Corporate Governance

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.

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 Livhydromash (HMS Pumps), which is now part of the Group. Mr. Yamburenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of the Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

Executive Directors

Mr. Artem V. Molchanov

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

As one of the founders of the Group, Mr. Molchanov has held various executive positions within the HMS Group since its establishment in 1993. Mr. Molchanov became the President of the HMS Group in 2008 and was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov has more than 20 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics), where he gained a degree in industrial economics.

Mr. Kirill V. Molchanov

Member of the Board of Directors

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

Mr. Yury N. Skrynnik

Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Compressor Business Unit, a position he has held since its establishment in 2012. Previously, Mr. Skrynnik held the position of Director for Strategic Marketing. Prior to joining the HMS Group, he served as the Chief Representative of JSC "Sumy Frunze NPO" (Ukraine) in Russia from 1999 to 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of "Machines, Equipment, Technologies, Products and Services" Ltd. from 1992 to 1999. He served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) from 1986 to 1988. Mr. Skrynnik has more than 20 years of science and management experience. He graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from the Moscow Institute of Chemical Machinery (currently the Moscow State University of Environmental Engineering) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and creator of 20 inventions.

Non-executive Directors

Mr. Ezio Vergani

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

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

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

Mr. Andreas S. Petrou

Member of the Board of Directors

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2010. From 1989 to 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing the interests of the Government of the Republic of Cyprus. From 1987 to 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law firm. He is an honours graduate of the Law School of Democrious 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.

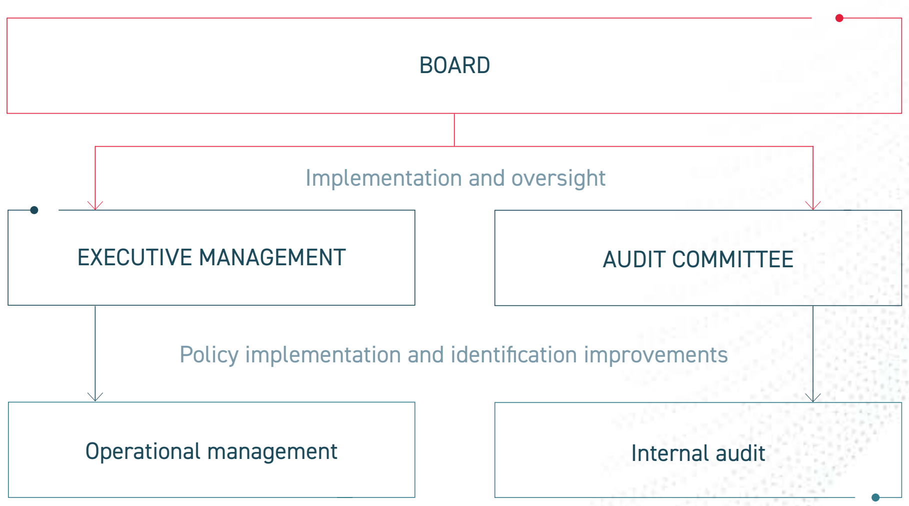
Risk management and internal control

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 depositary 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

Share price

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

Price of HMS Group's GDRs

	Min, US$	Max, US$	GDR price at the end of the period, US$	Market capitalization at the end of the period, US$ mn
2011	19.90	41.21	22.05	516.69
2012	19.50	29.90	21.10	494.43
2013	10.50	21.15	12.50	292.91
2014	1.30	12.50	1.30	30.46
2015	1.30	4.50	2.76	64.67
2016	2.05	8.01	7.46	174.81
2017	7.46	9.80	9.80	229.64
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

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.

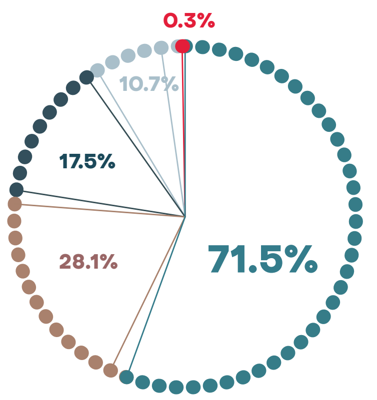
The GDRs are purchased by the Company with the assistance of Renaissance Capital or any other independent broker as may be further determined by the Board of Directors.

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.

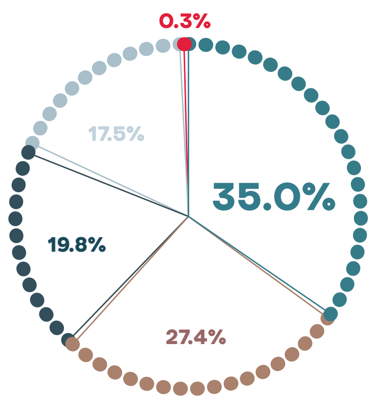
Major shareholders of HMS Group as of December 31, 2020

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
Depositary 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
Website: www.bnymellon.com

General Shareholder enquiries and Investor Relations contacts

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

Disclaimer

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

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

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

Vocabulary, calculations and formulas

Units of measurement

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	Liquefied natural gas
LSE	London Stock Exchange
NEM	Nasosenergomash
OGEP	Oil and gas engineering and projects business segment
OPEC	Organization of the Petroleum Exporting Countries
R&D	Research and development
yoy	Year-on-year

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.