5% to 38.4 million tons, diesel oil — by 0.4% to 78.0 million tons, and fuel oil — by 11.1% to 40.8 million tons.

The depth of processing increased by 1% to the level of 84% in 2020.

A number of further projects on the modernisation of oil refineries, as well as new construction are planned on the horizon until 2025, including Slavneft advanced oil refining complex, Moscow refinery advanced oil refining complex (Gazprom Neft), further development of Taneco Refining and petrochemical plants complex (Tatneft).

Russian gas-processing industry is represented by 33 plants, which processed 77.8 bcm of natural gas and petroleum associated gas in 2020 (–3.9% YoY), including 7 largest plants which processed 3/4 of all gas volume. A new Amur GPP is currently under construction, it should be the largest GPP in the world with 42 bcm of gas per year design processing capacity.

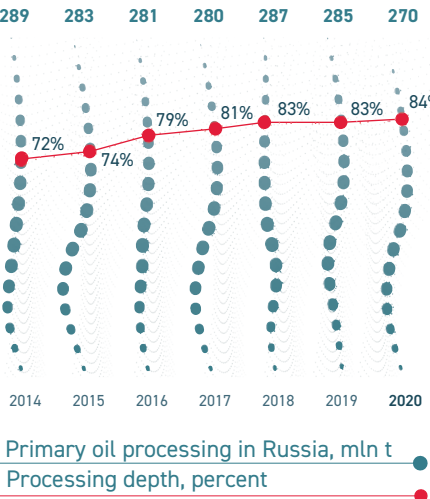
LNG production is one of the fast-growing segments in Russian energy market. The volume of LNG produced in Russia reached 30.5 million tons compared to 29.5 million tons processed in the previous year (+3.5%). The largest operating LNG plants are Sakhalin-2 (consortium led by Gazprom) and Yamal LNG (NOVATEK). Examples of prospective LNG plants include Arctic LNG-2 (NOVATEK, currently under construction) and the complex for processing ethane-containing gas and LNG production in Leningrad region (Gazprom and RusGazDobycha). A large number of small-scale LNG plants are expected to be built in the next years as well.

The main trend in the oil and gas markets is that the major companies tend to limit their investments in upstream, while the importance of downstream (including LNG and gas processing projects) grows.

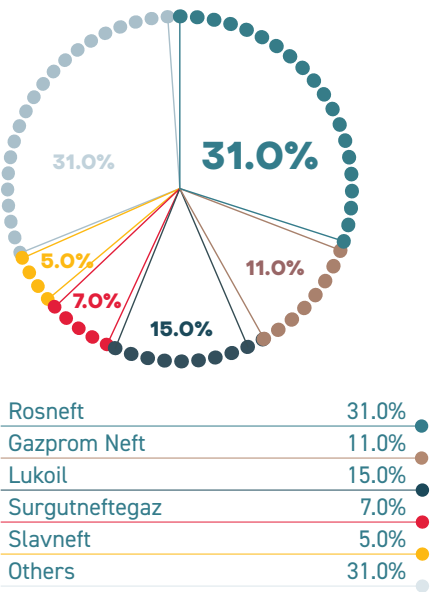
84%

processing depth in Russia in 2020

### Primary oil processing volume and processing depth in Russia



### Top-5 oil producers in Russia in 2020





# Market trends

Continue

## Power generation

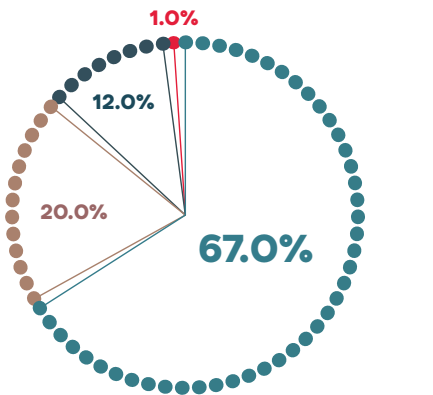
Total number of large power plants in Russia (with installed capacity higher than 5 MW each) is 880. The structure of the installed capacity of the United Power System remained practically unchanged in 2020: thermal power plants accounted for 67% of installed capacity, hydro power plants — 20%, and nuclear power plants — 12%.

251.0GW

Total capacity of power plants in 2020

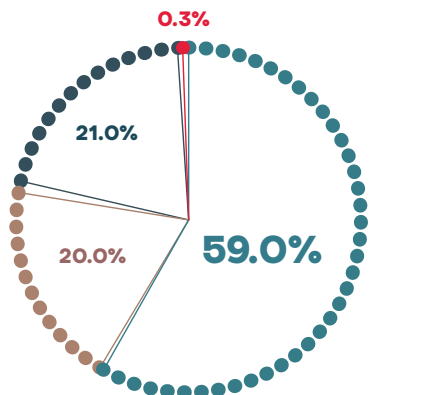
### Total installed capacity and electricity output of the United Power System by types of power plants in 2020

Installed capacity



Thermal	67.0%
Hydro	20.0%
Nuclear	12.0%
Renewable	1.0%

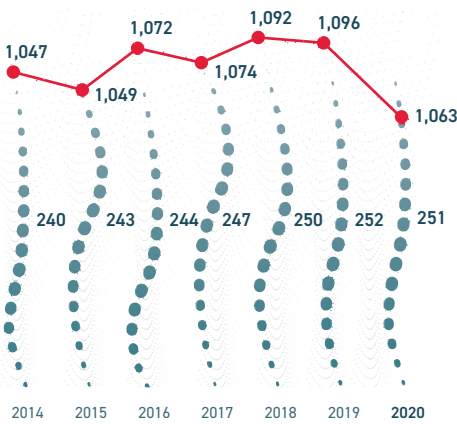
Electricity output



Thermal	59.0%
Hydro	20.0%
Nuclear	21.0%
Renewable	0.3%

In 2020, Russia decreased its electricity output from 1,096 to 1,063 billion kWh (–3% YoY). Total installed capacity of Russian power system decreased by 1 GW, as 3.3 GW of inefficient and outdated equipment was decommissioned, and 1.9 GW of new capacity was put into operation in 2020, including Voronezh PP (220 MW), Primorskaya PP in Kaliningrad region (195 MW), and a solar power plant in Adygea region (150 MW).

### Total installed capacity and electricity output in Russia



Total capacity of power plants, GW  
Power generation in Russia, bn kWh

Total investments in the energy industry remained practically unchanged in 2020, at the level of Rub 801.6 billion.

The Russian United Power System Development Program (by the Ministry of Energy of Russia) implies that up to 15 GW of new capacity will be commissioned in 2020–2026. The largest projects include new units at Leningradskaya NPP (2,300 MW), Kurskaya NPP (1,200 MW), Zainskaya PP in Tatarstan (850 MW), and Udarnaya PP in Krasnodar region (500 MW).

The State Atomic Energy Corporation, ROSATOM, is running a number of new projects abroad as well, including Rooppur NPP (Bangladesh) and new units of Kudankulam NPP (India).

## Metals and mining

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

Extraction of coal decreased from 442.8 million tons to 402.1 million tons in 2020 (–9.2%). Overall investments in coal extraction declined by 33.9% in 2020 (Rub 129.6 billion).

Extraction of iron ore increased from 97.5 to 100.0 tons (+2.6%), while steel production remained unchanged in 2020 (73.6 million tons), and cast iron production showed a slight increase from 51.2 million tons to 52.0 million tons (+1.5%). Investments in metal ores extraction increased by 1.6% (Rub 299.6 billion), and in metals production — by 8.5% (Rub 378.6 billion).

Russian metal and mining companies (EVRAZ, Severstal, Mechel, Metalloinvest, 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 high level of investments in the industry for the next years.

## Water utilities

Year 2020 was marked by the continued growth of tariffs (for instance, tariffs for cold water supply increased by 3.9% in 2020, hot water supply — by 4.3%, and sewage — by 4.8%).

Total investments in water utilities and wastes utilization in Russia demonstrated a significant increase from Rub 174.0 billion to Rub 207.7 billion (+19.4%). Examples of large investment projects implemented during 2020 include construction of a water treatment plant at the Omsk refinery and reconstruction of a water treatment facility in Kazan.

In 2020, the implementation of the Ecology national project (consisting of 11 federal projects) that will ensure large modernization of water facilities all over the country continued. Almost all budget planned for 2020 (Rub 65 billion) was performed.

Rub 207.7bn

Total investments in water utilities and wastes utilization in 2020

▲19.4% YOY

# Performance

## Operational Overview

Order intake grew to Rub 54.2 billion by 4% YoY, compared with Rub 52.2 billion in 2019. The compressors business segment was the main contributor to this growth. In terms of contracts type, recurring business was the driver of the growth (+11% YoY), that compensated less large orders signed in the reported period (-10% YoY).

Order intake, Rub bn	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Industrial pumps	17,773	22,792	-22%	4,429	5,329	-17%
Oil & gas equipment	13,568	11,887	14%	3,331	3,514	-5%
Compressors	22,617	17,363	30%	7,511	10,512	-29%
Construction	247	155	60%	32	5	521%
<b>Total</b>	<b>54,205</b>	<b>52,196</b>	<b>4%</b>	<b>15,304</b>	<b>19,359</b>	<b>-21%</b>

RUB**54.2**bln
 

Order intake in 2020
 

▲ 4% YOY

**9** %
 

large contracts order intake growth in 2020

In 2020, the company signed a range of large contracts, mainly in the compressors business segment

Backlog, Rub mn	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Industrial pumps	18,227	19,572	-7%	18,227	19,749	-8%
Oil & Gas equipment and projects	9,318	7,426	25%	9,318	9,916	-6%
Compressors	24,765	16,067	54%	24,765	25,264	-2%
Construction	1,541	1,628	-5%	1,541	1,652	-7%
<b>Total</b>	<b>53,851</b>	<b>44,693</b>	<b>20%</b>	<b>53,851</b>	<b>56,580</b>	<b>-5%</b>

Backlog reached Rub 53.9 billion, up by 20% YoY, compared with Rub 44.7 billion last year, based on the compressors and the oil & gas equipment business segments. In terms of contracts type, recurring business grew by 32% YoY and large contracts was up 30% YoY, compared with 2019.

### PUMPS

Order intake declined by 22% YoY to Rub 17.8 billion, compared with Rub 22.8 billion for 2019, due to less regular orders received and no large contracts signed. Backlog was down by 7% YoY to Rub 18.2 billion, compared with Rub 19.6 billion in 2019. Demand for pumps was impacted by the COVID-19 pandemic.

### OIL & GAS EQUIPMENT

Order intake grew to Rub 13.6 billion, by 14% YoY, compared with Rub 11.9 billion in 2019, due to large contracts. Backlog was up by 25% YoY to Rub 9.3 billion, compared with Rub 7.4 billion for 2019, due to both large contracts and regular business.

### COMPRESSORS

Order intake grew by 30% YoY to Rub 22.6 billion, compared with Rub 17.4 billion in 2019. Backlog increased to Rub 24.8 billion, compared with Rub 16.1 billion in 2019. Both recurring business and large contracts grew.

in 2020



# Financial Overview

Revenue was Rub 46.5 billion, down by 10% yoy, compared with Rub 51.4 billion for 2019, because of less revenue generated by the oil & gas equipment and the compressors business segments.

EBITDA, in contrast, was up to Rub 4.9 billion, by 3%, due to increased margins of pumps and compressors contracts. EBITDA margin grew to 10.6%, compared with 9.4% for 2019.

Consolidated revenue from recurring business declined by 9% yoy, and revenue from large projects was down by 11% yoy. EBITDA from recurring business declined by 12% yoy, and, in contrast, EBITDA from large contracts increased by 26% yoy.

Loss for the period was Rub 816 million, compared with profit for the period at Rub 151 million for 2019. Included in this loss is an impairment of goodwill of Rub 425 million, recognized on acquisition of TMCP in the beginning of 2019.

The goodwill was impaired as a result of not meeting targeted synergies with HMS Neftemash in executing large contracts, due to the COVID-19 pandemic and general situation on the oil and gas market. Loss for the 2020 year adj.<sup>1</sup> was Rub 265 million.

Free cash inflow was Rub 3.0 billion, compared with Rub 23 million in 2019, despite lower revenue, due to the implemented cost-optimization program.

## FY 2020 financial results

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	46,476	51,413	-10%	15,000	11,978	25%
EBITDA	4,947	4,824	3%	1,576	1,264	25%
EBITDA margin	10.6%	9.4%		10.5%	10.6%	
(Loss)/Profit for the period adj.	(265)	151	na	(41)	90	na
Impairment of goodwill (note 9)	(426)			(426)		
Impairment of previously recognised deferred tax assets (n.22)	(126)			(126)		
(Loss)/Profit for the period	(816)	151	na	(593)	90	na
Free cash inflow	2,958	23	na	2,074	2,397	-13%

## Expenses and Operating Profit

Cost of sales was down by 11% yoy to Rub 37.1 billion, compared with Rub 41.8 billion for 2019, due to lower materials and components costs and labour expenses. Materials and components declined 15% yoy because of lower revenue. Labour costs were down by 2% yoy due to the cost-cutting program program.

Gross profit declined to Rub 9.4 billion, by 2% yoy, compared with Rub 9.6 billion for 2019.

SG&A expenses<sup>3</sup> declined by 2% yoy due to decrease in general & administrative expenses. Distribution & transportation expenses were up by 1% yoy, mainly due to higher transportation expenses and labour costs. General & administrative expenses declined to Rub 5.2 billion by 3% yoy, compared with 2019, mainly due decrease in labour costs and business trips expenses.

Operating profit was down to Rub 1.3 billion by 35% yoy, compared with Rub 2.1 billion in 2019.

Finance costs increased to Rub 1.9 billion by 8% yoy, compared with Rub 1.8 billion in 2019. The main reason was the 5% increase in interest expenses due to the higher level of average debt within 2020, compared with 2019.

Average interest rates decreased to 8.00% p.a., compared with 8.57% p.a. last year.

in millions of Rub	2020	2019	Change yoy	Share of 2020 revenue	Share of 2019 revenue
<b>Cost of sales</b>	<b>37,071</b>	<b>41,804</b>	<b>-11%</b>	<b>79.8%</b>	<b>81.3%</b>
Materials and components	23,760	27,957	-15%	51.1%	54.4%
Labour costs incl Social taxes	6,906	7,060	-2%	14.9%	13.7%
Depreciation and amortization	2,122	1,954	9%	4.6%	3.8%
Construction and design <sup>2</sup>	2,557	2,467	4%	5.5%	4.8%
Others	1,726	2,365	-27%	3.7%	4.6%

in millions of Rub	2020	2019	Change yoy	Share of 2020 revenue	Share of 2019 revenue
<b>Gross profit</b>	<b>9,405</b>	<b>9,609</b>	<b>-2%</b>	<b>20.2%</b>	<b>18.7%</b>
Distribution & transportation	1,986	1,961	1%	4.3%	3.8%
General & administrative	5,243	5,395	-3%	11.3%	10.5%
<b>SG&amp;A expenses</b>	<b>7,228</b>	<b>7,356</b>	<b>-2%</b>	<b>15.6%</b>	<b>14.3%</b>
Other operating expenses	412	196	111%	0.9%	0.4%
Operating expenses ex. Cost of sales	7,641	7,552	1%	16.4%	14.7%
<b>Operating profit</b>	<b>1,338</b>	<b>2,057</b>	<b>-35%</b>	<b>2.9%</b>	<b>4.0%</b>
Finance costs	1,926	1,785	8%	4.1%	3.5%

in millions of Rub	2020	2019	Change yoy
<b>SG&amp;A expenses</b>	<b>7,228</b>	<b>7,356</b>	<b>-2%</b>
Finance costs	1,926	1,785	8%
Interest expenses	1,848	1,764	5%
Interest rate, average	8.00%	8.57%	
Interest rate Rub, average	8.12%	8.69%	

<sup>1</sup> Loss for the period adj. — is the reported Loss for the period, excluding the effects of goodwill impairment and impairment of previously recognized deferred tax asset

<sup>2</sup> Construction and design and engineering services of subcontractors

<sup>3</sup> SG&A expenses — Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

# Financial Overview

Continued

## Business Segments Performance



Revenue grew to Rub 20.3 billion by 2% yoy, based on the recurring business. EBITDA was up to Rub 2.9 billion, by 13% yoy, compared with Rub 2.6 billion in 2019, due to a larger share of regular orders with higher profitability. EBITDA margin was 14.5%, compared with 13.1% in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	20,256	19,770	2%	6,311	5,657	12%
EBITDA	2,931	2,599	13%	1,116	797	40%
EBITDA margin	14.5%	13.1%		17.7%	14.1%	



Revenue was down by 16% yoy to Rub 14.9 billion, compared with Rub 17.9 billion, due to less revenue generated by recurring business.

EBITDA grew by 25% yoy to Rub 1.9 billion, compared with Rub 1.5 billion in 2019, due to higher margins generated by large contracts. EBITDA margin was up to 13.0%, compared with 8.6% in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	14,947	17,884	-16%	6,080	3,075	98%
EBITDA	1,939	1,546	25%	796	489	63%
EBITDA margin	13.0%	8.6%		13.1%	15.9%	



Revenue declined to Rub 11.3 billion, by 14% yoy, compared with Rub 13.2 billion in 2019. EBITDA was down to Rub 241 million, compared with Rub 430 million in 2019. The main reasons were the COVID-19 pandemic and postponement of projects for 2021.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	11,284	13,160	-14%	2,890	3,241	-11%
EBITDA	241	430	-44%	(49)	47	-204%
EBITDA margin	2.1%	3.3%		-1.7%	1.4%	



Revenue was down to Rub 718 million, compared with Rub 1.4 billion in 2019. EBITDA was Rub (63) million, compared with Rub (29) million last year.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Revenue	718	1,394	-49%	138	174	-21%
EBITDA	(63)	(29)	117%	(43)	(59)	-27%
EBITDA margin	-8.8%	-2.1%		-31.2%	-34.0%	

## Working Capital and Capital Expenditures

**Working Capital and Capital Expenditures**  
Working capital declined to Rub 6.8 billion, by 24% yoy, compared with Rub 8.8 billion in 2019. As a share of revenue, working capital declined to 14.5% which is a very low ratio. It was a result of tough anti-crisis measures initiated by the company.

Maintenance capex was down to Rub 1.4 billion, by 12% yoy, compared with Rub 1.6 billion in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Working capital	6,752	8,846	-24%	6,752	8,715	-23%
Working capital / Revenue LTM	14.5%	17.2%		14.5%	18.9%	
Capex	1,392	1,571	-11%	250	399	-37%
Acquisition	0	670		0	0	

**Debt Position**  
Total debt declined by 9% yoy to Rub 22.2 billion, compared with Rub 24.3 billion in 2019. Net debt was down to Rub 11.8 billion, by 18% yoy, compared with Rub 14.4 billion in 2019.

in millions of Rub	2020	2019	Change yoy	4Q 2020	3Q 2020	Change qoq
Total debt	22,175	24,321	-9%	22,175	22,832	-3%
Net debt	11,814	14,369	-18%	11,814	13,897	-15%
Net debt / EBITDA LTM	2.39	2.98		2.39	2.89	

**1** 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.

**2** 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.

## Significant Events after the Reporting Date & Financial Management

**Large Contracts**  
After the reporting date, in April 2021, the company announced the signature of a Rub 7.5 billion contract to design and manufacture oil & gas equipment for one of the largest gas fields in Russia. The contract is for manufacture, delivery and installation of membrane modules and elements, turbocompressor units for an interstage compressor station and gas transportation units for a gas booster station as part of a helium concentrate membrane recovery unit. This is a follow-up contract HMS Group has secured with this client. The first one was announced in 2017 in a Rub 10.2 billion contract, and that was the first project of that kind in Russia.

**Buyback Program**  
After the reporting date, HMS Group repurchased 176,000 GDRs under its buyback program.

**Dividends**  
The Board of Directors at the meeting on April 21, 2021, recommended payment of a final dividends in respect of FY 2020 in the amount of Rub 4.25 per one ordinary share (Rub 21.25 per one GDR). The dividends are subject to the approval at the AGM on June 24, 2021. Subject to such approval, the Dividends may be paid on July 1, 2021 to shareholders on the Company's register at close of business (UK time) on June 18, 2021 (the "Record Date").

**MOEX listing**  
Also, the Board of Directors approved the listing of the Group's GDRs as a Foreign Issuer on the Moscow Exchange. The Company's GDRs will continue trading on the Main Market of the London Stock Exchange. Trading of HMS Group's GDRs on the Moscow Exchange is expected to commence in the second quarter of 2021, subject to approval by the Moscow Exchange.

**3** 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.

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



# 2020 Calendar of Events

## January

- HMS Group implements an investment project on the foundry re-equipment at Kazankompressormash facility to create a modern foundry complex on its base. The new complex will enable the company to produce the castings of a wide range of alloys, including the steel ones of a large size.
- Apollo Goessnitz GmbH participated in the Egypt Petroleum Show in February 11–13, 2020 in the Egypt International Exhibition Center (Cairo). At the exhibition, Apollo Goessnitz presented solutions for oil & gas upstream and downstream applications.

## March

- The centrifugal compressor package underwent integrated tests at TANEKO's Oil Refining and Petrochemical Complex in Nizhnekamsk. The compressor package is based on a 3GC2-39/106-132 vertically split centrifugal compressor with a capacity of 153,500 Nm<sup>3</sup>/h and a discharge pressure of 132 bar. The equipment is intended for compression of hydrogen-bearing gas in heavy coker gas oil hydrotreatment process.

## May

- HMS' Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2017 award year. Total amount of GDRs paid to the LTIP participants was 270,810, which is equal to 1.16 percent of HMS' share capital. For more details, visit link [https://grouphms.com/press\\_center/press\\_releases/8817/](https://grouphms.com/press_center/press_releases/8817/).
- HMS signed Rub 1.4 billion contract to engineer and manufacture skids, vessels and a refrigerant compressor. The oil & gas equipment will be delivered in 2020–2021 and installed at the client's facility in southeast Siberia.
- HMS Group signed a framework contract to conduct design and exploration works at an oil & gas field, located in Russia. The estimated duration of works is 5 years and the maximum total amount of the contract may not exceed Rub 5.7 billion.
- HMS signed a contract to manufacture automated group metering units for Mangistaumunaigas (the Republic of Kazakhstan). Previously, such units had been supplied to the Kalamkas and Zhetybay fields developed by Mangistaumunaigas. Since the beginning of 2020, the Group has concluded contracts for supply of 31 automated group metering units for Kazakhstan oil companies.

- The company signed a contract to manufacture and delivery automated metering units (for groups of wells) to RITEKBeloyarskneft, a territorial production company, to be operated at the Sredny Nazym oil field. The metering units will be equipped with multi-stream switching manifolds with cases made of wear-resistant materials. It allows reducing corrosive and erosive wear of switching manifold parts, and, thus, extending the service life of the whole metering unit.

## June

- HMS' Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2017 award year. Total amount of GDRs paid to the LTIP participants was 73,857, which is equal to 0.30 percent of HMS' share capital. For more details, visit link [https://grouphms.com/press\\_center/press\\_releases/8822/](https://grouphms.com/press_center/press_releases/8822/).
- The company signed a contract to design and deliver automated group metering unit for Production Association "Belorusneft". It will be the first metering unit produced by HMS Neftemash, which will be designed considering the specific oil production conditions of the Belarusian oilfields and the Republic of Belarus regulatory requirements.
- HMS managers acquired 20,446 HMS Group's GDRs using their own funds.

- Two compressor packages were put into pilot operation under the project for development of the oil part of the Yaro-Yakhinskoye oil and gas condensate field (Arcticgas). 34GC2-138/7-117 GTU compressor packages with 125,640 Nm<sup>3</sup>/h capacity and 117 bar discharge pressure were designed to compress a mixture of APG and de-ethanization gas operating as part of a gas compression system (GCS).

Low and high-pressure casings are mounted in parallel on a common skid together with a twin-shaft gearbox and are completed with a 16MW NK-16STD gas turbine engine manufactured by KMPO. Such arrangement made it possible to reduce the overall dimensions of the GCS, including its container, as well as to facilitate the installation and maintenance process of the compressor flow paths. The equipment was delivered to the customer as ready-to-operate modules.

— The implementation of this project was another successful example of a long-term strategic partnership between HMS Group and KMPO.

## July

- Fitch Ratings affirmed JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDRs) of "B+", the outlook "Stable". The full text of Fitch's press release is available on the agency's website <https://www.fitchratings.com/research/corporate-finance/fitch-affirms-jsc-hms-group-idr-at-b-outlook-stable-24-07-2020>.
- Under the project "Bobruysk TPP-2 Repowering. Replacement of boiler feed pump No. 3 and installation of adjustable speed drive", HMS Group manufactured and delivered a motor pump unit. The unit is equipped with hydrodynamic coupling made by VOITH Turbo.

## August

- HMS signed a Rub 4.5 billion contract to engineer and manufacture gas compression units. The equipment will be delivered and installed at a client's gas booster station in 2021.
- HMS Group signed a Rub 3.8 billion contract within a long-term framework agreement to manufacture mobile compressor units. The framework agreement was signed in 2019. The equipment will be delivered at the client's site by the end of 2021.
- HMS managers acquired 23,100 HMS Group's GDRs using their own funds.
- HMS Group repurchased 5,554 of its global depositary receipts. Since the start of the program, the Company has repurchased 1,209,836 GDRs in total representing 5.16 percent of its issued share capital.
- The complete gas compression system was put into commercial operation at Vostochno-Messoyakhskoye oil and gas condensate field. The gas compression system based on 53GC2-384/4-141 GTU high-performance compressor system with a parallel arrangement of casings was designed to compress associated petroleum gas as a part of the compressor station under construction at the field.



# 2020 Calendar of Events

Continued

## September

- One of HMS managers acquired 99,208 HMS Group's GDRS using his own funds.
- HMS Group refinanced Rub 5.1 billion in 3Q 2020 and shifted debt repayments from 2021 to 2022–2023.
- HMS Group signed a Rub 1.9 billion contract to engineer and manufacture gas transportation units. The equipment will be delivered by the end of 2021.

HMS Group manufactured and delivered two gas compression systems to operate as a part of the booster compressor station at Novoportovskoye oil and gas condensate field. The compressor systems are based on a single-section five-stage 6GC2-380/36-101 GTU centrifugal compressor with a vertically split casing, 319.38 m3/min capacity and 9.8 MPa discharge pressure. The systems are equipped with the dry gas seals, oil sleeve bearings, and a common lubrication system for motor and compressor, and were supplied in the hangar-type enclosures with 32 MW Siemens SGT-700 gas turbine drives and all utility systems.

## October

- HMS Group manufactured and delivered a number of new-generation pumps, including oil pumps, booster pumps and condensate pumps, to the Azerbaijan thermal power station.

## November

- HMS Group signed a Rub 3.2 billion contract to engineer and manufacture gas transportation units to be installed at a client's oil & gas condensate field, located in Russia. The equipment will be delivered by the end of 2021.

## December

- HMS Group signed a Rub 1.3 billion contract to engineer and manufacture pumping stations. The equipment will be delivered in 2021.
- The company manufactured and delivered a number of high-efficiency pumps of NM 1250-260-2.1 (KZ) at the main pump stations "Pavlodar", "Ekibastuz", "Stepnoye" (Kaztransoil) under its modernization program.
- The Group's Executive Directors and PDMRs acquired an interest over the Company's Global depository receipts following the grant of awards under the Company's Long Term Incentive Plan («LTIP») for the 2018 award year. The total amount of GDRs paid to the LTIP participants was 331,562, which is equal to 1.41 percent of the Company's share capital.  
More information can be found via link [https://grouphms.com/press\\_center/press\\_releases/8941/](https://grouphms.com/press_center/press_releases/8941/).

# HMS Key Projects, Development & Innovations

## Export Activities

Export sales revenue of HMS Group outside the FSU was US\$ 51 million including international nuclear power plants projects, less than a year before but still showing stability despite the COVID-19 pandemic. At the same time, the current export sales backlog is equal to US\$ 56 million with new promising projects coming.

2020 has shown a significant breakthrough in Egyptian water market and a tremendous work has been done to bring HMS compressors to the international markets.

## Research and Development

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.

### PUMPS

HMS Group set up a serial production of HMS Control SIDUS stations, intended for (simultaneous) control of two submersible or semi-submersible pumps applied in the wastewater disposal, water supply, heat supply, etc.

This station's control system is cascaded, in response to control signals. Both discrete signals provided by float fluid level switches, electrocontact manometers, electrode level sensors, and analog signals provided by hydrostatic and ultrasonic level transmitters can be used for the process control.

The stations are designed in two specifications — with direct-on-line start and with an each-pump-softstarter.

HMS Group continued expansion of the standard series of pumps manufactured for thermal power generation and other industries.

Oil pumps 12KM-type and electric pump units, based on them, are intended for transfer of turbine-oil with temperature +25–60°C or other oils with close physicochemical characteristics. These pumps are used in the centralized lubrication systems of turbo-pump units.

Nasosenergomash, the Ukrainian subsidiary of HMS Group, successfully tested the newly designed API 610 main centrifugal pumps for oil transport through trunk pipelines.

USD **51** mln

Export sales revenue in 2020, outside the FSU

USD **54** mln

Export sales backlog in 2020





# HMS Key Projects, Development & Innovations

Continued

The AMG-250N/2×410-308/CN (BB3 according to API 610) pumps with a horizontal housing connector and multi-stage multi-bearing were specially designed and manufactured in accordance with technical requirements of the customer, JSC Ukrtransnafta, with nominal parameters of 1,250m3/h feed and 365m pressure.

HMS Group designed and manufactured double-sided pumps D 500-1050 "in hot design" (3,500m3/h-140m) intended for use in heating networks. These D-series pumps do not require forced lubrication, are equipped with mechanical seals and operate as a part of units with a variable frequency drive.

In 2020, the 13-stage pump units with a horizontal housing connector type AMG 100L according to the API 610 standard were designed and manufactured. The designed pump unit has no analogues in this design among manufacturers of pumping equipment in Eastern Europe and the countries of the former CIS (the main parameters: Q=180m3/h, N=1,180m, n=3,000rpm, and NPSHR=4m). The basic element of the pump is a high-tech casting of the casing, the manufacturing accuracy of which ensures high efficiency and preset parameters of the flow part.

## OIL & GAS EQUIPMENT

### Thermo-Chemical Binary Mixture Technology (TCBXT)

In 2020, HMS Group continued works on promoting and commercialization of the new technology in subsoil users, but several factors affected works volume and timing.

Commitment of Russia in the OPEC+ group to a record downward adjustment of its overall crude oil production by 1.9 mb/d made Russian VIOCs suspend crude oil production at almost all oilfields in Russia.

The agreement led to crude oil production cut, freezing of investment plans, including among others implementation of new methods of bottomhole formation zone treatment and enhanced oil recovery (EOR). As the developed technology and equipment were the ones classified as methods of bottomhole treatment and EOR, planned works were suspended, canceled or postponed for an indefinite period.

The COVID-19 pandemic complicated planning and carrying out of works at oil wells of almost all oil & gas producers in Russia. Subsoil users canceled, postponed or freeze such kind of works, because access of their personnel to oil wells had been limited.

Despite all restrictions and limitations, HMS Group managed to continue works on the technology, including laboratory testing and experiments on examination of binary textures' energy datum and optimization of the chemicals' formulations.

In the period from October to December 2020, HMS Group conducted 6 successful testing at Tatneft and 1 testing at Gazprom neft.

Today, the company is in the process of assessment of completed works, analysis of received results and preparation of documentation. HMS Group expects to sign a number of agreements for wells' treatment with other subsoil users.

### Mobile Secondary Reference Metrology Complex

In 2020, HMS successfully completed an investment project to develop the Intelligent Mobile Secondary Reference Metrology Complex, which online calibrates metering units, without interruption of hydrocarbons' extraction, thus lowering costs of extraction.

In October 2020, the prototype of the Complex completed the overall field trials at 8 wells on Slavneft's deposits.

The results of mobile oil analyzers at wells with light separation of oil-gas-water mixtures in assessment of the volumetric water cut, the density of oil, water and liquids, as well as the mass water cut was similar to the inground chemical analysis laboratories' ones.

The developed Mobile Secondary Reference Metrology Complex calibrates an operating fleet of cluster metering units without interruption of oil extraction. And it allows decreasing costs, associated with necessity to renew metering units fleets not subject to calibration as per current verification scheme.

## 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 2020, HMS Neftemash successfully completed the first stage of test operations of the unique system of the rodless oil extraction mechanism at low-yield reservoirs in Volga-Urals oil and gas province.

The developed technical solution decreases costs of oil extraction at poor wells, making it possible to withdrawn from traditional beam units.

The new patented system maintains day capacity up to 8m3 and is intended for installment in wells with up to 2,000m depth. The suggested system maintains up to 65% efficiency factor with a significantly lower energy intensity (2.5–3.5 kW), compared with traditional oil production systems (25–30kW).

In line with a testing plan, one of wells was equipped with a system, based on the unique hydromechanical gearbox, intended for a special sucker rod pumping units, and which was designed and manufactured by HMS Group. The first test successfully proved the system's operational condition and its effectiveness.

HMS Group is the first and the only company in the world, which brought into prototype testing the roadless oil extraction system at a field under actual usage conditions.



## COMPRESSORS

In 2020, HMS Group successfully launched a new type of compressor units — a flash gas compressor — for the 4th stage of the Yamal LNG Project (NOVATEK). That was the first of its kind solution, made in Russia and fully on the base of the equipment made in Russia. All elements were designed and produced in accordance with the API standards.

HMS Group developed and successfully launched manufacturing of gas compressor units with 32MW capacity driven by the Siemens SGT-700 gas turbine driver. These units will be installed as a part of a booster compressor station at the Novoportovskoye oil & gas condensate field (Gazpromneft) and placed in operation by the end of 2021.

## UNIQUE SYSTEM

of the rodless oil extraction mechanism at low-yield reservoirs

32 MW

new gas compressor capacity driven by the Siemens SGT-700 gas turbine driver



# HMS Key Projects, Development & Innovations

Continued

## LEGAL PROTECTION OF INTELLECTUAL PROPERTY

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

Currently, HMS operates more than 350 objects of intellectual property in its portfolio, including 270 patents, 31 registered computer programmes, and 54 registered trademarks.

In 2020, the company received 10 patents for new technological solutions.

The company filed application for a patent on the advanced design of the Hydromechanical Drive for Sucker Rod Pumping Units. Also, HMS initiated process of patenting the Thermo-Chemical Binary Mixture Technology in China and Kazakhstan for its further promotion abroad.

**10** patents

for new technological solutions in 2020

**350**

objects of intellectual property in HMS Group portfolio, including

**270 PATENTS**

## MODERNISATION

### Foundry

In 2020, Kazankompressormash (Compressor business segment) completed an investment project on the foundry re-equipment to create the modern foundry complex on its base.

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 modernization expanded 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 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 550 to 1200°C.

**90** tonnes

smelting complex of four heat-treating furnaces, with an in-process temperature range

**550 – 1200 ° C.**

# Corporate Social Responsibility

## Primary Areas of Social Policy

Social development policy and provision of 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 to the employees, including:

- hardship-duty pays;
- preservation of average earnings after transfer to easier work;
- pecuniary aid in the event of 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.



# Corporate Social Responsibility

Continued

## Safety and Health

HMS Group believes that achieving its strategic goals and maintaining its competitive advantages require systematic management of labor health protection and 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. Prioritization of 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 analyze 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 labor health protection requirements accurately and in a timely manner. Also, HMS actively engages its employees while developing in-house documentation, which determines the regulations of implementation and realization of the labor health safety system.

### COVID-19

Since April 2020, as to prevent the expansion of COVID-19 decease, HMS Group undertakes all the necessary measures in its offices and production facilities in accordance with regulatory requirements.

The company informs personnel on a regular basis about the necessity to comply with the preventive measures and personal and social hygiene rules through corporate information materials, as well as materials provided by the Russian consumer protection agency Rospotrebnadzor and other official state sources.

Where business processes allow, the company limited contacts between staff members of separate manufacture workshops, sites, departments and functional work groups, which were not connected by collective tasks and work processes. Where the workshop allows, there is a 1.5-meter physical distance implemented between workers and their workplaces.

The remote working was widely practiced. The company minimized offline business meetings or any mass events in its offices and production facilities. HMS imposed restrictions on business trips: its employees were sent on business trips only in the case of urgent operating issues, which could not be cancelled or postponed.

HMS Group provided its employees and visitors with individual protective equipment — disposable gloves and face masks with change not less than in 2-3 hours.

The company organized an "entry filter" on entering HMS' offices and production facilities, including spots for hands disinfection and temperature screening. Individuals with a high temperature and/or showing signs of the acute respiratory disease are suspended or not admitted to their working places.

Workplaces adopted the "stay at home if unwell" practice and HMS implemented flexible sick leave policies to discourage workers with symptoms of the decease from coming to their workplaces.

The facilities are equipped with bactericidal air recirculating irradiators, and all surfaces are cleaned and treated with sanitizers several times per day.

The company tests employees for the COVID-19 on a regular basis. And our employees on their request can be vaccinated with the "Sputnik V" at offices and production facilities of HMS Group.



# Corporate Social Responsibility

Continued

## Social Assistance      The Environment

The company believes in its responsibility for social and economic climate in regions where it operates and 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 at the 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 carried out through:

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

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

- reducing emissions of harmful substances into the atmosphere;
- abating waste water pollution;
- improving waste management in the area of reducing waste and curbing adverse environmental impact;
- developing and widely using waste-free technologies in industrial processes;
- ensuring 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 unfavorable weather conditions. For the last 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.

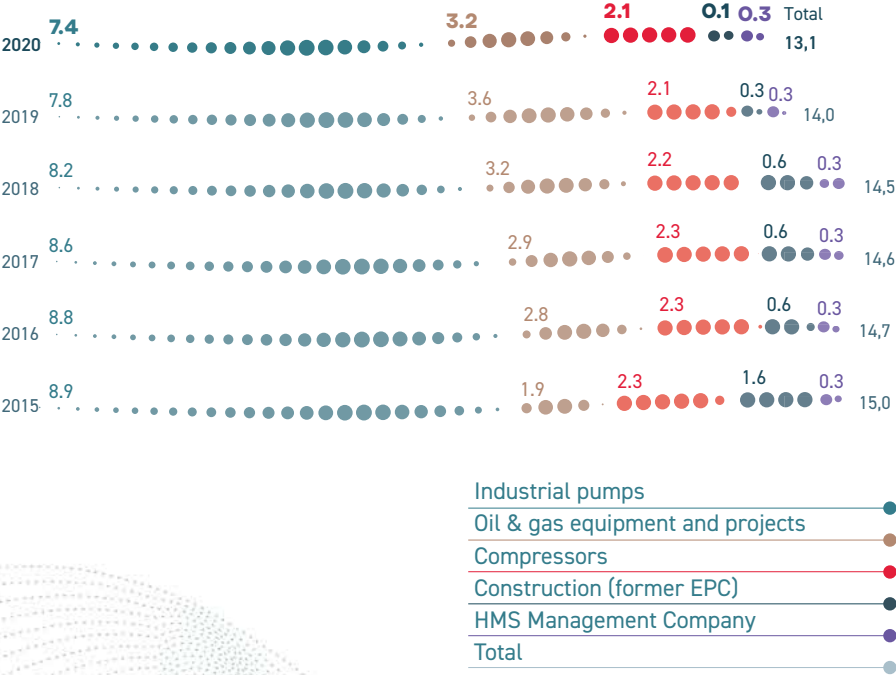


## People

As an employer of 13 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 and assists them in achieving their full potential.

In 2020, the average headcount decreased by 1 thousand people (–6.9% YoY) due to attrition and personnel optimization, as well as reduction of staff in the construction segment because of its production cutback.

Average headcount as of December 31, 2020, in thousand people



**13** thousand  
employees in 2020



# Corporate

Good corporate governance generates **trust and engagement** between a company and its stakeholders and contributes to a company's long-term success.

**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 has achieved a dynamic and effective communication** between the Board, the Company's management and its shareholders, leading to the successful implementation of its strategy.

# Governance

The Company's 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 and practices, which are detailed below in this section. 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 memorandum and articles of association of the Company, directors may not vote on a matter in which they have an interest even if the director has disclosed his interests in the transaction.

**HMS Group continues to review its corporate governance policies in line with international best practice.**



# Board of Directors

## The Board of Directors and Performance

As at 31 December 2020, the Board consisted of nine (9) Directors: the Group Chairman who was independent on appointment, three (3) Executive Directors and five (5) Non-executive 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 Livhydomash (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. Yuri 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.

#### 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 the General Director of "ITS" LLC, a manufacturer of prefabricated modular equipment. Prior to joining "ITS" LLC, Mr. Tsoy served from 2006 to 2011 as an analyst and deputy director of capital markets at HMS Group. From 2003 to 2006, Mr. Tsoy was an analyst at "Smith Barney", a private wealth management company. Mr. Tsoy graduated with honours from Drew University, New Jersey, USA with a degree in economics and finance in 2003.

## Principal Activities of the Board of Directors in 2020

The Board of Directors held four ordinary meetings and one extraordinary meeting in 2020. Due to the COVID-19 pandemic, four out of five meetings of the Board of Directors were held via videoconference call. In 2020, the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategies, including in relation to investment plans, mergers and acquisitions activities, budgeting, the 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.



# Board of Directors

Continued

## The Board of Directors Committees

In order to exercise proper oversight of risk and control and pursuant to the authority granted to the Board under the Company's memorandum and 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 [principal] Committees in 2020 is set out below.

### Audit Committee

#### General Overview

As at 31 December 2020, 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: (i) monitoring the financial reporting process and the integrity of the Group's financial statements, including its annual and interim financial statements; (ii) the effectiveness of the Group's internal quality control and risk management systems; (iii) auditors'

reports on the Group; and (iv) the terms of appointment and remuneration of the auditors of the Group.

The Audit Committee supervises, monitors, and advises the Board of Directors on risk management, control systems, and the implementation of 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.

Further details on the main features of the Group's internal quality control and risk management systems, including in relation to the financial reporting process, are set out in the next section.

#### Activities in 2020

Two meetings of the Audit Committee were held in 2020. 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 review 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 appointment of the external auditor and the remuneration of the auditor, and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2020, 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 2019. Deloitte remains appointed for the 2020 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 2020

Two meetings of the Remuneration Committee were held in 2020. The main matter reviewed by the Remuneration Committee was the implementation of the Group's updated Long-Term Incentive Plan ("LTIP"), as well as the 2020 LTIP targets and the list of participants.

### 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. Yury N. Skrynnik and Mr. Nikolay N. Yamburenko.

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

#### Activities in 2020

One meeting of the Strategy and Investments Committee was held in 2020. 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 2020.

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 2020.

## 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.

## Long Term Incentive Plan

During 2020, the Group's Executive Directors and persons discharging managerial responsibilities ("PDMRs") listed below acquired an interest over the Company's global depositary receipts ("GDRs") following the grant of awards under the Company's LTIP for the 2017 and 2018 award years. The awards were part of a grant of GDRs to seventeen Company managers as a motivational package for the 2017 and 2018 award years under the LTIP. The total amount of GDRs awarded to the LTIP participants was equal to 2.87 percent of the Company's issued share capital.

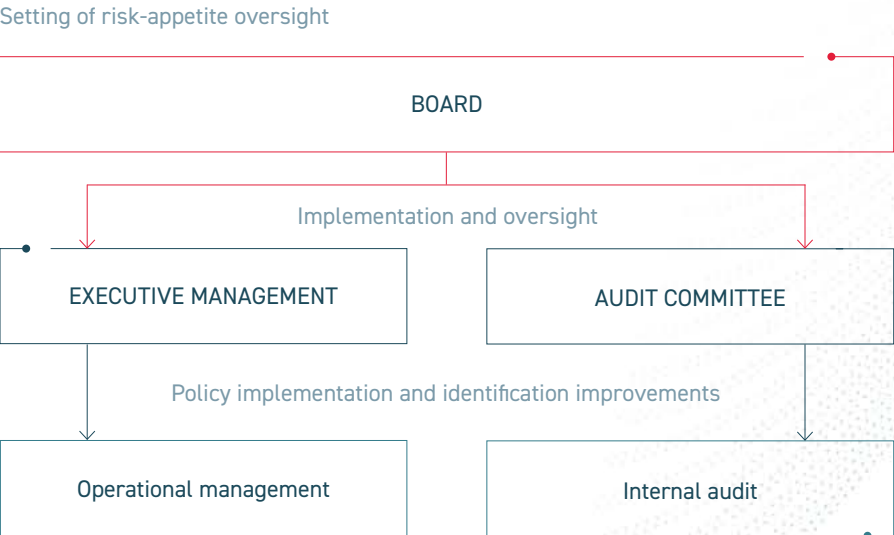
# Risk management and internal control

## 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 the Group's goals and objectives will be achieved.

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

### System of internal control



## Key features of the internal control system over financial reporting

The Group uses a formal risk management and internal control program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks that the Group 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, by way of its function, reports to the Audit Committee and, for administrative purposes, to the First Deputy CEO. The internal audit department performs its activities in accordance with an audit plan and incorporates a 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

The 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; and
- Actively monitoring the steps taken to control the most significant risks.

## Principal risks and uncertainties

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

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

Risk	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing long-term suppliers
Global political 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	•	•	•	•		
Credit and liquidity risks	•	•	•	•		



# Risk management and internal control

Continue

## 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, and Germany) but also in jurisdictions where the Group has other interests (e.g. projects in the Middle East and Central Asia).

Starting from 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies.

Nowadays, more than 14,000 Russian legal entities and 174 Russian citizens have been sanctioned. According to experts' reviews, more than 28 percent of Russian companies under sanctions are manufacturing facilities, approximately 17 percent trade companies, nine percent transport companies, and three percent natural resource providers and agricultural companies. The great number of companies subject to foreign sanctions is related to OFAC's so-called «50 Per Cent Rule». Under this rule, any company, of which 50 percent or more in the aggregate of interests are owned by a blocked person or entity, will be blocked even if the company itself is not on the list of entities under sanctions.

The above-mentioned events have led to reduced access of Russian businesses to international capital markets. Russian companies try to seek alternatives via the government or foreign non-Western investors (e.g. Chinese investors, initially). For instance, in December 2020 the Russian government approved the list of 70 legal entities receiving Chinese investment for a total of US\$ 107 billion.

The impact of further economic and political developments on the future operations and financial position of the Group 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 which it does business, though amid fairly high crude oil prices the influence of these actions could be softened.

We consider the additional imposition of targeted personal sanctions to be the most probable of these risks facing our Group. They alone will unlikely 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 oil 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 its list of restricted import goods from Ukraine, including starch, fruit-sugar, certain medical equipment, heaters, central heating boilers and certain machine-building products.

In 2020, Russia continued widening the range of sanctions imposed on individuals. In total, there have been 849 Ukrainian citizens listed for sanction, for whom economic measures were applied, including the freezing of non-cash money, uncertificated securities and assets in Russia, as well as the prohibition of their transfer out of the Russian Federation. Additionally, in November 2020, Russia extended a prohibition on the import of Ukrainian agricultural products.

In general, the most dangerous effect of sanctions lies in growing uncertainty. Uncertainty affects both short-term and long-term investment projects. This could have an adverse, material effect on the Group's financial position and prospects.

## Sales

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

The Group's business depends on being awarded contracts and on the renewal and extension of existing contracts. A large share of the Group's revenue is generated by a limited number of key customers and contracts and may incur losses due to unfavourable terms of contracts with certain large customers, though the Group does not depend on any one particular client, contract or industry.

## Project execution risks

Since the Group's 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

The Group systematically reviews and manages its legal risks through identifying and preventing conditions giving rise to such risks, at the pre-contractual stage of an engagement as well as at the stages of execution and any legal proceedings.

Risk formation in 2018 was stipulated by a number of reasons, both macroeconomic and contractual related to a number of projects executed by the Group. The main legal risks which arise when contracts are executed include:

- a. The risk of non-performance of a contract by a client (in whole or in part);
- b. The risk of non-fulfillment of obligations or liabilities by third parties, responsible for delivery or production of a product's components;
- c. The risk of a «mediator» insolvency (i.e., a failure to generate a cash flow in a «settlements' chain» from client to producer);
- d. The risk of penalty, litigation or claims for a breach of the contract;
- e. Default risk (including, as a result of sanctions and/or other enforcement actions from state services); and
- f. Piracy risks.

The management of legal risks is based on expert assessment, and the identification of, monitoring of, and mitigation against risk factors are generally performed by HMS's Legal department.

HMS's Legal department uses the following basic strategy of risk management:

- Legal risks are identified and/or verified when potential contracts are vetted as well as through further support;
- Regarding risks (a)-(c) above: contracts execution security to guarantee adequate sources of funds to cover any breach or non-performance of the obligations of a contract, 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 (e.g., banking or corporate) for advance payments/ contract performance, third-party guarantees, collateral and others;
  - Withholding of an advance payment until the provision of a security; if it is not provided, then payment is made after delivery; and
  - Management of the "contract commitments chain" from client to producer, which assures the receipt of the relevant payment at the time of cash flow passing.
- Regarding risk (d) above: we control and identify the legally important facts and circumstances of the contract, through putting together evidential documentation (letter, acts, protocols, etc.), identified factors of contractual non-fulfillment (a customer's fault), with subsequent claims settled through the signing of amendments to the contract;

- Regarding risk (e): we monitor changes and control deal compliance with the current legislation of the Russian Federation;
- Regarding risk (f): we carry out patent searches, due diligence, and record-keeping of intellectual activity results.

When risks occur at the level of litigation, we follow standard legal procedures and collect relevant documentation, in order to evidence the client's breach of contract. This helps to deliver success at trial (by way of 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 human resources practices. In line with the 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.

# Risk management and internal control

Continue

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 research and development employees (talented personnel with high potential and unique research and development knowledge) can reduce the organisation's productivity. Moreover, the Group can spend considerable time and money in replacing such employees. The Group employs a proactive approach to avoid unwanted resignations. The Group is increasing its focus on approaching and retaining the right talent, using a tailored mix of financial and non-financial incentives.

## Acquisitions & disposals

Since its formation, the Group has completed a number of acquisitions targeting the key players in the markets of industrial pumps, compressors, modular oil and gas equipment, and engineering, procurement and construction contracts.

Taking into account the economic slow-down and high uncertainties, insufficient demand in many segments, all of which make it difficult to evaluate potential synergies from mergers and acquisitions, the Group is not currently considering any material acquisitions in the near future, so considers this risk immaterial.

## Fraud and corruption risks

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

The tightening of anti-corruption control over government-owned corporations can affect the pattern of interaction of the Group with its largest Russian customers in terms of mutual trust and confidence.

In addition, the 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.

The 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.

## Information technologies

There are several significant risks in information technology that can affect the Group, including cyber security and incident response risk, information technology resiliency and continuity risk, data management risk, and technology operations risk. The Group believes that the main risks for the Group are 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 without detection.

The Group has developed a group-wide information security (IS) strategy and a road-map based on the audit results. The action plan was started in 2018, including the creation of an Information Security department. The Group implements measurements on ongoing basis to mitigate the risk of information security breaches, including through the development of an Information Security Policy, perimeter protection, segmentation of the network, TDS /Intrusion Prevention System, and two-factor authentication.

## Legislation and regulations

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax and regulatory frameworks are subject to different 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, the Group recognises that these developments may have significant implications for its business and development plans. The Group continues to monitor these developments.

## Financial risks

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

The Group does not use financial instruments for hedging or other risk management and, as a result, the Group is not exposed to risks relating to hedging.

## Foreign exchange risks

The Group has no material foreign exchange mismatch. The Group operates primarily in Russia, with the majority of its revenue generated in Russian rubles. Operating costs are also mainly Russian ruble-denominated and almost 100 percent of debt is in Russian rubles.

## Credit and liquidity risks

In February 2017, HYDROMASHSERVICE JSC, the Group's subsidiary, issued 3.0 billion rubles of bonds. The maturity of the bonds was 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 10.75 percent was set for the first six coupon periods. In February 2020, the bonds were fully redeemed by the Group.

In 2020, the Group continued work with its debt portfolio.

In July 2020, the Group through its subsidiary HYDROMASHSERVICE JSC issued 3.0 billion rubles of bonds. The maturity of the bonds is 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 8.15 percent is set for the first six coupon periods. Subsequent coupon rates are to be determined in July 2023.

In October 2020, HYDROMASHSERVICE JSC issued 3.0 billion rubles of bonds. The maturity of the bonds is 10 years with a three-year put option and semi-annual coupon periods. A coupon rate of 7.95 percent is set for the first six coupon periods. Subsequent coupon rates are to be determined in September 2023.

The financial resources acquired from issuing such bonds were used for the partial refinancing of bank credits. As a result of the above actions, at the end of 2020, the Group had only 1.3 billion rubles to be repaid in 2021.

At the end of 2020, the Group accumulated 10.4 billion rubles of available cash. The Group didn't exceed the credit limits of any of the banks during the reporting period. Considering all the above factors, the Group estimates its exposure to credit and liquidity risks as immaterial.

## The COVID-19 pandemic

Starting from late 2019/early 2020, a new coronavirus disease (the COVID-19) began rapidly spreading all over the world resulting in the declaration of a pandemic 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. In addition, in March and April 2020, oil prices dropped significantly, which resulted in the immediate weakening of the strength of the Russian ruble against major currencies.

The Group's management does not expect the current operating environment to have a significant adverse impact on the financial position and operating results of the Group and the Group's ability to continue as a going concern.



# HMS global depository receipts

## Shareholding

As of December 31, 2020, 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.

Currently there are 6,676,593 depository receipts outstanding in the GDR program.

## Long Term Incentive Plan

During 2020, the Group's Executive Directors and PDMRs acquired an interest over the Company's GDRs following the grant of awards under the Company's LTIP for the 2017 and 2018 award years. The awards were the part of a grant of GDRs to the company's managers as a motivational package under the LTIP.

Since the start of the LTIP, the total amount of GDRs awarded to its participants has equaled to 4.81% of the company's issued share capital.

## Credit ratings

	Fitch Ratings	Expert RA
HMS Credit Rating / Outlook	B+ / Stable	ruA / Stable
Date of Rating / Date of Confirmation	22 Feb 2017 / 27 July 2020	11 July 2017 / 27 July 2020

## 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
2020	3.50	5.85	3.90	91.39
1Q 2020	4.60	5.85	4.90	114.82
2Q 2020	3.50	4.90	4.02	94.60
3Q 2020	4.00	4.40	4.00	93.73
4Q 2020	3.78	4.70	3.90	91.39

## Share price

HMS Group's GDRs performance in 2020, the London Stock Exchange



## Dividends

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 2019, **HMS Group paid Rub 3.41 total dividends per 1 ordinary share (Rub 17.05 per 1 GDR).**

## History of dividend payments

Period	Dividend per share, Rub	Dividend per GDR, Rub	Amount announced, Rub mn	Record Date	Payment Date
2012	6.82	6.82	799.1	10.06.2013	28.06.2013
2013	3.41	3.41	399.5	10.06.2014	27.06.2014
2015	8.37	41.85	980.7	03.06.2016	21.06.2016
2016	8.53	42.65	999.5	09.06.2017	27.06.2017
2017	11.95	59.75	1,400.2	15.06.2018	03.07.2018
2018	9.81	49.05	1,149.5	14.06.2019	01.07.2019
2019	3.41	17.05	399.5	19.06.2020	30.06.2020

# HMS global depository receipts

Continue

## Buyback program

HMS Group started its buyback program in 2012. 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.

The total amount of GDRs subject to the Buyback (taking into account any GDRs already owned by the Company) shall not exceed 6% of the subscribed capital of the Company at prevailing market prices.

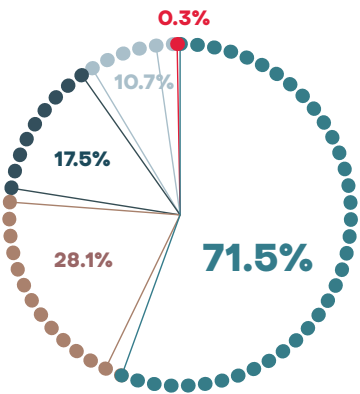
The GDRs are purchased by the Company with the assistance of Renaissance Capital or any other independent broker as may be further determined by the Board of Directors.

The amount and timing of the planned repurchases is determined by the Company based on its evaluation of its financial condition, business opportunities and market conditions at the time, in accordance with market practices.

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

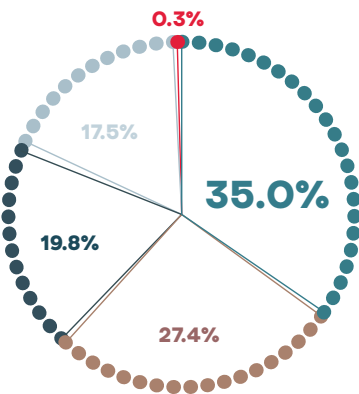
### Major shareholders of HMS Group as of December 31, 2020

Shareholders by legal entities



JSC HMS Holding	71.5%
Free-float, where	28.1%
Free-float (other holders of GDRs)	17.5%
Managers and persons closely associated with management	10.7%
Treasury GDRs	0.3%

Shareholding by holders



Managers and persons closely associated with management	35.0%
Vladimir Lukyanenko	27.4%
German Tsoy	19.8%
Free-float (other holders of GDRs)	17.5%
Treasury GDRs	0.3%

# Information for shareholders and disclaimer

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.

### GENERAL INFORMATION

Company Name	HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC
Company Type	Public
Fiscal Year-End	December 31
Disclosure	The London Stock Exchange
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov
Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
LEI	254900DDFETNLASV8M53
Exchange	London Stock Exchange
ISIN	RegS: US40425X4079 144A: US40425X3089
CFI	EDSXFR
Ratio, GDR:ordinary shares	1:5
Issued GDRs	6,676,593
Ordinary shares (share capital)	117,163,427
Local exchange	Not traded
Underlying ISIN	CY0104230913
Underlying CFI	ESVUFR
Depository bank	BNY Melon



# Information for shareholders and disclaimer

Continue

## Global Depositary Receipts shareholders' contacts:

Contacts for inquiries regarding:

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

The Bank of New York Mellon  
BNY Mellon Shareowner Services  
PO Box 358516  
Pittsburgh, PA 15252-8516  
USA

Tel: +1 888 737 2377 (USA only)  
Tel: +1 201 680 6825 (International)  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.bnymellon.com](http://www.bnymellon.com)

General Shareholder enquiries and Investor Relations contacts

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Investor Relations  
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Fax: +7 495 730 6602  
Email: [ir@hms.ru](mailto: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.

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# Vocabulary, calculations and formulas

## Units of measurement

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

## Abbreviations & contractions

API	American Petroleum Institute
Bank of Russia	Central Bank of the Russian Federation, cbr.ru
BIM	Building Information Modelling
BM	Binary mixture
CAGR	Compound annual growth rate, is the mean annual growth rate of an investment over a specified period of time longer than one year
CIS, the	Commonwealth of Independent States
Chg	Change
GDP	Gross Domestic Product
GDR	Global depositary receipt
GTNG	Giprotyumenneftegaz
ERP	Enterprise Restructuring Project
EU	European Union
EUR	Euro
KKM	Kazankompressormash
KMPO	Kazan Motor-Building Production Association (KMPO JSC)
LNG	Liquefed 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

## Formulas and calculations

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

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

vacation allowance, warranty 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.