

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.

Risk	Strategy					
	Enhancing margins	Driving growth	Generating cash	Maximize 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	+	+	+	+		

The following narrative is the review of the principal risks facing the Group's business. The Group also faces other risks, which are known or 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).

Introduction of new regulations and imposition of trade barriers 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 EPC segment). These risks are mitigated by Group's efforts on improving profitability, cost control, with the help of volume growth and a mounting 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 these 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 the 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. 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, e.g. 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 particular focus on those roles most exposed to the risk of breach. It is planned to perform annual certification of most employees to ensure their awareness of applicable policies and expected behavior.