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governance

board of directors

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

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

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

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

performance

General Overview

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

Chairman

Mr. Nikolay N. Yamburenko

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

Mr. Yamburenko was appointed as a member of the Board of Directors in October 2010. He has been a non-executive member of the Board of Directors since 10 July 2014, when he was appointed Chair of the Board of Directors.

Mr. Yamburenko previously held the position of Head of the Industrial Pumps Business Unit from 2005. Prior to joining the Group, Mr. Yamburenko was the CEO of Livhydromash (HMS Pumps), which is now part of the Group. Mr. Yamburenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of the Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

Executive Directors

Mr. Artem V. Molchanov

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

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

Mr. Kirill V. Molchanov

Member of the Board of Directors

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

Mr. Yury N. Skrynnik

Member of the Board of Directors

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

Non-executive Directors

Mr. Ezio Vergani

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

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

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

Mr. Andreas S. Petrou

Member of the Board of Directors

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

/// board of directors

Mr. Giorgio Veronesi

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

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

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

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

Mr. Vladimir V. Lukyanenko

Member of the Board of Directors

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

Mr. Vyacheslav Tsoy

Member of the Board of Directors

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

principal activities of the board of directors in 2019

The Board of Directors held four meetings in 2019, all of which occurred in Cyprus. During the course of the year, the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategy, including investment plans, M&A activities, budgeting, long-term incentive program for the management of the Company and general corporate development.

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

the board of directors committees

In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the Audit Committee, the Remuneration Committee, and the Strategy and Investments Committee. Each Committee has its own internal terms of reference which set forth its duties and responsibilities, as well as qualifications for Committee membership, procedures for Committee member appointment and removal, Committee structure and operations and reporting lines to the Board of Directors. A brief description of the main activities of these Committees in 2019 is set out below.

Audit Committee

General Overview

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

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

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

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

Activities in 2019

Two meetings of the Audit Committee were held in 2019. The main issues that the Audit Committee oversaw during the year were the preliminary review of IFRS financial statements, internal control and risk management (including the audit plan).

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

External Audit of Financial Statements

Every year the Company/Group appoints an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company/Group in compliance with IFRS. The external auditor also prepares reviews of the consolidated interim financial information of the Company/Group in compliance with IFRS requirements. The external auditor of the Company/Group is selected from leading audit firms after a thorough review of their respective proposals. Following the review, the Audit Committee gives its recommendations to the Board of Directors regarding the candidacy of the external auditor and the level of the auditor's compensation and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2019, based on the recommendation of the Audit Committee, the Board of Directors selected Deloitte (Cyprus) to conduct the audit of the financial statements of the Company/Group for the year ending 31 December 2018. Deloitte remains appointed for the 2019 audit.

Remuneration Committee

General Overview

The Remuneration Committee comprises four Directors and is expected to meet at least once per year. Currently, the Remuneration Committee is chaired by Mr. Giorgio Veronesi; its other members are Mr. Nikolay N. Yamburenko, Mr. Ezio Vergani and Mr. Vladimir V. Lukyanenko. The Remuneration Committee is responsible for, amongst other matters, determining and reviewing the Group's remuneration policies. The remuneration of independent Directors is a matter for the Chair of the Board of Directors and the Executive Directors. No Director or manager may be involved in any decisions regarding their own remuneration.

Activities in 2019

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

Strategy and Investments Committee

General Overview

The Strategy and Investments Committee comprises four directors, one of whom is independent. The Committee is expected to meet at least once each year. Currently, the Strategy and Investments Committee is chaired by Mr. Vladimir V. Lukyanenko and the other members are Mr. Giorgio Veronesi, Mr. Yuri N. Skrynnik and Mr. Nikolay N. Yamburenko.

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

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

Activities in 2019

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

Directors' Compensation

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

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

Diversity policy statement

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

risk management & internal control

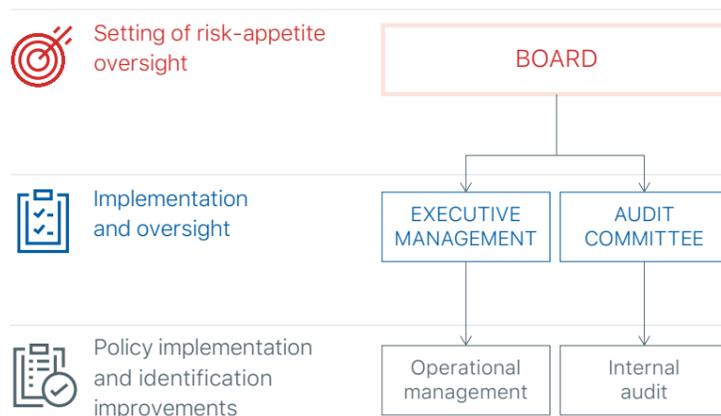
overview

HMS Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. A risk management and internal control system has been integrated into the Group's operations in order to minimise the negative impact of such risks and to benefit from available opportunities.

The overall objective of this system is to obtain reasonable assurance that HMS' goals and objectives will be achieved.

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

///system of internal control



key features of the internal control system over financial reporting

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

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

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

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

continuous improvement

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

The key features of the risk management process include:

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

/// risk management and internal control

/// categories of the risks

RUB mn	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing longterm suppliers
Global politician and economic risks	○	○	○	○		
Sales	○	○	○	○		
Project execution risks	○	○	○	○	○	○
Human Capital	○	○	○	○		
Acquisitions and disposals	○	○	○	○		
Fraud and corruption risks	○	○	○	○	○	○
Technology		○				
Legislation and regulations	○	○	○	○		
Product liability and litigation	○	○	○	○		○
Financial risks	○	○	○	○		

principal risks and uncertainties

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

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

global political and economic risks

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

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

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

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

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

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

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

sales

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

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

project execution risks

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

contract execution risks

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

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

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

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

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

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

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

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

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

/// risk management and internal control

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

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

human capital

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

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

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

mergers & acquisitions

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

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

fraud and corruption risks

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

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

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

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

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

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

legislation and regulations

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

information technologies

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

HMS Group has developed a company-wide information security (IS) strategy and a road-map based on the audit results. The action plan was in 2018-2019, including the creation of an Information Security department.

Moreover, the company has planned other long-term measures which will mitigate the risk of information security breaches: development of an Information Security Policy, perimeter protection, segmentation of the network, TDS/IPS, two-factor authentication, etc.

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

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

foreign exchange risk

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

financial risk

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

credit and liquidity risks

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

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

HMS global depository receipts

shareholding

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

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

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

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

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

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

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

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

As a result of this restructuring:

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

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

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

long term incentive plan

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

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

credit ratings

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



/// HMS global depository receipts

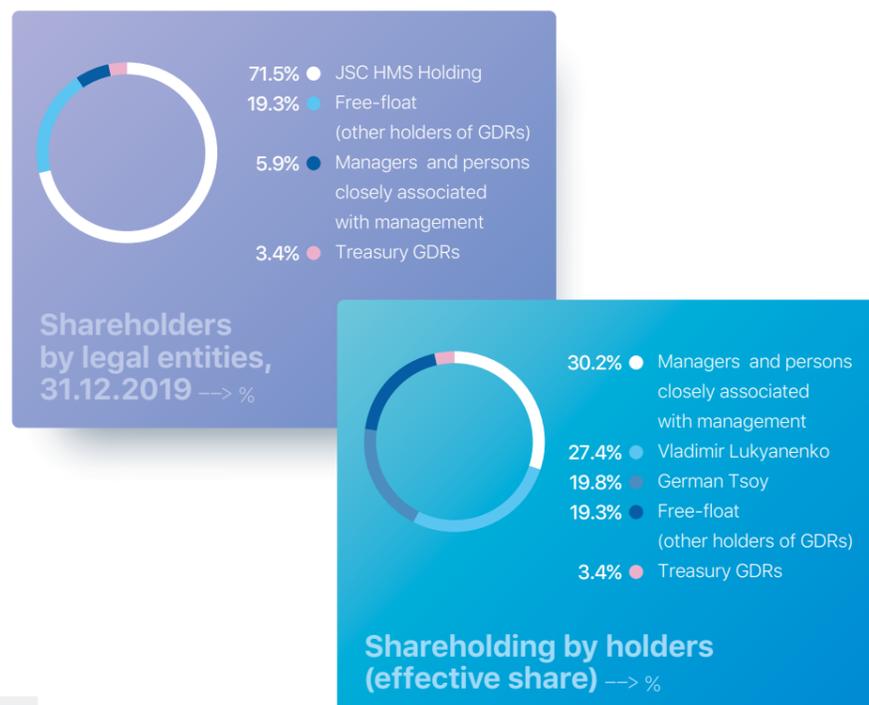
/// price of HMS Group's GDRs

	Min, US\$	Max, US\$	GDR price at the end of the period, US\$	Market capitalization at the end of the period, US\$ mn
2011	19.90	41.21	22.05	516.69
2012	19.50	29.90	21.10	494.43
2013	10.50	21.15	12.50	292.91
2014	1.30	12.50	1.30	30.46
2015	1.30	4.50	2.76	64.67
2016	2.05	8.01	7.46	174.81
2017	7.46	9.80	9.80	229.64
2018	6.60	11.30	7.00	164.03
2019	4.10	7.50	4.60	107.79
1Q 2019	6.50	7.50		155.83
2Q 2019	5.45	6.55		132.39
3Q 2019	4.20	5.75		105.92
4Q 2019	4.10	4.60		107.79

management purchases

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

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



dividends

In 2016, the HMS Board of Directors approved an updated Dividend Policy reflecting the Group's strategy to maximize shareholder returns. As a general rule, the company targets to pay our total dividends for a given reporting period in the region of 50% of the "Profit attributable to Shareholders of the Company" for the year, as set out in its IFRS Consolidated Financial Statements, subject to capital constraints such as Debt and Liquidity position and forecast. HMS also plans to pay out dividends basically twice a year (interim and final). Dividends are announced per 1 ordinary share.

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

buyback program

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

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

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

/// history of dividend payments

Period	Dividend per share, Rub	Dividend per GDR, Rub	Amount announced, Rub mn	Record Date	Payment Date
2013 FY	3.41	3.41	399.5	10 Jun 2014	27 Jun 2014
2015 9m (interim)	3.25	3.25	380.8	14 Dec 2015	30 Dec 2015
2015 FY (final)	5.12	25.60	599.9	03 Jun 2016	21 Jun 2016
2016 9m (interim)	3.41	17.05	399.5	12 Jan 2017	26 Jan 2017
2016 FY (final)	5.12	25.60	600.0	09 Jun 2017	27 Jun 2017
2017 9m (interim)	5.12	25.60	600.0	12 Jan 2018	26 Jan 2018
2017 FY (final)	6.83	34.15	800.2	15 Jun 2018	03 July 2018
2017 FY total	11.95	59.75	1,400.2		
2018 9m (interim)	3.84	19.20	450.0	11 Jan 2019	25 Jan 2019
2018 FY (final)	5.97	29.85	699.5	14 Jun 2019	01 Jul 2019
2018 FY total	9.81	49.05	1,149.5		

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

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

/// HMS Group Plc GDRs

Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
LEI	254900DDFETNLSV8M53
Exchange	London Stock Exchange
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR : ordinary shares	1:5
Local exchange	Not traded
Underlying ISIN	CY0104230913
Underlying CFI	ESVUFR
Depository bank	BNY Melon

information for shareholders and disclaimer

GENERAL INFORMATION

Company Name	HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC
Company Type	Public
Fiscal Year-End	December 31
Disclosure	The London Stock Exchange
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov
Ticker	HMSG
CUSIP	RegS: 40425X407 144A: 40425X308
LEI	254900DDFETNLASV8M53
Exchange	London Stock Exchange 132.39
ISIN	RegS: US40425X4079 144A: US40425X3089
Ratio, GDR:ordinary shares	1:5
Local exchange	Not traded
Underlying ISIN	CY0104230913
Underlying CFI	ESVUFR
Depository bank	BNY Melon

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

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

global depository receipts shareholders' contacts:

Contacts for inquiries regarding:

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

The Bank of New York Mellon

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

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125047 Moscow, Russia
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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.