

RISK MANAGEMENT AND INTERNAL CONTROL

Overview

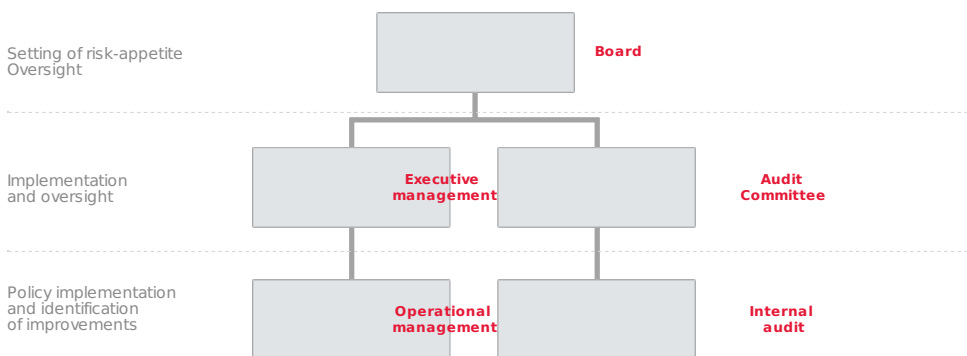
The Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. In order to minimise the negative impact of such risks and to benefit from available opportunities, a risk management and internal control system has been established and integrated into the Group's operations. The overall objective of such 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 costs associated with them.

Key features of the Group's 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 faced by the company. Risks are classified according to their possibility and significance; and 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. Such 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 activities are performed in accordance with an audit plan and incorporate 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 agreed.

Continuous improvement

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

The key features of the risk management process include:

- gathering and analysis of information, related to internal and external factors, which can negatively impact the achievement of the Group's objectives,
- identification of the possible level of negative impact of various events on operational and financial results in accordance with applicable risk-assessment methods,
- setting appropriate risk-tolerance levels,
- ranging risks according to their significance and probability,
- making appropriate decisions to manage identified risks,
- actively monitoring the steps taken to control the most significant risks.

Principal risks and uncertainties

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

Strategy						
Risk	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing long-term suppliers
Global political and economic risks	x	x	x	x		
Sales	x	x	x	x		
Project execution risks	x	x	x	x	x	x
Human Capital	x	x	x	x		
Acquisitions and disposals	x	x	x	x		
Fraud and corruption risks	x	x	x	x	x	x
Technology		x				
Legislation and regulations	x	x	x	x		
Product liability and litigation	x	x	x		x	x
Financial risks	x	x	x	x		

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

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), but also in jurisdictions where the Group has other interests (e.g. EPC projects in the Middle East and Central Asia). The Group has not to date been significantly

affected by recent developments in Ukraine but, in the event of a deterioration in the situation in that country, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

The introduction of new regulations or the imposition of trade barriers or international sanctions could disrupt the Group's business activities or impact on the Group's customers, suppliers or other parties with which it does business. In some instances, this could have a material adverse 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 global and Russian economies, 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 or in state-sponsored infrastructure projects.

The Group's business depends on the award of contracts and renewals and extensions of existing contracts; also the Group relies on a limited number of key customers and contracts, and may incur losses due to unfavorable terms of contracts with certain large customers.

Project execution risks

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

Human Capital

The ability to achieve the Group's strategic goals 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 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 materially adversely affected.

Acquisitions

The Group cannot be certain that the anticipated cash flows, synergies and cost savings from acquisitions or other transactions will materialize or reach expected levels. Inefficient integration of the newly acquired businesses poses a risk to the Group's operations. Any failure to successfully integrate the operations of the Group companies could adversely affect the Group's business, financial condition and results of operations.

Since its formation in 1993, the Group has completed a number of acquisitions involving the purchase of industrial pumps, modular equipment manufacturing and EPC services companies, and the Group expects to make additional acquisitions in the future. The integration of these and future acquisitions into the Group's operations poses significant management, administrative and financial challenges.

The integration process may result in unforeseen difficulties and could require significant time and attention from management that would otherwise be directed at developing the Group's existing business.

Fraud and corruption risks

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

of fraud and corruption at all levels within the Group.

HMS Group promotes ethical behavior among its employees and maintains dedicated violations 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 cases. If necessary, the results of such investigations are provided to the CEO, the Board, the management and 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

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.