HMS HYDRAULIC MACHINES AND SYSTEMS GROUP PLC

Annual Report and Accounts 2010

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RESPONSIBILITY STATEMENT

Each of the Directors confirms that, to the best of his or her knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Standards and the requirements of Cypriot Companies Law, Cap. 113, in each case included in this Annual Report, give a true and fair view of the assets, liabilities, financial position and profit and losses of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Management Report included in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face."

This Annual Report has been prepared for the shareholders of the Company as a body and no other persons. The Company, its directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Company in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements contained in this Annual Report reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Further, nothing in this Annual Report should be construed as a profit forecast.

The Board of Directors
HMS Hydraulic Machines and Systems Group PLC

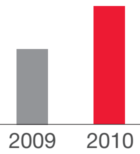
April 28, 2011

MANAGEMENT REPORT

Key financial and operational indicators

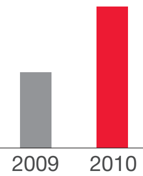
Key financial figures — Change in

Revenue



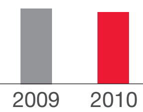
↑ 56%

EBITDA adj



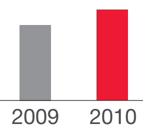
↑ 86%

Net Debt



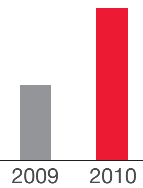
↓ 6%

EBITDA adj margin



↑ 19.5%

ROCE



↑ 102%

Profit for the period	**2,156%**
EBIT	**133%**
Backlog	**108%**

Key financial figures	Change in +/– %	2010 RUR mln	2009 RUR mln
Revenue	**56%**	**23,070**	**14,772**
Pumps	**70%**	10,712	6,308
Modular equipment	**39%**	5,805	4,166
EPC	**46%**	6,135	4,189
EBITDA adj	**86%**	**3,519**	**1,890**
Pumps	**134%**	2,367	1,012
Modular equipment	**-24%**	599	786
EPC	**n/a**	550	33
EBIT	**133%**	**3,027**	**1,298**
Profit for the period	**2,156%**	**1,581**	**70**
Net Debt	**-6%**	**4,297**	**4,573**
Operating CF	**n/a**	**3,575**	**(211)**
Investment CF	**n/a**	**(3,292)**	**(509)**
Free CF	**n/a**	**283**	**(720)**

Key perfomance indicators	Change in	2010	2009
Backlog* RUR bln	**109%***	**19.8***	**9.5***
EBITDA adj margin	**19.5%**	**15.3%**	**12.8%**
Pumps		22.1%	16.0%
Modular equipment		10.3%	18.9%
EPC		9.0%	0.8%
Profit for the period margin		**6.9%**	**0.5%**
EPS		**14.32**	**-0.03**
ROCE	**102%**	**36.2%**	**18.0%**
Net Debt/EBITDA adj	**-50%**	**1.2**	**2.4**

* All financial information presented in this Annual Report is derived from the consolidated financial statements of **HMS Hydraulic Machines & Systems Group plc (the "Company")** its subsidiaries and associates (the "Group") for the year ended 31 December 2010 and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). Certain financial information which is derived from the management accounts is marked in this Annual Report with an asterisk.

2010 Highlights

Some of the key continuing projects that Company has been involved in for the past several years have been successfully completed in 2010.

In 2010 the Company completed a delivery of “superblock” modular equipment to Rosneft, a Russian petroleum industry leader, for the 1st stage in the development of Vankor oil field in Eastern Siberia. This type of equipment, originally designed by a leading international engineering company for Rosneft, had never been manufactured in Russia before. The project was refined and adapted by the HMS Group’s engineers to Russian standards, and the production was carried out at an HMS facility. The Company managed to successfully overcome the challenges faced with executing a project of this kind and delivered all the equipment to the client on schedule. The reliability and efficiency of these units are one of the best in class. High technical level and the quality of the developed equipment have been proved by bench tests.

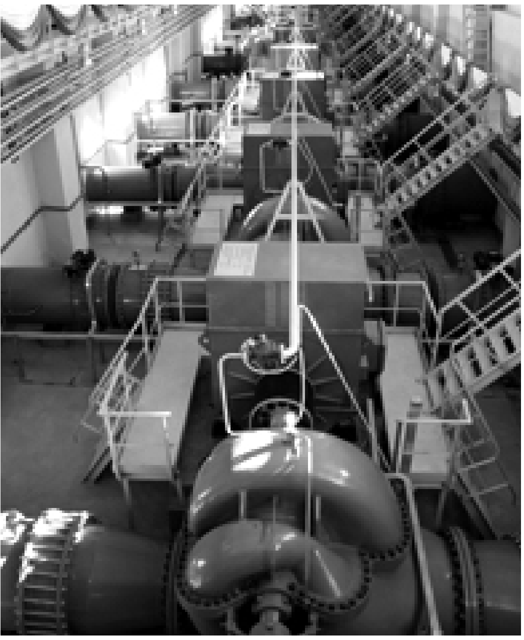
HMS Group completed a construction project of water-lifting pump station at the Yylgynagyz water canal in the Lebap province of the Republic of Turkmenistan. The project comprised a full cycle of design, manufacturing, delivery and construction of the station and involved several business-units of the Company. The facility is equipped with 12 powerful D12500-10 pumping units with a capacity of 3.5 cubic meters of water per second each. The new station will pump up to 35 cubic meters of water per second, more than twice the previous amount. The successful completion of this project demonstrates the Company’s strong design and integration competency and ability to carry out complex turnkey projects, involving delivery of complete pumping solutions.

In 2010 the Company completed construction works for the development of Gazpromneft’s Urmanskoye oil field. Works included the construction of mission critical technological objects of the oilfield, such as oil pipelines, oil gathering units, oil well areas. HMS Group is currently participating in a similar project of Gazpromneft to develop 2nd and 3rd stages of Shinginskoye oil field in Tomsk region of Russia.
Industrial pumps business unit of the HMS Group successfully delivered pumping systems to the 4th unit of Kalinin NPP for Power Machines engineering company. The Company possesses additional contracts to deliver pumps for nuclear power generation to Power Machines in its current backlog for 2011.

Sales remained solid in thermal power generation pumps. The Company supplied six high capacity D12500-24 pumps to be installed in circulation water lift station at the Omsk power plant 5 for TGK-11 company. Orders also came from other leading power generation companies, such as TGK-1 and TGK-10.

In 2010 the Company has completed its key M&A project—an acquisition of Giprotyumenneftegaz, one of the largest independent project and design facilities in Russia. It specializes in designing of all types of process facilities for onshore oil fields, and possesses extensive experience and reputation in this area. Most of major Russian oil fields have been developed in participation with GTNG. The acquisition enables HMS Group to broaden the range of integrated solutions and services offered to its customers in the oil industry.

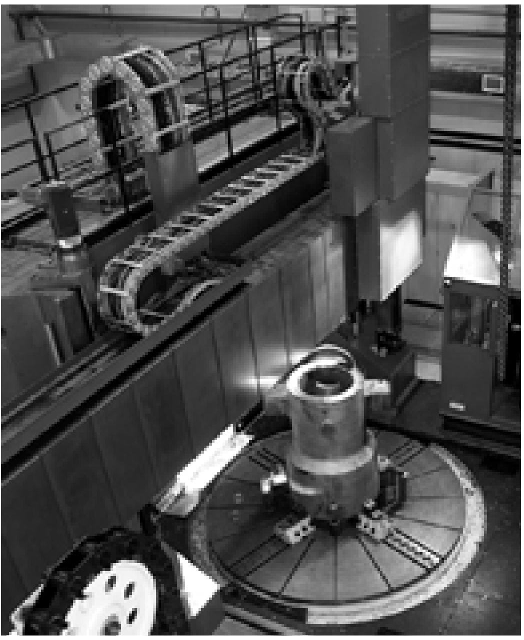
Along with efficient completion of certain projects, the Company has successfully engaged itself in number of new significant contracts during 2010.



In 2010 the Company secured several significant contracts to deliver integrated pump-based systems for a total of 14 pumping stations of East Siberia- Pacific Ocean trunk pipelines (ESPO-2 pipeline, ESPO-1 extension) and Purpe-Samotlor pipeline. In accordance with the contract, the Company will design, manufacture and deliver complete pumping systems, as well install and commission them on the site locations. The pumping system will be based on new types of NM-10000 and NM-7000 pumps, designed by the Company in accordance with technical specifications of the client. To ensure smooth and flawless operation of the pumping system for the years ahead, only best global suppliers of auxiliary equipment, such as Siemens, Eagle Burgmann and Voith Turbo were selected. Additionally, the Company has constructed a large 14 MW testing facility at the production site to test the pumping system for the required technical parameters. Currently, the Company completed all necessary design and procurement works and the project went ahead without delays.

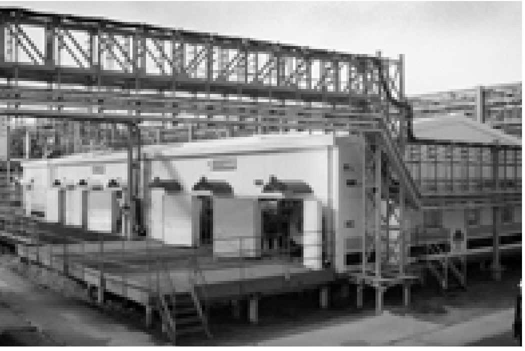
Industrial Pumps business unit secured a contract with Atomstroyexport engineering company to manufacture and deliver eight pumping systems for Leningrad NPP. Additionally, HMS will be delivering pumping systems to Power Machines Company under the existing contract obligations.

The newly acquired GTNG research and design facility secured several contracts for the development of Priobsk oil and gas field, one of the largest Russian oil fields, located in Khanty-Mansiysk region of Western Siberia and for the development of Prirazlomnoe oil field in Yamal region.



In addition, GTNG won a contract with Transneft's lead design institute Giprotruboprovod to design a significant part of "Zapolyarye-Purpe pumping station" trunk oil pipeline. In accordance with the contract, GTNG will design part of the pipeline, which will run through areas of harsh winter conditions and several underwater passages. GTNG will also design all surrounding infrastructure, such as pumping station platform and power lines as well as it will perform a full range of survey works and studies on potential environmental hazards. As a result, GTNG penetrated a new key market of pipeline design and helped to further strengthen the cooperation of HMS Group with Transneft. Given the synergies between GTNG and other Company's business units, HMS Group anticipates a further collaboration on various complex Transneft's infrastructure projects.

The Company's EPC business unit won a turnkey contract to construct the 1st stage of a crude oil metering station at the Dulisminskoe oil field in Irkutsk region of Russia for NK Dulisma oil company. The metering station will be constructed on the future Dulisma oil field-ESPO pipeline and will measure the amount of oil received from oil field and later pumped to the ESPO pipeline. According to the contract, HMS Group is responsible for carrying out all necessary construction and procurement works, as well as testing and commissioning by August 2011. Additionally, in 2010 HMS Group carried out another contract for NK Dulisma to construct and commission a crude oil gathering and preparation unit at the same oil field.



Aftermarket services showed a growing trend in 2010. HMS Group secured several important contracts to carry out maintenance and upgrade works at 36 oil processing and transportation and 44 reservoir pressure maintenance facilities at TNK-BP's Samotlor oil field. HMS Group possesses long-term relationship with TNK-BP and has been providing maintenance and upgrade services for its installed base of water injection pumps since 2007. Additionally, HMS Group has been carrying out repair and upgrade services for Rosneft's Yuganskneftegaz subsidiary.

In 2010 the Company recorded a significant increase in orders for associated gas metering equipment. Starting from 2012, all Russian oil companies will be required to process and refine 95% of associated gas production levels, instead of its flaring. Thus oil companies are actively investing in modern metering equipment to monitor and record associated gas production levels and the Company has been one of the preferred suppliers of such equipment. Additionally, HMS Group has carried out contracts on equipping oil companies' metering systems with its equipment to adapt it for associated gas measurements.

HMS Group is constantly striving to be on the edge of the modern technologies and design and deliver to its customers the most technically advanced pump-based integrated solutions.

In 2010 the Company's designed and offered its customers several new types of pumping equipment for various applications:

- Newly designed NM-10000 pump for ESPO trunk oil pipelines. Fully designed by the Company's R&D department, the pump features unique design solutions and is equipped with the most sophisticated parts, such as German electric motor, coupling and seal. The pump conforms to the highest quality, efficiency and safety standards, putting it in line with the best global manufacturers of such equipment;
- New types of booster pumps and oil leakage drain pumps for Transneft to be utilized at ESPO pipeline pumping stations;
- New boiler feed pumps for nuclear power generation PEA-1840 for Leningrad, Novovoronezh and Volgodon NPPs;
- New boiler feed pumps PE-240 and PE-315 for thermal power generation;
- 2ECV water borehole pump — the pump features a new canned electric motor, a design feature, never previously applied to the ECV pumps of our manufacturing, and highly demanded by the market. ECV pump is the most popular product for water works in the Company's product range.

In a continuing effort to supply the best quality pumping equipment and maintain an optimal lead time for new types of powerful pumps, largely represented in the Company's order backlog, HMS Group commited to invest into state-of the-art manufacturing equipment. In 2010 the Company acquired and installed Vertimaster VMG 1.35 CNC 4-axis machining center, produced by the leading German producer Schiess. The machining center is capable of handling parts weighing up to 30 tonnes, up to

4 m wide, 5 m long and 2.5 m high, which is crucial in manufacturing large specialized pumps for oil transportation and nuclear power generation. Additionally, HMS Group acquired other various types of high-precision CNC machining equipment from the leading global producers, such as Doosan, Demag, Skoda, Laempe, etc.

In 2010 HMS Group began a major overhaul of water borehole pump production facility. The overhaul implies a construction of a new test and assembly facility, equipped with state-of-the-art manufacturing equipment, which will allow doubling production capacity output of new 2ECV types of pumps. The construction was completed in 2010 and the facility is planned to be commissioned in 2011.

HMS Group is currently finishing the construction of a 14 MWt test-bed facility, which will allow simultaneous testing of numerous large pumping units, particularly for oil transportation. The testing capacity of the facility makes it unique for Russia and CIS and there are few such facilities over the world.

Chairman statement

German Tsoy
The Chairman of the Board of Directors

Dear shareholders, partners and HMS employees,
More than five years ago while elaborating the first long term strategy of HMS Group we set an ambitious goal to grow an industrial company on national scale, the leading player in pump and oil & gas equipment markets in Russia. Through all these years we have fulfilled a lot of strategic plans despite numerous challenges. Our achievements confirm that we completed the mission and have all the reasons to be proud.

HMS Group nowadays comprises the team of the best experts in different fields, all of whom are used to working with cutting edge technology for the designing and production of modern equipment and integrated solutions required by our customers and partners. This is the very reason why we have been chosen by the leading major Russian companies such as Transneft, Rosneft, TNK BP, Lukoil, Surgutneftegaz, Gazprom, Rosatom, Inter RAO UES, Power Machines and Mosvodokanal.

New development strategy of the HMS Group for the period 2010–2015 which we started to implement last year, sets even more ambitious goals for the management team to aim for with regards to the expansion of the business and to increase the Company's market value. The successful execution of this strategy will result in the transformation of HMS Group from a manufacturer of pumping and oil & gas equipment into a leading supplier of integrated solutions for all of the fundamental industries of the economy.

In order to achieve our goals and expand our operations in domestic and international markets we require additional capital. That was the reason behind our strategic decision to enter the international capital market. HMS Group management and its Board of Directors together with a team of leading investment banks have successfully completed the process of preparation and Initial Public Offering (IPO) of the Company GDR's on London Stock Exchange in February, 2011.

Despite the decline in global capital markets early in 2011, HMS Group was the only company among those preparing for a London IPO to successfully offer its GDRs and attract the planned volume of investments to Company's capital.

During the pre-IPO process which was initiated long before 2010, the Company has started to develop new management system, to consolidate financial accounts of Company's subsidiaries in accordance with international standards, to unify the existing software which facilitate financial reporting. Long before the IPO, HMS Group strived to fulfill the key requirement applicable to a public company.

Development of corporate governance and internal control was among the priorities for the Company in the last few years. Just prior to the IPO HMS Group revised its corporate structure in order to make it more transparent and clear for the international investors. In addition a number of new highly qualified non-executives Directors entered the Company's Board to support its mission to fully serve the interests and rights of the shareholders and to ensure the increase of the Company's market value.

I extend my thanks to all the employees of HMS Group for their faithful and productive efforts in 2010 that helped the Company to enter the new phase of its development. We are fully committed to ensuring that the Company's team will continue to explore every possible opportunity to expand the Company's business by means of organic growth and M&As.

German Tsoy

CEO statement

Artem Molchanov
The General Director, CEO

Dear shareholders, partners and HMS employees,
In the financial year 2010 HMS Group substantially expanded and strengthened its positions in the Russian pump and oil & gas equipment markets. The Group also entered the strategically important markets of project design and integrated solutions for oil production and transportation.

Based on the yearend figures, the Company has shown unprecedented growth of financial and operational performance in its history. The consolidated revenue of the Group has increased by 56% up to 23 billion RUR, EBITDA—by 86% up to 3.5 billion RUR, the net profit for the period reached 1.6 bln RUR which is a significant surplus to the 2009 figure. Last year's backlog more than doubled and reached 19.8 bln RUR.

The figures dynamics prove that we had chosen the right path of strategic development. The management strengthened on maximizing in-house R&D, engineering and project management competences of the Company. This expertise is the foundation of the competitive advantage in our core markets, which are predominantly the markets of technically advanced products. We have made substantial investments into production technologies and testing facilities thus securing our strong market position for years to come.

Having acquired the best machinery plants of Russia, Ukraine and Belarus within the Group, we brought their product quality and production to the level comparable with that of the industry's leading global benchmarks. We centralized plants management systems, increased operational efficiency, upgraded a large share of product portfolio, introduced and certified quality management systems and embarked upon full-scale refurbishment of the Group's production facilities.

Within several years, HMS Group developed from a plain trading company into one of the largest supplier of integrated solutions and turn-key projects in Russian and the CIS markets. The scale and complexity of the projects completed in 2010 and the expertise and market positions of M&A targets are the best proof of the Company's commitment to the strategy of sustainable growth in the interests of shareholders.

One of the key events of the previous year was the acquisition of the majority share of Giprotyumenneftegaz. The integration of this largest oil fields design centre into the Group multiplies our capacities in managing large-scale and technically challenging projects for our customers in oil industry.

In the previous year, we developed our cooperation with Transneft, national oil pipelines operator, further. Meeting very tight lead time, we found an efficient technical solution and on its basis designed and supplied two unique oil pump stations with direct diesel drive. Under new large contracts signed in 2010, the Company's engineers designed and produced a whole new range of trunk pipeline pump systems to be installed in the extension of ESPO-1 project, construction of ESPO-2 and the Purpe—Samotlor pipeline. Within the scope of these contracts NM-7 000 and NM-10 000 type pumps with newly designed flow parts have already been produced and are now undergoing bench tests. These pump systems are to be supplied to the customer by late 2011.

Speaking of the cooperation with major oil companies, it is necessary to mention the recent completion of supplies of the major part of the technological modules for the giant Vankor oil field of Rosneft, Russia's oil major. For these modules units to be equipped, we developed over 20 various types of pump units for the majority of applications at the oilfield. At Rosneft's Komsomolskoye oil field we have completed the bulk of compressor station construction — a system of technically complex associated gas processing and transportation units. At one of Rosneft's subsidiaries, Yugansneftegaz, we have completed an upgrade project of 24 water injection pumps.

Engineering subsidiaries of the Company have completed a large project for TNK-BP at the Kalchinskoye oil field, having constructed an oil pump station. At Gazpromneft's Urmanskoye oil field, we have created the field's infrastructure and commenced the work at the Shinginskoye oil field.

Pump equipment for power generation, a traditional priority for the Company, saw an increase recently. Among most notable contracts, executed by the Company in 2010, was the supply of feed and circulation pumps to Power Machines, power generation equipment company, for the Kalinin nuclear power plant (NPP). These pumps were developed in compliance with the highest requirements of the NPP designers and the end user of the equipment, Rosatom, the national NPP authority.

We also completed a range of projects supplying several series of large specialist pumps for thermal power generation for feed and water lift applications. Major orders came from leading power generation companies, such as TGK-1, TGK-10 and TGK-11. Under the contract with TGK-11, we supplied six high capacity D12500-24 pumps to be installed in circulation water lift station at the one of the Omsk power plants.

There were some highlights in the development of products and solutions for the water market. The first series of borehole pumps 2ECV with new canned electric motor was put into market. This is a milestone in development of the most widespread product for water works in the product range of the Company. Another significant event was the completion of turn-key project of Yylgynagyz canal's main pump station in Turkmenistan. The pump station was constructed on order of the Ministry of Water Management of Turkmenistan and it was fully fitted with Company's equipment. The key feature of the equipment set are 12 high capacity pumps D12500-10, with the flow rate of 3.5 cubic meters per second each enabling the whole station to pump 35 cubic meters per second.

Successful completion of large scale projects in the previous year has recurrently proved to our clients and partners large experience and extensive expertise of the Company at solving of technically demanding and high-profile tasks.

I am certain that the further efforts of all employees of HMS Group will be aimed at strengthening and expanding the market positions, will develop current and create new competitive advantages that will enable the Company to remain the market leader in long-term perspective.

Artem Molchanov

Company strategy

HMS Group plans to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Company also intends to leverage its research and development capabilities to develop next-generation of customised pumps, technological upgrades and integrated pumping systems.

In addition, the Company will continue to pursue selective, value enhancing acquisitions which will enable it to enter attractive new markets. It is hoped these leads will provide access to complementary marketing, production and R&D facilities which offer operational cohesion with existing businesses.

Focus on integrated solutions and highly-engineered products.

The Company anticipates that many of its largest customers, particularly in the oil and gas sectors, will continue to seek to work with manufacturers that can offer integrated solutions. The Company also expects demand for such solutions will increase. In addition, the provision of integrated solutions and other highly engineered products tends to offer higher margins than stand-alone products and services. These also often require extensive interaction with customers and involve customised products, providing an opportunity to strengthen customer relationships and a strong base for aftermarket sales. The Group therefore plans to focus on growing its integrated solutions offerings.

Leverage and strengthen the Company's market position to benefit from growth factors in the Company's core markets, and to expand and diversify into new markets.

The Company intends to further penetrate its key markets through the diversification and enhancement of its product portfolio, including the development and production of next-generation pumps and enhanced aftermarket sales and support. In the last twenty years, there has been a significant lack of investment in the oil transportation, power generation and water utility sectors in Russia and the CIS. HMS Group anticipates that the ongoing modernization of this infrastructure will continue to foster growth in the market for pumps and modular equipment. The Company also intends to strengthen its position in other growing markets, such as the chemical and metallurgy sectors of the Russian pump market, which it anticipates will offer significant growth opportunities.

In the modular equipment market, the Company plans to expand its range of customized pumping stations, metering devices for measuring flow rates of oil and associated gas. The Company also plans to target certain oil refining equipment, such as vessel equipment, compressor units and associated gas processing equipment to take advantage of attractive trends in these markets.

HMS Group also plans to increase its share of products for export, principally to countries of the former Soviet Union republics or markets with historic links to the former Soviet Union which used or still use Soviet-era pump equipment. In particular, such export markets include the water utility sector in the majority of the former Soviet Union republics, the oil sector in Kazakhstan, Uzbekistan and Iraq as well as the nuclear power generation market.

Enhance R&D capabilities.

The Company intends to expand its R&D capabilities leveraging the experience and knowledge base of its existing teams.

HMS Group will also seek to improve its pump technology by investing in continued research in order to produce more energy efficient pumps. Finally, the Company intends its R&D teams to work more closely with customers in order to develop technical solutions and standards that will enable customers to improve the efficiency of their operations.

Improve operational efficiency.

HMS Group is implementing standardized operational and organizational processes for financial reporting, R&D, procurement, and information technology across the Company to ensure that these functions are executed efficiently and consistently. Furthermore, the Company expects to target further investment in order to increase capacity, to modernize and upgrade equipment at its main production facilities.

Pursue selective, value-enhancing acquisitions.

The Company intends to make selective, value-enhancing acquisitions, targeting businesses that offer complementary products, provide the opportunity to expand into new markets and regions and broaden the Company's core competencies. HMS Group intends to target acquisitions that will bring significant operational synergies. The Company's acquisition strategy is also aimed at identifying attractive acquisition opportunities in high-growth sectors in which its market presence is currently limited, including pumps for the oil refining, chemical and metallurgy and mining sectors. The fragmented nature of the industrial pumps, modular equipment and EPC markets in Russia and the CIS will allow HMS Group to continue to identify and acquire attractive assets that complement and further diversify its existing product and services portfolio.

HMS GROUP OVERVIEW

Company overview

HMS Group is the leading pump manufacturer* and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS.

The Company's products are mission critical elements of projects across a diverse range of industries. HMS Group has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations for the ESPO oil pipeline.

Since being founded as a pump trading and servicing company in 1993, and under the continuing leadership of its founders, German Tsoy, Artem Molchanov and Kirill Molchanov, HMS Group has developed into a vertically integrated provider of a broad range of flow control solutions to the oil and gas, power generation and water utility sectors in Russia and the CIS supported by a strong R&D base. The Company has grown through organic and acquisitive growth. At present, HMS Group's strategy is focused on organic growth based on the Company's existing assets, as well as selective, value-creating acquisitions.

By virtue of organic growth and the consolidation of a number of enterprises into HMS Group, most of which have been key providers of pumps and flow control solutions since Soviet times.The Company has an extensive installed base of pumping equipment throughout the former Soviet Union and several other countries, including Iraq. This installed base provides a natural market for the Company's maintenance services and aftermarket support, as well as for replacement equipment and spare parts for upgrade and modernization. In addition, certain technical and regulatory requirements for pumping equipment in the CIS differ significantly from those in other geographical markets, which the Company believes creates significant barriers for foreign competitors.

HMS Group provides integrated flow control solutions through three business units, each of which represents one of the Company's principal segments for accounting purposes:

- Industrial pumps: HMS Group designs, engineers, manufactures, delivers and installs industrial pumps and related products for use primarily in the oil and gas, power generation and water utility sectors, as well as in a variety of applications in other sectors. The industrial pumps unit's principal products include ready-made pumps built to standard specifications, customized pumps and pump equipment and integrated pump systems. As the Company has developed, it has increasingly focused on higher margin products and services in the pump sector, particularly on bespoke, highly engineered pumping equipment and integrated pump systems built on a turn-key basis. The industrial pumps business unit also provides aftermarket sales, maintenance and repair services and other support for its products;
- Modular equipment: The Company designs, engineers, manufactures and installs pump stations, metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation, as well as for the water utility sector. The modular equipment unit's products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers, delivered to and installed on the customer's site as a modular but fully integrated part of the customer's operations. The modular equipment unit also provides aftermarket sales, maintenance and repair services and other support for its products;

* According to "Industrial Pumps, Modular Equipment and EPC Markets in Russia" research by Frost & Sullivan LTD.

- EPC: The Company designs, engineers, projects, manages and constructs projects, including on a turn-key basis, for customers in the upstream oil and gas, oil transportation and water utility sectors. In June 2010, the Company acquired a controlling stake in GTNG, a leading independent Russian R&D centre, focused on the design of the surface infrastructure of oil and gas fields;
- Other: The Company earns other revenue from the rent of equipment and non-operating income.

Competitive Strengths

HMS Group believes that it benefits from the following competitive strengths:

- Attractive industry fundamentals;
- Leading market positions in core segments;
- Advanced R&D capabilities;
- Diversified and well-established customer base consisting of blue-chip companies in a range of uncorrelated sectors;
- Operational and product quality excellence;
- Resilient financial growth and strong backlog;
- Strong management team with established track record of growing the business organically and through acquisitions.

History and developments

HMS Group was formed in 1993 with the creation of Hydromashservice, a trading company that distributed pumps and pumping equipment in Russia and the CIS. In 2003, the Company began acquiring companies with pump manufacturing facilities in Russia, modular equipment production facilities and engineering and construction companies.

The timeline below sets forth key events in the HMS Group's history, as well as the Company's participation in a number of high-profile projects.

1993 Pump trading and servicing company was founded by German Tsoy, Artem Molchanov and Kirill Molchanov. The Company expanded its operations and client base to become a leading distributor of pumps and pumping equipment in Russia and the CIS.

1994 HMS Group participated in the renovation of water utilities in Grozny, Chechnya.

1995 HMS Group launched a pump assembly business.

2003 HMS Group began manufacturing pumps through the acquisition of Livgidromash, one of the largest manufacturers of industrial pumps in the CIS.

2004 HMS Group began manufacturing modular equipment through the acquisition of Neftemash (Tyumen), one of the largest Russian producers of modular flow control equipment for surface oil field sites. The Company also acquired Elektrodvigatel (Bavleni), a manufacturer of submersible electric water pumps.

2005 HMS Group became a leading manufacturer of customised pumps through the acquisition of Nasosenergomash, located in Ukraine, one of the largest manufacturers of pumps for the nuclear and thermal power generation industries and trunk oil pipelines in the CIS.

2006 HMS Group became a leading manufacturer of submersible pumps through the acquisition of Livnynasos, one of the largest producers of submersible electric water pumps in the CIS. The Company acquired operational control over Tomskgazstroy, a provider of construction services for oil and gas pipelines. The Company launched its maintenance and repair business through the acquisition of Niznevartovskremservice.

2007 HMS Group entered the EPC market through the acquisitions of Sibkomplektmontazhnaladka, a provider of integrated EPC services for the development, construction and installation of oil field facilities. The Company acquired a minority stake, with an option to purchase a controlling stake in 2012, in DGKhM, a manufacturer of pumps and vessel equipment and increased its R&D capabilities through the acquisition of a 49% stake in VNIIAEN, a R&D centre, the only one of its kind in the CIS, which specializes in pumping equipment for the nuclear power generation and oil transportation industries.

2008 HMS Group increased its presence in the water utility, power generation and modular equipment sectors through the acquisitions of:

- Promburvod, the largest producer of electric submersible water pumps in Belarus;
- NPO Gidromash, a manufacturer of pumps for the thermal power generation and oil and gas industries;
- RVKP, a leading project design facility for the water utility sector.

2009 HMS Group enhanced its position in the water utility, power generation and oil and gas sectors through the acquisition of SibNA, a manufacturer of high-precision measuring equipment for the oil and gas, power generation and water utility sectors. The Company participated in the Vankor oil field development and the Baltic Pipeline System project.

2010 HMS Group enhanced its design and R&D capabilities and its position in the EPC market through the acquisition of 51% of the voting shares of GTNG, a leading independent Russian R&D centre focused on the design of the surface infrastructure of oil and gas fields. The Company participated in the ESPO-1 pipeline expansion project and the construction of the ESPO-2 pipeline. The Company commenced large-scale production of pumps for use in nuclear power generation.

Organizational Structure

The diagram below sets out an organizational structure of HMS Group's principal operating subsidiaries and associates by business unit, as well as the percentage of voting shares owned or controlled by Hydraulic Machins & Systems Group plc though HMS Group as at the date of this Annual Report.

- HMS Hydraulic Machines & Systems Group plc
  - HMS Group 100%
    - HMS Group Management Company 100%

Industrial pumps business unit

- HMS Pumps 100%
- Livnynasos 100%
- Nasosenergomash (NEM) (Ukraine) 83.3%
- Promburvod Plant (Belarus) 51%
- HMS Household Pumps 96.6%
- HYDROMASHSERVICE 100%
- associates:
- Dimitrovgradkhimmash (DGKhM) 40%
- VNIIAEN (Ukraine) 47.2%

Modular equipment business unit

- HMS Neftemash 100%
- Sibnefteavtomatica (SibNA) 95.4%
- Nizhnevartovskremservice (NRS) 100%

EPC business unit

- Giprotyumenneftegaz (GTNG) 51%
- Trest Sibkomplektmontazh-naladka (SKMN) 84%
- Tomskgazstroy 76.1%
- Institute Rostovskiy Vodokanalproekt (RVKP) 85.7%

Competition

Industrial pumps business unit

In the industrial pumps market, HMS Group competes with domestic and leading international manufacturers, such as Weir and KSB. The Russian industrial pump market is highly fragmented, with small, specialised players represented in single industries, lines of pump and/or geographic regions. As a result, the Company tends to compete with small industrial pump manufacturers in each of the sectors in which it operates. Customers tend to work with manufacturers that have local engineering expertise and that have a track record of delivering and installing pumps on time. The Company does not believe that there are any domestic competitors that have as diversified a product portfolio or a comparable R&D platform and the resultant ability to produce customized products or integrated solutions, or a comparable ability to provide aftermarket services across Russia. In addition, many Russian pump manufacturers produce products which are complementary to, and therefore not in direct competition with, the Company's products. With respect to pumps sold to the oil and gas sector, the Company competes primarily with Volgogradneftemash, Votkinskiy Plant and Sulzer. In the power generation sector, HMS Group competes with primarily KSB and in the water utility sector primarily with Grundfos and the Kataisky plant. The Company also competes with smaller Ukrainian and Belorussian manufactures.

Modular equipment business unit

The Russian market for modular equipment is dominated by well-established Russian players holding significant market shares. According to Frost & Sullivan, HMS Group's main competitor in its core modular equipment segments is OZNA, a leading producer of pumping stations and the leading producer of automated group metering units. The Company also competes with other, smaller producers of pumping stations, including Uraltechnostroy. The Company does not believe that it faces significant competition from foreign producers of modular equipment because its equipment is designed specifically for the harsh weather conditions typically experienced in Russia and can remain in operation despite extremely low temperatures, unlike most foreign-produced equipment. Although foreign producers of modular equipment have attempted to adapt their equipment, they have so far not successfully penetrated the Russian market. The Company believes that the proximity of the Company's production facilities to customers' operations is also a key advantage compared to potential foreign competitors.

EPC business unit

The Russian engineering and R&D market for the oil and gas sector is split between in-house and independent providers. HMS Group's subsidiary, GTNG, is the largest independent R&D centre that designs oil and gas fields in Russia.

The oil field infrastructure construction market is fragmented and highly competitive; however, it is moving towards greater consolidation and a number of players, typically former in-house construction units of large oil and gas companies, derive a large proportion of their revenues from a single customer, typically the former parent company. The three leading companies in the market are Globalstroyengineering, Stroytransgas and Stroygazconsulting. Foreign competitors currently have a limited presence, particularly in engineering, where knowledge of Russian technical standards is crucial. In the oil transportation construction market, three leading companies, Globalstroyengineering, Stroytransgas and MezhRegion TruboprovodStroy, dominate the market.

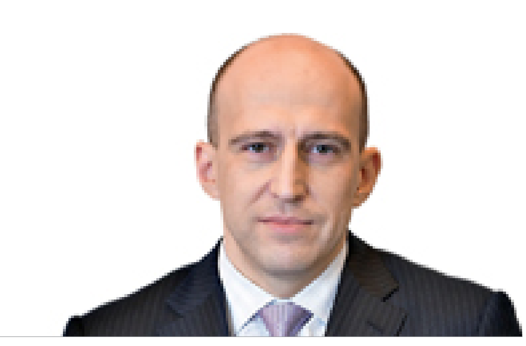
Science and innovation

Innovations are one of the key factors in HMS Group's development that help the Company to succeed within internal and external operational markets. HMS Group runs active scientific and research activities which helps the Company to improve the quality and technical characteristics of its products and integrated solutions. The research and development is conducted through the number of Company's own institutes such as VNIIAEN, Giprotyumenneftegaz, Institut Rostovskiy vodokanlproekt and through special R&D departments in certain companies of HMS Group. The level of the equipment and design software installed in these R&D centers meets the highest international requirements.

Key management

Mr. Artem V. Molchanov
Executive member of the Board of Directors,
The Managing Director (CEO)

As a co-founding shareholder, Mr. Molchanov played a key role evolving the Company to its current leading position in the market. Mr. Molchanov has held various executive positions in the Group since its establishment in 1993. He has more than 17 years of industry and management experience. Mr. Molchanov graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics) with a degree in industrial economics.



Mr. Kirill V. Molchanov
Executive member of the Board of Directors
The First Deputy General Director/CFO

As one of the co-founding shareholders, Mr. Molchanov has held various executive positions in the Group since its establishment in 1993. Mr. Molchanov possesses more than seventeen years of industry and management experience. He graduated from Bauman Moscow Higher Technical School (currently Bauman Moscow State Technical University) with a degree in electromechanical engineering. He is currently undertaking an executive MBA at the Judge Business School, University of Cambridge.

Mr. Andrey V. Nasledyshev
The Deputy General Director

Mr. Nasledyshev has served as a Deputy General Director since 2006. He has seven years of experience executing mergers and acquisitions in the oil and gas and machine building industries and 11 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics) with a degree in economic cybernetics and also from Higher School of Economics (Prague, Czech Republic) with a degree in international relations in 1985. He also holds an Executive MBA degree from the University of Antwerp Management School (UAMS, Belgium).

Mr. Nikolai N. Yamburenko
Executive member of the Board of Directors
The Head of the Industrial Pumps Business Unit

Mr. Yamburenko has been the Head of the Industrial Pumps Business Unit since 2005. Prior to joining HMS Group in 2003 Mr. Yamburenko was the CEO of one of Group's entities. Mr. Yamburenko has more than thirty two years of industry and managerial experience. He graduated from the faculty of radio electronics of Moscow Aviation Institute named after S. Ordzhonikidze where he gained a degree in radio electronics.

Mr. Anatoly V. Nazarov
The Head of the Modular Equipment Business Unit

Mr. Nazarov has served as Head of the Modular Equipment Business Unit since 2007. Prior to joining HMS Group in 2006, Mr. Nazarov has worked as Vice-President of ZAO Yukos Refining and Marketing since 2005. Between 2000 and 2005, he served as Vice-President of OOO Yukos—Moscow. He has more than 35 years of experience in the oil and gas industry. Mr. Nazarov graduated from Volgograd Polytechnic Institute where he gained a degree in automobile transport. He was awarded a PhD in economic science in 1998.

Mr. Vladimir M. Moiseyenko
The Head of the EPC Business Unit

Mr. Moiseyenko has served as Head of the Group's EPC Business Unit since 2010. Mr. Moiseyenko has held various executive positions in the Group since 2006. Before joining the Company Mr. Moiseyenko has held various executive positions in major Russian oil companies. He has 32 years of experience in the oil and gas industry. Mr. Moiseyenko graduated from Tyumen Industrial Institute with a degree in transport operations engineering in 1992.

Corporate social responsibility

Personnel

Over 12,500 people are working in the Company, a considerable part of which work within the Russian Federation, nearly 3,000 people work beyond its territory, in Ukraine and Belarus, in representative offices in Iraq, UAE, Uzbekistan, Turkmenistan and Tajikistan.

The top priority of HMS Group HR policy is to always ensure that all the business processes adopted by the Company are equipped with the highly qualified personnel. The Company strives to help its staff be personally interested in the results of its activity by motivating them based on the results of professional activity and employee contribution. The Company always guarantees that they are proud of professionals, their talents, knowledge and experience and that they are valuable assets for the Company. HMS Group aspires to provide its employees with competitive income and present new opportunities for their development. In 2010, MBA educational programme along with English language courses has started in order to help the staff to adapt more easily to the new requirements of a public company.

In 2010 HMS Group developed and approved the new Collective agreement. This document reflects the main provisions of the labor law, those the most relevant for the employees, and sets additional provisions regarding remuneration and working environment, guarantees and facilities provided to the employees by the Company.

In 2010 the HR policy of HMS Group was reoriented towards long-term strategies and business goals achievement by means of new functional command structure within the holding and active personnel development.

HMS Group promotes among the employees of the Company a healthy lifestyle, unity and team spirit. Employees of HMS Group are provided with medical services. Annual sport events held by the Company include competitions in the most popular sports.

HMS Group renders social assistance and support to non-working veterans and retired employees of the Company. Children of the employees are granted corporate stocking-stuffers, tickets to children's New Year parties and passes to summer health camps and recreational resorts.

Charity

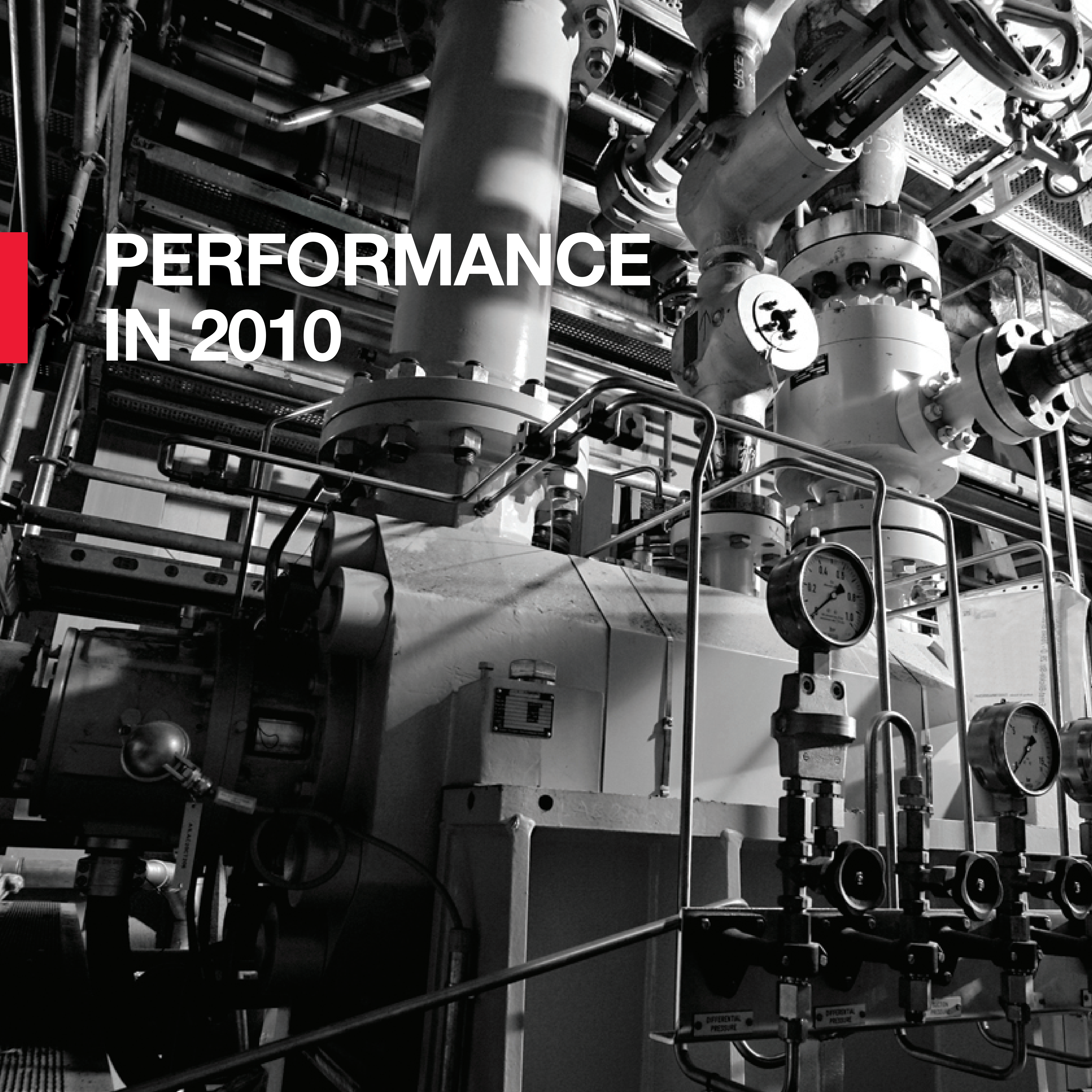
HMS Group actively participates in philanthropic activities. Companies comprising HMS Group have played a significant role in the social environment in regions of their presence for many years.

HMS Group renders assistance on a regular basis to regional social institutions, such as orphanages, boarding schools, medical centers. Special charity programs are developed in association with local Veterans Committees and charity societies and funds to help veterans of the WW2, disabled people and underprivileged families.

Industrial and environmental safety

All subsidiaries of HMS Group support the environmental protection management system, focus on absolute compliance with the laws of the Russian Federation, including the Labor Code, Federal Law On Industrial Safety of Hazardous Production Facilities, federal law On Fundamentals of Labor Protection and with other federal laws and regulations of the Russian Federation, Ukraine and Belorussia. There are also internal provisions, standards and the collective agreement of the Company.

The quality and environmental management systems, implemented within the Company were developed to conform with the requirements of international standards ISO 9001:2008 and ISO 14001:2004.



PERFORMANCE IN 2010

Macroeconomics and key industry developments

Following the drop of 7.9% of GDP in 2009, in 2010 Russian economy concentrated on recovering from crisis. The GDP has grown by 4.0% up to 44.9 trillion RUR in real terms. However, the consumer prices inflation remains rather high at 8.8%. The Ministry of Economic Development forecasts the GDP growth rate to be 4.2%, the inflation rate — 7%.

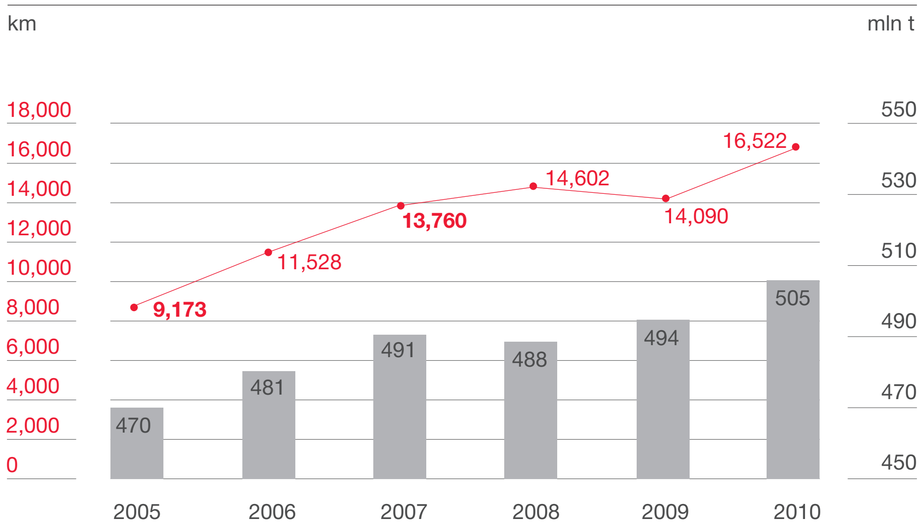
Investments into economy in 2010 reached 21% of GDP compared to 17.5% in 2009. The exchange rate of the Russian ruble to the US dollar remained stable throughout the year, with average of 30.4 RUR to a USD, with noticeable strengthening trend towards the year end. The balance of trade in 2010 was positive, with export constituting over 11% of GDP. The share of fossil fuel and raw materials, however, remained the largest within the national export.

Oil Industry

Upstream

The oil production is one of the basis of the Russian economy and due to the constant demand from the global as well as domestic market the industry has been developing steadily with only minor slowdown due to the financial crisis. Oil is not only drawn from older fields in the European part of the country and Western Siberia, but also from newly developed inland fields as the Vankor and Priobskoye fields, as well as the Sakhalin offshore projects. Such new fields as the Trebs and Titov, Yurobcheno-Tokhomskoye, Tyamkinskoye etc. have seen their first drilling rig with production due within 2–3 years. The Artic seabed is projected to contain about 68 b t of oil reserves and the state regulation is now elaborated to enable successful operations in this segment.

Production drilling **Oil production**



Production drilling rate has growth by over 17% in real terms compared to the growth rate in the crisis-stricken 2009. This has provided the healthy state of the whole industry for the current period and the future.

Situated in some of the world's toughest conditions, Russian oilfields see the implementation of state-of-the-art drilling and exploration technologies. Technologies such as horizontal directional drilling, hydro-fracturing and coiled tubing are now widely used not only by Western service companies, but also by their Russian competitors.

Other technological developments include the drive to a higher associated gas utilisation rate. As the gas transport system of Gazprom is becoming more open for private oil companies, many operators are beginning to invest into the new gas processing and transportation equipment. The government-set utilization target rate is 95% by 2012 and so far all statistics show that this target will be met on time.

Oil production in Russia reached 505 M tones in 2010, which is 2.2% increase compared to 2009. The well stock reached 159 thousand (~158 thousand in 2009) and over 134,000 (84%) of them are actively producing.

The capital expenditure increased from 535 bln RUR in 2009 to 596 bln RUR in 2010, which is about 11% growth rate. According to the drafts of General Development plan of the oil and gas industry, the oil production rate is expected to remain stable in the mid-term period, with a moderate 2% growth. Such a position will be enforced by high oil prices fuelled by unstable political situations in key oil producing regions. The state regulatory framework supports this scenario of the development of the industry and is aimed at guaranteeing the current production level. Additionally, the government seeks to introduce variation in tax regime to differentiate taxation of oil fields depending on the maturity level and field complexity (e.g. offshore, viscous oil etc.). This will ensure inflow of capital expenditure into fields across the board without putting producing companies' margins at risk.

Oil prices still retain strong growth trend despite the slowdown in the crisis 2009. The average price of barrel of Brent crude in 2005 was 55.6 USD, in 2006 — 66.4 USD, in 2007 — 73.8 USD, in 2008 — 98.7 USD. Having overcome the 65.7 USD per barrel in 2009, oil prices return back to the growth path and reached 80.5 USD in 2010. Industry's consensus forecast for 2011 is over 120 USD per barrel.

Midstream

Russia has the largest oil pipeline system in the world with over 50,000 km of pipelines and 261 pump's stations installed. More than 93% of produced crude oil in Russia is transferred through the trunk pipeline system.

The Operator company Transneft also faces the prospect of maintaining and upgrading the lengthy existing infrastructure, with many pump stations being over 40 years old.

The total crude trunk oil pipeline throughput in 2010 exceeded 470 mt, 3% increase in comparison with 2009.

Due to oil production starting in new fields and new export markets, the pipeline system constantly expands through new projects, for instance, the East Siberia — Pacific Ocean (ESPO)–1 (20 mt/year, to be finished in 2011), ESPO–1–extension (30 mt/year, 2013), ESPO–2 (30 mt/year, 2013), ESPO–2-extension (17 mt/year, 2015), Baltic pipeline system–2 (BTS-2) — 2 (50 mt/year, 2012), Zapolyarnoye-Purpe (45 mt/year, 2015), Purpe-Samotlor (25 mt/year, 2012) and others.

Total capital expenditure of the operator of the system, Transneft, in 2009 was 224 bln RUR. The investments in 2010 are expected to exceed 200 bln RUR, with new projects accounting for over 150 bln RUR.

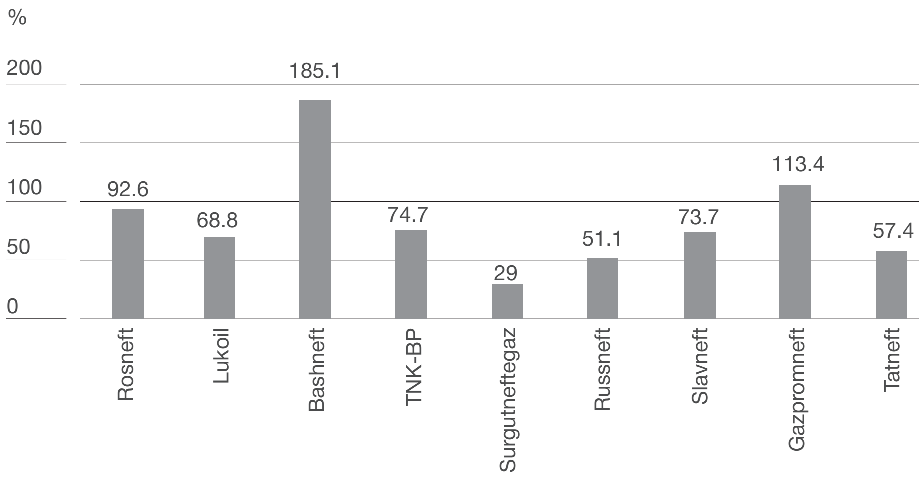
Due to the shift of focus of prospective oil exploration, the capital expenditure is expected to grow in order to enable the transportation of oil from East Siberia.

Trunk pipelines lead not only across the land border, but also to sea ports. Controlled by oil majors and private companies, many ports are also undergoing much needed upgrade that will enable the export of the oil and oil products by sea. Ongoing projects include Novorossiysk, Tuapse, Ust-Luga and De-Kastri. Future projects include, among others, Primorsk, Taman, the Perevoznaya bay and Prigorodnoe.

Downstream

In 2010 248 mt of oil were refined in Russia, which is 5.82% more than in 2010. The maximum capacity of the inland refineries (260 mt/year) is not yet reached; however, the majority of refineries is outdated and requires upgrade. The outdated characteristics are stressed by the average low processing depth of Russian refineries, 71.2%

Refiniery capacity to oil production, 2010



Source: Central Dispatching Department of Fuel Energy Complex of the Ministry of Energy, Union of Oil and Gas Producers of Russia in 2010, a relative decrease compared with 71.9% in 2009. The average processing depth in the EU is 85–90%, whereas the figure in the USA is even greater–95%.

The regulatory framework aimed at increasing inland refining capacity and processing depth is elaborated. Measures include switch to higher automotive petrol standards, change in crude oil export duties and obligatory cut off from oil products pipelines of refineries with processing depths lower than 70%. Greater duty will be put on exports of relatively simpler oil products such as heating oil and bitumen, thus stimulation the shift towards more processing depth within the country.

New projects include a Tatneft refinery in Tatarstan—the largest new refinery in the country to be built for over 20 years (to be completed in 2015), new refinery of Rosneft in Nakhodka (to be completed in 2017), Mari El refinery (to be completed in 2015), Verkhotursk refinery (2014), Tomsk (2015), Yaisk (2014). A major long-term upgrade is expected to start in the Kirishi refinery (Surgutneftegaz).

Additionally contributing to future growth is the low coverage of our own refining capacity of oil production with almost every major oil company in Russia—the companies simply are not capable of refining the volume of oil they produce. Even such major retail players as Lukoil and TNK-BP have only about 70–75% coverage of own output. The insufficient petrol output partly leads to constant price increase of oil products, for instance, car petrol. The average price of a liter of petrol in Russia increased from 16.79 RUR in 2005 to 25.00 RUR in 2010.

Source: Central Dispatching Department of Fuel Energy Complex of the Ministry of Energy, Union of Oil and Gas Producers of Russia.

The capital expenditure in the segment 2010 are 271 bln RUR, which is almost 18% more than the spend in 2009. The strategic goal is to reach the processing depth of 77% in 2012, and 83% by 2015.

Power generation

Russia remains one of the largest electricity producers in the world, only behind China and the USA. Relatively low energy efficiency of national industries creates high electricity demand. This demand, in turn, faces the limited and aging energy producing capacity, which results in ever increasing tariffs. High tariffs are one of the sources for high investment programs of the power generator companies.

The output of electricity in Russia in 2010 increased by 4.7% compared to 2009 and reached 1,036,400 mln KW/h.

Nuclear power plants produced 170 b KW/h. in 2010, 4.1% more than in 2009. Thermal power plants produced 699 b KW/h, 7.3% increase to 2009. Hydro power plants' production fell by 4.4% to the 2009 level — 168 b KW/h.

Thermal power plants

In 2010 Russia's joint installed thermal power plant capacity was 156.1 GW.

Thermal power generation plants are quite outdated — almost 60% of the installed capacities are over 30 years old. The aging equipment has an impact on the efficiency — Russian plants have the average efficiency ratio of 36.6%, the average in the developed economies is 41%. This discrepancy implies the need for equipment upgrades with all major power generation companies.

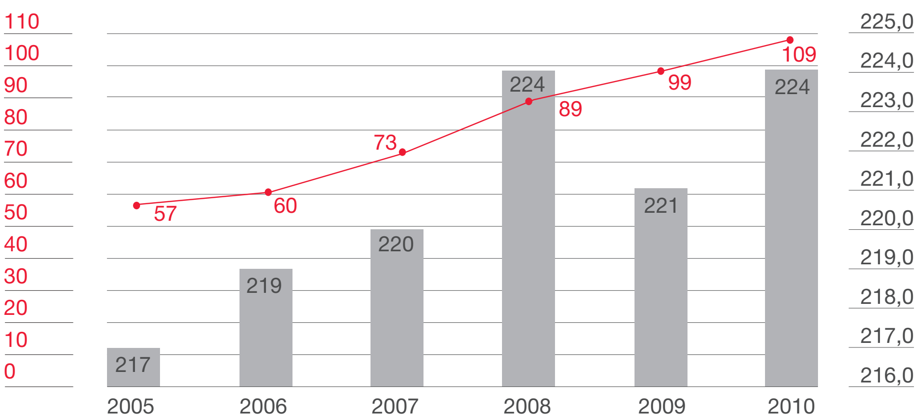
Post-crisis 2010 saw only a few state-of-the-art projects — Kaliningrad Station-2 and Shaturskaya Station. However, in 2011 there are about 30 projects expected to be commissioned with the total capacity of 6.1 GW.

The investments in 2010 reached 220 bln RUR, which is an increase of 90% compared to 2009.

The forecast capital expenditures in 2011 are expected to be 300 bln RUR.

Average electricity tariff **Installed capacity**

00 RUR/kW*hr GW



Nuclear power plants

In 2010 in Russia there were 32 nuclear reactors in operation with installed capacity 24,242 MW.

Most of the reactors are in need of an upgrade, with 80% of the capacity being 20–40 years old. The state operator Rosatom has elaborated a larger-scale investment programme, first actions have already been taken — in 2010 Rostov NPP-2 was commissioned. New projects include several stations finished in the short term, e.g. Kalinin NPP, unit 4 in 2011, Novovoronezh-2, unit 1 in 2013, Beloyarsk NPP's BN-800 unit and Leningrad NPP-2, unit 1 in 2014.

The investment in the industry was 175 bln RUR, a 2% increase on the 2009 level. The estimated spend for 2011 is 250 bln RUR.

The state nuclear power agency Rosatom also bids for contracting of nuclear power stations abroad. The ongoing projects include projects in Bulgaria, Turkey, Slovakia, Ukraine and Belarus. Predominantly, the blueprints for these projects include equipment of Russian origin.

Hydro power plants

There are 102 hydro power stations in Russia with the installed capacity of 46 GW, 5th largest in the world. However, hydro power plants operate aged equipment — over 80% of equipment is more than 30 years old.

The investments of the state-owned operator Hydro-OGK (Rushydro) in 2010 reached 80 bln RUR, a 30% increase to 2009. It is estimated that the capital expenditures in 2011 will exceed 110 bln RUR.

Water

Russian water utilities still remain in the dire need of development. The share of population with access to municipal water supply infrastructure in Russia (75%) is lower

Utilities tariffs growth rate and inflation

than that in developed countries (up to 95%). The quality of water supplied through centralized systems is to be enhanced — up to a third of the country's population use water from sources not equipped with adequate water treatment facilities.

The wear and tear of water supply networks and waste water treatment plants is 63% on average. According to the Ministry of Regional Development, annual investment requirements are estimated to be 2 trillion RUR, however, the actual level is much lower.

In order to compensate for capital expenditures, the predominantly municipally controlled utilities companies have been increasing tariffs in excess of the annual inflation rates. The water component's increase in the tariff was the largest — 17.6% in 2010. The state forecast of inflation in 2011 is 7%, whereas the average expected tariffs growth rate is at least 15%. Thus, the industry is shifting towards the full unsubsidized coverage of the utility prices by the population, which, combined with the proposed regulatory framework, makes the water utilities attractive to strategic investors.

Apart from the tariffs, the sources for the much-needed capital expenditure will include the state federal programme "Clean Water", with a total amount of over 330 bln RUR and a timespan from 2011–2017. There is a number of ongoing regional projects financed from all three levels of the state budget — federal, regional and municipal. Such programmes include upgrades of the water works in St. Petersburg, Grozny, Far East and Transbaikal and others.

The legal framework is expected to be based upon state-private partnership and introduction of private management and operation of water utilities, however, the government and expert community have yet to establish the rules for the industry.

As the disastrous summer of 2010 showed, an efficient irrigation system is an integral part of reliable agriculture. In 2010, Russian grain crop fell by 37% down to 61 m t compared to the previous year, and it is argued that some of the harvest could have been saved if the irrigation system would have been maintained properly. Currently, the crop of 2011 is expected to be up to 90 m t and experts claim that in order to protect agriculture against climate extremes, investments have to be made into irrigation and associated water works.

Financial and operational review

Financial highlights

- Order backlog: up 109%* from 9.5* to 19.8* bln RUR
- Revenue: growth 56% from 14,772 mln RUR to 23,070 mln RUR
- EBITDA adj: growth by 86% from 1,890 mln RUR to 3,519 mln RUR
- Profit for the period: 1,581 mln RUR, growth by 2,156%
- Net debt: decreased 6% from 4,573 mln RUR to 4,297 mln RUR
- Operating cash flow: significant growth
- Free cash flow: positive, despite significant acquisition

Backlog grew by 109%* to 19.8* bln RUR, including 1.4* bln RUR backlog from acquired GTNG. Organic backlog growth excluding impact from GTNG, was up 95%. The strongest growth was recorded in Industrial Pumps segment, attributable to deliveries pump-based and modular pump based solutions with several large infrastructure contracts for the Group's key clients, primarily Rosneft and Transneft. Revenue from Modular equipment and EPC segments has also shown solid growth of 39% and 46% respectively, reflecting strong demand for the equipment and construction services from major Russian oil companies.

Revenue grew by 56% to 23,070 mln RUR, including 1,381* mln RUR revenue from the acquired GTNG. Organic revenue growth excluding impact from GTNG, was up 47%•. The strongest growth was recorded in Industrial Pumps business unit, attributable to deliveries pump-based solutions with several large infrastructure contracts for the Group's key clients, primarily Rosneft and Transneft. Revenue from Modular equipment business unit and EPC divisions has also shown solid growth of 39% and 46% respectively, reflecting strong demand for the equipment and construction services from major Russian oil companies.

Sales of industrial pumps comprised approximately 46% of cumulative revenue; modular equipment — 25%; EPC — 27%.

EBITDA adj grew by 86% to 3,519 mln RUR, driven by significant growth of revenues in all operating segments, execution new, high-margin contracts, improvements in operational activities and an acquisition of new, highly profitable GTNG enterprise.

EBITDA adj margin has also improved to 15.3% in 2010 from 12.8% in 2009. EBITDA adj of Industrial pumps comprised 67% of cumulative EBITDA adj, modular equipment and EPC — 17% and 16%, respectively. Acquisition of GTNG contributed approximately 8%• of cumulative EBITDA adj of the Company.

Profit for the period has greatly improved, from 70 mln RUR in 2009 to 1,581 mln RUR. Strong demand in favorable market conditions, timely performance of ESPO projects and reduction of interest rates were the primary factors for profit for the period growth in 2010. Lower profit for the period for the period base in 2009, that resulted from a significant goodwill write-off, has also contributed for large profit increase in 2010.

Net debt reduced to 4,297 mln RUR from 4,573 mln RUR, down 6%, despite significant acquisition of GTNG. The reduction reflects the Company's strategy of maintaining conservative leverage policy.

* According to HMS Group management accounts
• IFRS unaudited figures

Information on segment' performance

Industrial pumps

Industrial pumps segment designs, engineers, manufactures, delivers and installs industrial pumps and related products for use primarily in the oil&gas, power generation and water utility sectors, as well as in a variety of applications in other sectors.

Revenue

Revenue grew to 10,712 mln RUR, up 70% from previous year. The segment enjoyed strong demand for integrated pumping solutions primarily in oil transportation and upstream. Strong sales were recorded for oil transportation pumps, pumping units for water injection and pumps for oil refineries to key customers — Transneft, TNK-BP, Rosneft, Lukoil and Surgutneftegaz. Sales of oil transportation pumps and pumps for water injection in 2010 grew by 339%* and 9%*, respectively.

Sales of customized pumps for thermal power generation applications grew by 85%*, compared to sales in 2009. The growth is attributable to a construction of new thermal power generation stations in Russia and modernization of the existing ones. At the same time, sales of pumps for nuclear power generation decreased by 56%*, compared to sales in 2009. The decrease is primarily attributable to long-term cycle of nuclear pumps production which means that significant share of revenue from current nuclear pumps backlog will be recognized at 2011.

Overall sales in water utilities segment were up 37%* from previous year. Strongest growth was recorded in water supply and wastewater pumps (+70%*) and submersible water well pumps (23.7%*). Growth was primarily attributable to a replacement of depreciated installed base of the pumps in Russia and a commencement of several government regional programs to reconstruct water treatment and supply systems, such as Chistaya Voda program (Clear Water), Chistiy Don (Clear Don), reconstruction of water treatment systems of Rostov region. Sales of household pumps were up 18.4*%, which reflects growing purchasing power of end consumers in light of a recovery from financial crisis.

EBITDA adj grew to 2,367 mln RUR, a growth of 134% EBITDA adj margin also rose to 22.1% from 16.0% in 2009. Growth is primarily attributable to high-margin contracts for delivery pump based integrated solutions, as well as operational improvement and to recovery in the HMS Group's key markets from the recent economic downturn.

Modular equipment

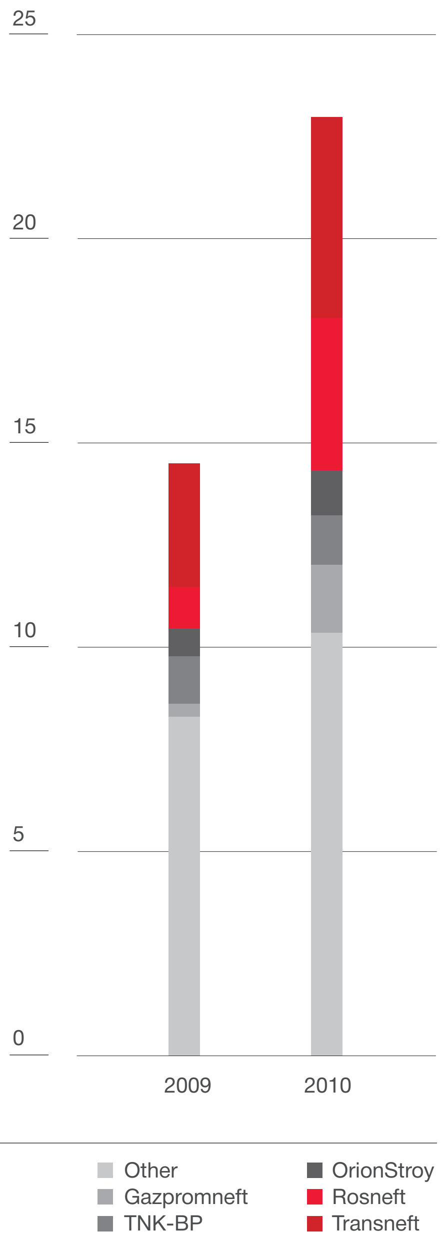
The segment produces modular pumping stations, automated gas metering units, associated gas processing and transport units (AGMU), oil&gas metering units, oil, gas and water processing units and other equipment. In the modular equipment market, the Company's core segments include modular pumping stations, AGMUs and associated gas processing and transport units.

Sales of modular equipment segment were up 39%*, driven by strong demand from the major oil companies to equip new oil fields and modernize existing installed base of modular equipment. Sales of water injection pumping stations and other large

* According to HMS Group management accounts.

Distribution of client base by revenue*

bln RUR



technological units were up 69%*, reflecting in particular deliveries for Vankor oil field of Rosneft. New stricter government measurement tolerance in oil and gas production, also contributed to an increase of 18%* in sales of AGMU and modular equipment for associated gas transportation.

EBITDA adj decreased by 24% to 599 mln RUR, down from 786 mln RUR in 2009. EBITDA adj margin also decrease to 10.3% from 18.9% in 2009. The fall is primarily attributable to an execution of low-margin contracts, which were concluded in 2009, during economic downturn. Uncertainty which affected the investment plans of oil companies caused lower demand for modular equipment and led to decrease in pricing terms of existing contracts, hence leading to lower EBITDA adj margin.

EPC

Revenues for the EPC segment in 2010 increased by 46%, to 6 135 mln RUR. The revenue growth is primarily attributable to an impact of GTNG acquisition and entering the market of project and design, which accounts to approximately 23% of the segment's cumulative revenue.

Revenue growth on like-for-like basis, excluding an effect of the acquisition, was approximately 14%*, reflecting particularly a growing demand for construction services at new and existing oil&gas fields from Rosneft, Gazpromneft and TNK-BP oil companies.

EBITDA adj increased significantly in 2010, to 550 mln RUR compared to 33 mln RUR in 2009. EBITDA adj of newly acquired GTNG facility added 271• mln RUR to cumulative EBITDA adj of the segment. Such a significant EBITDA adj is primarily attributable to a low EBITDA adj base in 2009, caused by significant price pressure connected to investment cutbacks by oil companies. EBITDA adj margin rose to 9.0% from 0.8% in 2009 and EBITDA adj margin of GTNG was 20%• and EBITDA adj margin of other EPC business — 5.9%•, which is slightly less than before economic downturn.

Key customers

Client base distribution by revenue

HMS Group views the long term relationships with its customers as fundamental to the Company's business. The Company strives to create close partnerships with its customers that create mutual business value. The majority of the Company's business is built on these long term relations. However, HMS Group is always open to the new opportunities that will help to diversify Company's customer base.

The 5 biggest clients are accounted for 55% of revenues and 45% of revenue is generated by more than 4 thousand other clients allowing the Company to have diversified client base.

* According to HMS Group management accounts
• IFRS unaudited figures

The major share of revenue is generated by the biggest clients coming from big marginal contracts for delivery of integrated solutions designed for realization of large scale infrastructure projects such as Vankorskoe field, new pipelines.

The revenue generated by other clients is revenue, mainly replacement orders. It is characterized stable modest growth 10–15% and modest margin about 10–15%*.

Backlog*

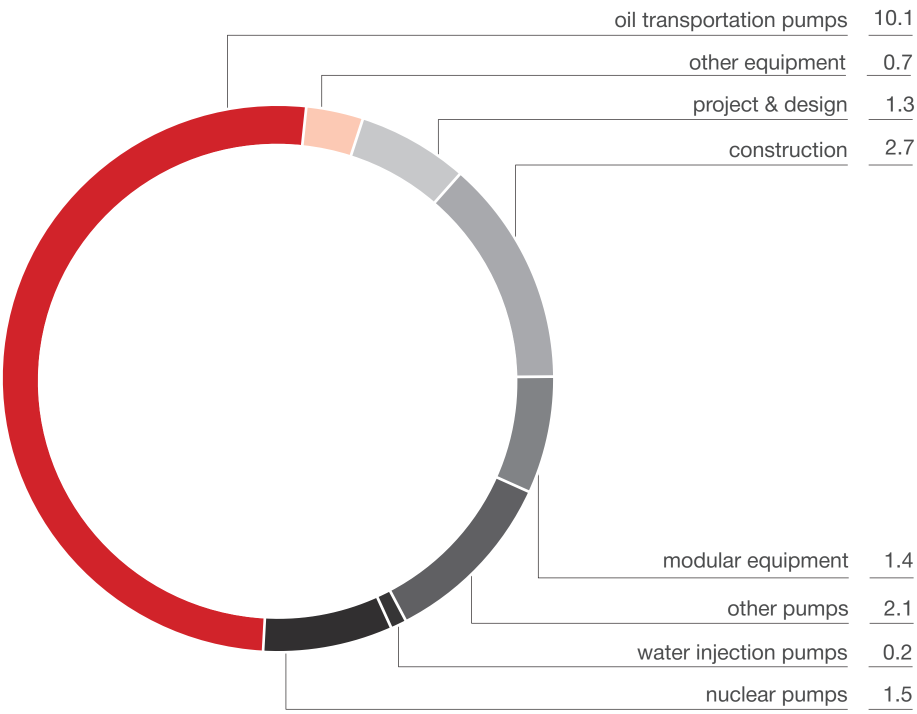
Backlog grew by 109%* to 19.8* bln RUR, including 1.4* bln RUR backlog from acquired GTNG. Organic backlog growth excluding impact from GTNG, was up 95%*. The strongest growth was recorded in Industrial Pumps segment, attributable to several contracts for delivery integrated pump-based solutions for large infrastructure projects, primarily oil transportation pumps (10.1* bln RUR) and nuclear pumps (1.5* bln RUR).

More than half of backlog as of 31.12.2010 consists of high margin pumps and pump-based integrated solutions for oil pipelines (10.1* bln RUR) and nuclear industry (1.5* bln RUR).

Acquisition of GTNG added to backlog 1.3* bln RUR high-margin contracts for project and design of oilfields.

Backlog*

bln RUR



* According to HMS Group management accounts

Principal risks and uncertainties

Principal risks

The Board of Directors is currently developing formal procedures to identify, evaluate and manage significant risks faced by the Company in order to systematically monitor and assess the risks critical to the Company's performance and strategic goals.

HMS Group's business involves a certain number of risks, the most notable of which are presented below. The order in which the following risks are presented is not intended to represent the probability of their occurrence or the magnitude of their potential effects.

Full list of risk factors and detailed description of risks set forth below can be found in the Group's corporate website.

Risks related to operational performance of HMS Group

- The Group's business depends on the levels of capital investment and maintenance expenditures by the Group's customers.
- The Group's business depends on the award of contracts and renewals and extensions of existing contracts and relies on a limited number of key customers and contracts.
- The Group may incur losses on its long-term contracts, which could cause its revenues and earnings to fluctuate significantly due to unfavorable terms of contracts with certain large customers.
- The Group operates in competitive industries and its failure to compete effectively or adapt to rapid technological changes could result in reduced profitability and loss of market share.
- The loss of any of the Group's key senior managers could have a material adverse effect on the Group's business.
- The Group is dependent on its ability to attract and retain sufficient skilled personnel that will enable it to achieve its strategic objectives.
- Rapid technological change could increase competition and require the Group to make substantial additional investments in its businesses.
- The Group's results of operations may be affected by severe weather conditions in the areas in which it operates.
- The Group's businesses may be subject to professional errors and omissions resulting in substantial property loss and other liability claims that may materially adversely affect its operations and profitability.
- The Group is vulnerable to fluctuations in raw materials costs.
- Strikes and other labour disputes could adversely affect the Group's business.
- The Group's manufacturing facilities are subject to operational risks and the loss or shutdown of operations at any of these facilities may have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.

Legislative, Legal and Corporate Risks

- The immaturity of and weakness relating to the Russian legal system, processes, practices and legislation create an uncertain environment for investment and business activity and may adversely affect the Group's business, financial conditions, results of operations, prospects and the value of the GDR's.
- The law relating to Russian corporate governance and control is subject to inconsistent application and may be difficult to enforce.

- Compliance with health, environmental and safety laws and regulations could increase the Group's costs or restrict its operations.
- The Group may be subject to ambiguity and changes within Russian and Cypriot tax legislation, including the Double Tax Treaty between Russia and Cyprus and regulations regarding tax deductions, residency and permanent establishment.
- Recent changes in legislation governing construction activities in Russia could have a material adverse effect on the Group's business.
- The licenses and permits that the Group requires for its business may be invalidated or may not be issued or renewed, or may contain onerous terms and conditions that restrict the Group's ability to conduct its operations or could result in substantial compliance costs or administrative penalties.
- The Company will be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs.
- The Company will be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs.
- The Group owns less than 100% of the share capital or interests of a number of its operating subsidiaries.
- If minority shareholders of the Group's subsidiaries successfully challenge or fail to approve interested party transactions, or other shareholder matters, it could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.
- Forced liquidation of the Group's subsidiaries due to insufficient or negative net assets, or the insolvency of such subsidiaries, could adversely affect its operations.
- The Company is a holding company and its ability to pay dividends or meet costs depends primarily upon receipt of sufficient funds from its subsidiaries.
- If transactions of members of the Group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal or contractual requirements, the remedies in the event of a successful challenge could include the invalidation of such transactions or the imposition of other liabilities on members of the Group.
- The Group may be unable to secure or protect its rights to intellectual property.
- Product liability claims may adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.
- The Group's acquisitions and potential acquisitions may be subject to regulatory and other conditions and may not be completed and successfully integrated into the Company.
- FAS could impose restrictions on the Group's activities.
- The Group may be subject to claims stemming from its prior involvement in jurisdictions that are subject to OFAC and other sanctions.

Risks related to Group's financial and economic positions

- The Group's historical financial information may not be indicative of the Group's future performance.
- The Group may have material weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of IFRS financial statements.
- The Group could be materially adversely affected if lenders accelerate the Group's debt due to any failure to comply with loan agreements.
- The Group may require additional capital in the future, which may not be available or may only be available on unfavorable terms.
- Inflation could increase the Group's costs and decrease its operating margins.
- Additional exposure to taxation in Russia and Cyprus could increase the Group's costs and decrease its operating margins.

- Limitations on the conversion of Roubles to hard currency in Russia or the devaluation of the Rouble could increase the Group's costs when paying dividends to its shareholders in the future and making payments in hard currency to suppliers and creditors, which could cause the Group to default on its obligations to them.
- The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS.
- Investors in the Offering will experience immediate and substantial dilution in net tangible book value per Ordinary Share.
- As a result of the ongoing consolidation in the sectors in which the Group operates and plans to expand into, it may not be able to identify suitable targets or may have difficulties in negotiating favourable acquisition terms.
- The Group has acquired and may continue to acquire businesses or assets on the basis of limited financial and other information, which may result in the Group assuming unexpected or unforeseen liabilities and obligations.
- The Group may have difficulty integrating its acquisitions or the Group may not realise the anticipated benefits from its acquisitions.
- The assumptions underlying the Group's growth strategy may prove to be incorrect.
- The history and composition of the Russian manufacturing and EPC market make data collection and comparison difficult and such data may be incomplete and/or subject to error.

CORPORATE GOVERNANCE

Corporate Governance

The HMS Group is committed to maintaining the highest standards of corporate governance. The Company's corporate governance practices are designed to ensure that the interests of all its shareholders are given due consideration and include appointment of executive, non-executive and independent non-executive directors, establishment of the audit and remuneration committees.

The HMS Group has appointed an internal auditor. The internal auditor acts in accordance with the Regulations on internal control and audit department adopted by the Company. The internal auditor is responsible for recommending an audit plan to the audit committee of the Board of Directors. The internal auditor carries out auditing assignments in accordance with such plan, oversees and reports to the audit committee of the Board of Directors on the Company's compliance with the plan's recommendations. The internal auditor also files an annual report with the audit committee and the Board of Directors and must be available for any meeting of the audit committee of the Board of Directors.

Since the Company's shares are not listed on the Cyprus Stock Exchange, the Company is not required to comply with the corporate governance regime relating to companies listed on the Cyprus Stock Exchange. In accordance with the UK Listing Rules the Company is not required to comply with the UK Corporate Governance Code. Nevertheless, the Company on its own free will is committed to comply with the world's most advanced corporate governance practices.

Board of Directors and its performance

Overview

Board of Directors consists of nine (9) members, four (4) of whom are executive directors. The Board of Directors established two (2) Committees: Audit Committee and Remuneration Committee.

Mr. German A. Tsoy
Chairman of the Board of Directors,
non-executive Director

Mr. Tsoy was appointed as Chairman of the Board of Directors in October 2010. Prior to that he has as one of the founders of the Group held various executive positions within HMS Group since its establishment in 1993. Mr. Tsoy has more than 17 years' industry experience. He graduated from Frunze Polytechnic Institute (currently the I. Razzakov Kyrgyz State Technical University) where he gained a degree in electrical engineering in 1985. He graduated from Buguruslan Flying School of Civil Aviation with a degree in civil aviation in 1979. Mr. Tsoy served as General Director of OOO HMS-Holding from 2008 until 2009 and as President since 2009.

Executive Directors

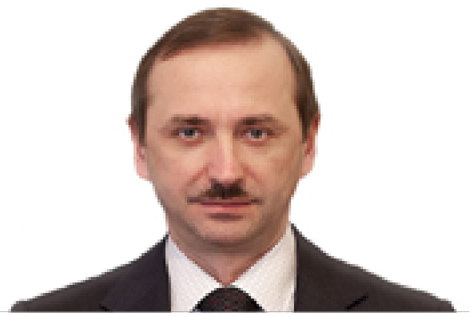
Mr. Artem V. Molchanov
Member of the Board of Directors,
Managing Director (CEO)

Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov became the President of HMS Group in 2008. Prior to that he has as one of the founders of the Group held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov has more than seventeen 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

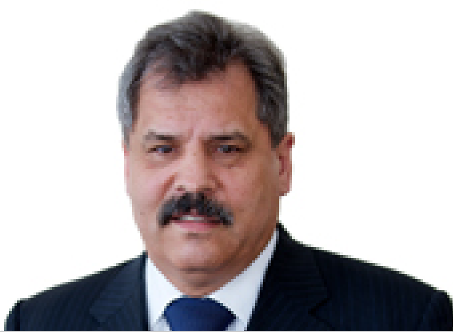
Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010 and has served as Vice-President of HMS Group since 2008. Prior to that he has as one of the founders of HMS Group held various executive positions within the Group since its establishment in 1993. Mr. Molchanov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

Executive Directors



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 Director for Strategic Marketing, a position he has held since 2008.. Prior to joining HMS Group, he served as the Chief Representative of OAO Sumy Frunze NPO (Ukraine) in Russia from 1999 until 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of OOO Machines, Equipment, Technologies, Products and Services, from 1992 until 1999. From 1986 until 1988, he served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology). Mr. Skrynnik has more than 20 years of science and management experience. Mr. Skrynnik graduated from the Sumy branch of 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 Moscow State University of Engineering and Ecology) in 1988. Mr. Skrynnik is the author of more than fifty scientific publications and twenty inventions.



Mr. Nikolai N. Yamburenko
Member of the Board of Directors

Mr. Yamburenko was appointed as an executive member of the Board of Directors in October 2010. Mr. Yamburenko is currently the Head of the Industrial Pumps Business Unit, the position he has held since 2005. Prior to joining the Group Mr. Yamburenko was the CEO of one of current group entities. Mr. Yamburenko has more than thirty two years of industry experience. He graduated from the faculty of radio electronics of Moscow Aviation Institute named after S. Ordzhonikidze where he gained a degree in radio electronics.

Non-executive Directors

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 October 2010. He has also served as the Chairman of Supervisory Board of OAO Sumy Frunze NPO (Ukraine) from 2003 until 2007. Mr. Lukyanenko has more than 18 years of industry experience. He graduated from Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology) where he gained a degree in mechanical engineering in 1991.

Mr. Philippe Delpal
Member of the Board of Directors

Mr. Delpal was appointed as an independent, non-executive member of the Board of Directors in December 2010 and is the head of the Audit Committee. Since 2010, Mr. Delpal has served as a member of the Board of Directors of Orient Express Bank and from 2008 until 2010 Mr. Delpal served as a member of the Board of Directors of OOO Arval. Between 2007 and 2010 Mr. Delpal served as President and Chairman of the board of directors of BNP Parisbas Vostok in Russia. Prior to that, Mr. Delpal founded Cetelem Russia in 2006 and served as its CEO from 2006 until 2010. He served as Chairman of the Board of Directors of Rusfinance Bank from 2005 until 2006. In addition, Mr. Delpal has over eight years of experience as an auditor at Societe Generale in Paris. He graduated from the Telecom Paris University with a degree in IT, Telecoms and Economics. Mr. Delpal is appointed to French Foreign Trade Advisory by the French Government.

Non-executive Directors

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 until 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing interests of Government of the Republic of Cyprus. From 1987 until 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law office. 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. Gary S. Yamamoto
Member of the Board of Directors

Mr. Yamamoto was appointed as an independent non-executive Director of the Board of Directors in December 2010. Prior to joining the Group he served as Chief Executive Officer at Borets International during 2009. Mr. Yamamoto has served as the President of Yamamoto Consulting since 2008. He served as a member of the Board of Directors at Radius Servis from 2007 until 2008. From 2003 until 2008, Mr. Yamamoto served as Vice-President of Schlumberger Russia. Mr. Yamamoto has more than ten years of management experience. He graduated from the University of California, Berkeley with a degree in engineering in 1988. Mr. Yamamoto is a member of Society of Petroleum Engineers and American Chamber of Commerce in Russia.

Performance in 2010

Since the Board of Directors began its work in this area at the end of 2010, mostly its work consisted of establishing internal regulations of the Board of Directors and its committees, as well as the development of corporate governance rules.

Board committees

HMS has established two committees: an audit committee and a remuneration committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee

The audit committee comprises of three directors, two of whom are non-executive, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other members are Gary S. Yamamoto and Vladimir V. Lukyanenko. The audit committee is responsible for considering, amongst other matters: (i) the integrity of HMS Group's financial statements, including its annual and interim financial statements, and the effectiveness of HMS Group's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Group of financial information and a number of other audit-related issues and assesses the efficiency of work of the Chairman of the Board of Directors.

Remuneration Committee

The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, a non-executive director, and Vladimir V. Lukyanenko and Yury N. Skrynnik and German A. Tsoy are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Group's remuneration policies. The remuneration of non-executive directors is a matter for the Chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

APPENDIX 1: DIRECTOR`S REPORT AND CONSOLIDATED FINANCIAL STATEMENT

HMS Hydraulic Machines & Systems Group plc

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

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Board of Directors

Mr. German A. Tsoy
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Yury N. Skrynnik
Executive Director
Member of Remuneration Committee

Mr. Nikolai N. Yamburenko
Executive Director

Mr. Vladimir V. Lukyanenko
Non-executive Director
Member of the Remuneration and Audit Committees

Mr. Philippe Delpal
Non-executive Director
Chairman of the Audit Committee

Mr. Andreas S. Petrou
Non-executive Director

Mr. Gary S. Yamamoto
Non-executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee

Board support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

Company Secretary
Chrysses Demetriades & Co. LLC
Fortuna Court
284 Makarios III Avenue
Limassol 3105
Cyprus
Phone +35725800000
chrussesd@demetriades.com
http://www.demetriades.com

Registered office
Capital Centre, 9th Floor,
2-4 Arch. Makarios III Avenue
Nicosia 1065
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2010. The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activity of the Group is pump manufacture and providing of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS.

Review of developments, position and performance of the Group's business

In 2010, revenue grew by 56% to RR 23,070 million, including RR 1,381 million of revenue from acquired Giprotyumenneftegaz OJSC ("GTNG"). Organic revenue growth excluding impact from GTNG acquisition was 47%. The strongest growth related to Industrial pumps segment. Revenue of Modular equipment and EPC segments has also shown solid growth, reflecting strong demand for the equipment and construction services from major Russian oil companies.

EBITDA grew by 86% to RR 3,519 million, driven by significant growth of revenues in all operating segments, focus on new, high-margin contracts and acquisition of GTNG. EBITDA margin has also improved to 15.3% in 2010 from 12.8% in 2009.

Net profit has greatly improved, from RR 70 million in 2009 to RR 1,581 million in 2010. Strong demand in favorable market conditions and improvements in operational activities were the primary factors for net profit growth in 2010.

Principal risks and uncertainties

The Group's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 36 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 34 to the consolidated financial statements.

The Board has adopted a formal process to identify, evaluate and manage significant risks faced by the Group.

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group in the foreseeable future. The Group's strategic objective is to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Group also intends to enhance its research and development capabilities leveraging the experience and knowledge base of its existing teams to develop upgrades and new solutions, as well as more energy efficient pumps. In addition, the Group will continue to pursue selective, value-enhancing acquisitions which enable it to enter attractive new markets, provide access to complementary technology and research and development facilities and which offer cost and revenue synergies with its existing businesses.

Results

The Group's results for the year are set out on page 14a of the consolidated financial statements.

Dividends

Pursuant to its Articles of Association, the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of global depository receipts (GDRs) on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by such subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and, in the case of Russian subsidiaries, is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to Russian law.

As a newly incorporated company, the Company has not previously declared any cash dividends on its share capital. The Board of Directors does not recommend any payment of cash dividends in respect of the year ended 31 December 2010.

Share capital

The Company was incorporated under the name of Bishopstow Holdings plc on 27 April 2010 as a public limited company with an authorised share capital of EUR 26,000 (RR 1,010 thousand) divided into 26,000 ordinary shares of EUR 1 each. On 7 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, the existing authorised share capital of EUR 26,000, divided into 26,000 ordinary shares of EUR 1 each, was subdivided into 2,600,000 ordinary shares of EUR 0.01 each.

On 18 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from Bishopstow Holdings Plc to H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED. The name was approved by the Registrar of Companies of Cyprus on 29 June 2010.

On 28 September 2010, pursuant to the unanimous written resolution of the general meeting of the Company the authorised share capital was increased from EUR

26,000, divided into 2,600,000 ordinary shares of EUR 0.01 each, to EUR 875,946 (RR 36,154 thousand), divided into 87,594,600 ordinary shares of EUR 0.01 each.

On 15 November 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED to HMS Hydraulic Machines & Systems Group plc. The name was approved by the Registrar of Companies of Cyprus on 3 January 2011.

On 8 December 2010, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital of the Company was increased from EUR 875,946, divided into 87,594,600 ordinary shares of EUR 0.01 each, to EUR 1,026,000 (RR 42,510 thousand), divided into 102,600,000 ordinary shares of EUR 0.01 each.

On 12 January 2011, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital was increased from EUR 1,026,000, divided into 102,600,000 ordinary shares of EUR 0.01 each, to EUR 1,207,058.82, divided into 120,705,882 ordinary shares of EUR 0.01 each.

Following the offering on 9 February 2011 ("the Offering") of GDRs, on 10 February 2011, the Company has issued 14,563,427 new ordinary shares out of the authorised share capital as fully paid at a price of USD 8.25. In the context of the Offering, the existing shareholders have also sold 29,076,573 shares to the public. Each GDR is represented by one ordinary share of the Company. The gross proceeds from the IPO, related to and receivable by the Company, amounted to approximately RR 3,530 million and the Company's transaction costs amounted to approximately RR 211 million.

At the date of approval of these consolidated financial statements, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

The Company does not have in issue any listed or unlisted securities not representing its share capital. Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its ordinary shares.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Company's Articles of Association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

The role of the Board of Directors

The Group is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Group. The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Group's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately

Members of the Board of Directors

The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 4a.

In accordance with the Company's Articles of Association all the Directors retire at the first Annual General meeting and being eligible offer themselves for re-election. At every subsequent Annual General Meeting one third of Directors shall retire by rotation and will be entitled to run for re-election.

There were no significant changes in the assignment of responsibilities of the Board of Directors.

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2010 are shown below:

Director	Interest in the share capital of the Company at 31 December 2010	Interest in the share capital of the Company at 20 April 2011
Vladimir V. Lukyanenko	36.6%	24.0%
German A. Tsoy	26.6%	17.3%
Artem V. Molchanov	9.0%	5.3%
Nikolai N. Yamburenko	7.9%	5.0%
Yury N. Skrynnik	4.1%	2.7%
Kirill V. Molchanov	2.8%	1.6%

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 37 to the consolidated financial statements.

The Board Committees

The Group has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other members are Gary S. Yamamoto and Vladimir V. Lukyanenko. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Group's financial statements, including its annual and interim financial statements, and the effectiveness of the Group's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Group of financial information and a number of other audit-related issues and assesses the efficiency of work of the Chairman of the Board of Directors.

Remuneration Committee. The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Vladimir V. Lukyanenko and Yury N. Skrynnik and German Tsoy are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Group's remuneration policies. The remuneration of independent directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Corporate Governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. The Company's and the Group's corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit and remuneration committees, ethical conduct, securities dealings and disclosure.

Board and management remuneration

The directors of the Company did not receive remuneration directly from the Company during the year ended 31 December 2010. The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RR 75,802 thousand for the year ended 31 December 2010 (2009: RR 50,778 thousand). See also Note 33.

Branches

The Company did not operate through any branches during the year ended 31 December 2010.

Treasury shares

The Company did not acquire either directly or through a person in his own name, but on the Company's behalf any of its own shares.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2010, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

German A. Tsoy
Chairman of the Board of Directors
Limassol
20 April 2011

Directors’ responsibility statement

Each of the Directors, whose names and functions are listed in page 4a of the consolidated financial statements confirm that, to the best of each person’s knowledge and belief, the consolidated financial statements:

- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113;
- give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

By order of the Board

Artem V. Molchanov
Director
20 April 2011

Kirill V. Molchanov
Director
20 April 2011

Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of HMS Hydraulic Machines & Systems Group Pic (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors'responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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pwc

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Pic as at 31 December 2010, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal and regulatory requirements

Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the Company;
- The Company's financial statements are in agreement with the books of account;
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required;
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 20 April 2011

HMS Hydraulic Machines & Systems Group plc

Consolidated Statement of Financial Position at 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	7	5,948,674	3,954,807
Other intangible assets	8	310,156	47,109
Goodwill	9	1,783,915	306,992
Investments in associates	11	507,141	507,293
Deferred income tax assets	25	130,779	53,992
Other long-term receivables	15	27,123	61,362
Total non-current assets		**8,707,788**	**4,931,555**
Current assets:			
Inventories	13	2,840,745	3,179,644
Trade and other receivables and other financial assets	14	10,399,853	2,778,048
Current income tax receivable		38,086	58,016
Prepaid expenses		39,361	36,213
Cash and cash equivalents	12	351,086	758,127
Restricted cash	12	4,978	905
		13,674,109	**6,810,953**
Non-current assets held for sale	16	96,095	-
Total current assets		**13,770,204**	**6,810,953**
TOTAL ASSETS		**22,477,992**	**11,742,508**
EQUITY AND LIABILITIES EQUITY			
Share capital	24	42,510	36,154
Share premium	24	210,862	210,862
Share capital to be issued	24	-	6,356
Currency translation reserve		(234,785)	(168,051)
Retained earnings		2,897,296	1,480,712
Other reserves	24	38,987	37,035
Equity attributable to the shareholders of the Company		**2,954,870**	**1,603,068**
Non-controlling interest		**1,508,263**	**669,631**
TOTAL EQUITY		**4,463,133**	**2,272,699**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	17	3,864,176	3,429,475
Finance lease liability	18	9	8,479
Deferred income tax liability	25	745,762	197,307
Pension liability	19	262,525	125,407
Provisions for liabilities and charges	23	35,691	11,550
Total non-current liabilities		**4,908,163**	**3,772,218**
Current liabilities:			
Trade and other payables	21	10,799,358	3,255,533
Short-term borrowings	17	775,242	1,879,914
Provisions for liabilities and charges	23	312,213	209,760
Finance lease liability	18	8,446	13,094
Pension liability	19	24,736	20,922
Current income tax payable		115,340	25,069
Other taxes payable	22	1,071,361	293,299
Total current liabilities		**13,106,696**	**5,697,591**
TOTAL LIABILITIES		**18,014,859**	**9,469,809**
TOTAL EQUITY AND LIABILITIES		**22,477,992**	**11,742,508**

Approved for issue and signed on behalf of the Board of Directors on 20 April 2011.

The accompanying notes on pages 19a to 89a are an integral part of these consolidated financial statements.

HMS Hydraulic Machines & Systems Group plc

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2010	2009
Revenue	26	23,070,014	14,772,269
Cost of sales	27	(17,367,404)	(11,164,202)
Gross profit		**5,702,610**	**3,608,067**
Distribution and transportation expenses	28	(573,198)	(482,576)
General and administrative expenses	29	(2,102,642)	(1,827,189)
Other operating expenses, net	30	(112,1 49)	(97,679)
Impairment of goodwill	9	-	(116,998)
Operating profit		**2,914,621**	**1,083,625**
Finance income	31	57,089	46,806
Finance costs	32	(823,391)	(865,141)
Share of results of associates	11	15,108	17,193
Profit before income tax		**2,163,427**	**282,483**
Income tax expense	25	(582,299)	(212,386)
Profit for the year		**1,581,128**	**70,097**
Profit/(loss) attributable to:			
Shareholders of the Company		1,469,116	(31,821)
Non-controlling interest		112,012	101,918
Profit for the year		**1,581,128**	**70,097**
Currency translation differences		(85,899)	(70,502)
Currency translation differences of associates	11	1,540	1,283
Other comprehensive loss for the year		**(84,359)**	**(69,219)**
Total comprehensive income for the year		**1,496,769**	**878**
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		1,402,382	(76,930)
Non-controlling interest		94,387	77,808
Total comprehensive income for the year		**1,496,769**	**878**
Basic and diluted earnings per ordinary share for profit/(loss) attributable to the ordinary shareholders	**24**	**14.32**	**(0.03)**

The accompanying notes on pages 19a to 89a are an integral part of these consolidated financial statements.

HMS Hydraulic Machines & Systems Group plc

Consolidated Statement of Cash Flows
for the year ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		2,163,427	282,483
Adjustments for:			
Depreciation and amortisation	7,8	449,776	343,987
Loss from disposal of property, plant and equipment and intangible assets	30	938	2,305
Finance income	31	(57,089)	(42,790)
Finance costs	32	818,773	865,141
Pension expenses/(income)	19	33,808	17,673
Warranty provision	23	51,109	18,150
Write-off of receivables		23,931	-
Interest expense related to construction contracts		17,408	14,953
Provision for impairment of accounts receivable	29	(13,023)	69,559
Impairment of taxes receivable	30	10,052	-
Investments impairment provision	30	(1,338)	6,099
Provision for obsolete inventories	27	(107,634)	95,949
Foreign exchange translation differences	31,32	4,618	(4,016)
Provision for VAT receivable	29	(10,887)	29,918
Provisions for legal claims	29	34,073	13,655
Share of results of associates	11	(15,108)	(17,193)
Impairment of goodwill	9	-	116,998
Impairment of property, plant and equipment and intangible assets	7,8,27	19,288	13,848
Loss on disposal of subsidiaries		4,360	-
Other non-cash items		(646)	(18,861)
Operating cash flows before working capital changes		**3,425,836**	**1,807,858**
Decrease/(increase) in inventories		452,945	(810,442)
(Increase)/decrease in trade and other receivables		(6,921,060)	34,526
Increase/(decrease) in taxes payable		674,369	(9,530)
Increase/(decrease) in accounts payable and accrued liabilities		7,063,530	(71,350)
Restricted cash		(4,073)	(285)
Cash generated from operations		**4,691,547**	**950,777**
Income tax paid		(277,738)	(286,395)
Interest paid		(838,533)	(875,750)
Net cash from/(used in) operating activities		**3,575,276**	**(211,368)**
Cash flows from investing activities			
Repayment of loans advanced		3,139	122,476
Loans advanced		(5,498)	(108,139)
Proceeds from sale of property, plant and equipment and intangible assets		24,585	1,775
Interest received		56	39,352
Dividends received	11	16,800	10,313
Purchase of property, plant and equipment		(950,275)	(192,365)
Acquisition of associates	11	-	(122,756)
Acquisitions of subsidiaries, net of cash acquired	10	(2,339,457)	(239,806)
Proceeds from disposal of subsidiaries, net of cash disposed		7,475	-
Acquisition of intangible assets		(48,681)	(19,741)
Net cash used in investing activities		**(3,291,856)**	**(508,891)**
Cash flows from financing activities			
Repayments of borrowings		(9,034,047)	(5,571,316)
Proceeds from borrowings		8,800,148	6,775,593
Payment for finance lease		(12,663)	(19,971)
Acquisition of non-controlling interest in subsidiaries	10	(578,844)	(208,799)
Expenses related to share issue		(58,049)	-
Cash received from capital contribution		85,817	-
Cash received from additional share issue of subsidiary		428,420	-
Dividends paid to non-controlling shareholders of subsidiaries		(320,458)	(160,009)
Net cash (used in)/from financing activities		**(689,676)**	**815,498**
Net (decrease)/increase in cash and cash equivalents		**(406,256)**	**95,239**
Effect of exchange rate changes on cash and cash equivalents		**(785)**	**(6,594)**
Cash and cash equivalents at the beginning of the year		**758,127**	**669,482**
Cash and cash equivalents at the end of the year		**351,086**	**758,127**

The accompanying notes on pages 19a to 89a are an integral part of these consolidated financial statements.

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Changes in Equity
for the year ended 31 December 2010
(in thousands of Russian Roubles, unless otherwise stated)

		Equity attributable to the shareholders of the Company								
	Note	Share capital	Share premium	Share capital to be issued	Other reserves	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009		**36,154**	**210,862**	**6,356**	**37,035**	**(122,942)**	**1,820,958**	**1,988,423**	**648,114**	**2,636,537**
Profit for the year		-	-	-	-	-	(31,821)	(31,821)	101,918	**70,097**
Other comprehensive loss										
Change in cumulative currency translation reserve		-	-	-	-	(46,392)	-	(46,392)	(24,110)	**(70,502)**
Share of comprehensive loss from associates		-	-	-	-	1,283	-	1,283	-	**1,283**
Total comprehensive income/ (loss) for the year		**-**	**-**	**-**	**-**	**(45,109)**	**(31,821)**	**(76,930)**	**77,808**	**878**
Distribution to non-controlling shareholders of the Group's subsidiaries	24	-	-	-	-	-	-	-	(160,009)	**(160,009)**
Allocation of net assets to non-controlling shareholders of the Group's subsidiaries	24	-	-	-	-	-	(123,541)	(123,541)	123,541	**-**
Business combinations	10	-	-	-	-	-	-	-	9,335	**9,335**
Acquisition of non-controlling interest in subsidiaries	10	-	-	-	-	-	(107,528)	(107,528)	(106,514)	**(214,042)**
Disposal of non-controlling interest in subsidiaries	10	-	-	-	-	-	(77,356)	(77,356)	77,356	**-**
Balance at 31 December 2009		**36,154**	**210,862**	**6,356**	**37,035**	**(168,051)**	**1,480,712**	**1,603,068**	**669,631**	**2,272,699**
Profit for the year		-	-	-	-	-	1,469,116	1,469,116	112,012	**1,581,128**
Other comprehensive income/ (loss)										
Change in cumulative currency translation reserve		-	-	-	-	(68,274)	-	(68,274)	(17,625)	**(85,899)**

		Equity attributable to the shareholders of the Company								
	Note	**Share capital**	**Share premium**	**Share capital to be issued**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Share of comprehensive income from associates		-	-	-	-	1,540	-	1,540	-	**1,540**
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**(66,734)**	**1,469,116**	**1,402,382**	**94,387**	**1,496,769**
Reclassification of share capital as a result of legal finalisation of share issue	24	6,356	-	(6,356)	-	-	-	-	-	**-**
Capital contributions from equity holders of the Company	24	-	-	-	85,817	-	-	85,817	-	**85,817**
Expenses related to share issue	24	-	-	-	(83,865)	-	-	(83,865)	-	**(83,865)**
Distribution to non-controlling interest of the Group's subsidiaries	24	-	-	-	-	-	-	-	(320,458)	**(320,458)**
Allocation of net assets to non-controlling interest of the Group's subsidiaries	24	-	-	-	-	-	(289,262)	(289,262)	289,262	**-**
Business combinations	10	-	-	-	-	-	-	-	1,591,015	**1,591,015**
Acquisition of non-controlling interest in subsidiaries	10	-	-	-	-	-	159,729	159,729	(738,573)	**(578,844)**
Disposal of non-controlling interest in subsidiaries	10	-	-	-	-	-	77,001	77,001	(77,001)	**-**
Balance at 31 December 2010		**42,510**	**210,862**	**-**	**38,987**	**(234,785)**	**2,897,296**	**2,954,870**	**1,508,263**	**4,463,133**

The accompanying notes on pages 19a to 89a are an integral part of these consolidated financial statements.

1. General Information

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010 and registered at 2-4 Arch. Makarios III Avenue, 1065 Nicosia, Cyprus, under the name of Bishopstow Holdings plc, with a start share capital of EUR 26 thousand (RR 1,010). In June 2010, the Company was acquired by a group of individuals who were shareholders of Open Joint Stock Company HMS Group ("HMS Group OJSC"), and renamed H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED. Since the date of incorporation and up to the legal acquisition of HMS Group (see below), the Company did not have any activities. On 3 January 2011, the Company was renamed HMS Hydraulic Machines & Systems Group plc.

The principal business activities of HMS Group OJSC and its subsidiaries (the "HMS Group") are the manufacture of a wide range of pumps and pumping units, manufacturing and repairing of modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. HMS Group OJSC is incorporated and domiciled in the Russian Federation. The address of its registered office is Chayanova St. 7, 125047 Moscow. The HMS Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tumen regions of the Russian Federation, Sumy in Ukraine and Minsk in Belorussia.

The parent company of HMS Group OJSC is HMS-Holding LLC which till September 2010 was jointly controlled by Hydroindustry LLC and Hydromashinvest LLC. In accordance with the charter of HMS-Holding LLC, Hydroindustry LLC had the right to appoint the executive body of HMS-Holding LLC and its subsidiaries (including HMS Group OJSC) and Hydromashinvest LLC had the right to appoint the checkup committee of HMS-Holding LLC and its subsidiaries (including HMS Group OJSC).

In September 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of HMS Group OJSC signed a restructuring agreement. Under this agreement, the shares of those shareholders in the entities, holding shares in HMS-Holding LLC and direct shares in HMS Group OJSC, were contributed into the share capital of the Company in exchange for newly issued shares (Note 24), so that their shares in this new parent company reflect their respective effective shares in HMS-Holding LLC and in HMS Group OJSC before the restructuring. The shareholders' rig hts in respect of the Group's governance and control were contractually retained during the restructuring period.

In December 2010, the shareholders of the Company signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in the Company into the share capital of a private Cyprus entity named H.M.S. Technologies Ltd. ("HMST"). In accordance with this agreement, upon the contribution of shares, occurred in steps in January and February 2011, the group of shareholders comprising former shareholders of Hydroindustry LLC obtained the right to appoint all members of the Boards of Directors of HMST and of the Company, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC obtained the right to appoint one director to the Boards of Directors of HMST and of the Company, who oversees the control and revision function. Consequently, the group of shareholders comprising former shareholders of Hydroindustry LLC obtained control over the Company (see Note 37). At 31 December 2010, this group of shareholders consisted of Mr. Tsoy G.A., Mr. Molchanov A.V., Mr. Molchanov K.V., Mr. Khromov V.V., Mr. Frolov A.V. and Mr. Borovko A.A.

The Company and its subsidiaries, over which the Company obtained control as a result of restructuring procedures, described above, are together referred to as the Group.

2. Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3. Summary of Significant Accounting Policies

Basis of preparation

These consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

As described in Note 1, during 2010, the parent company of HMS Group has changed from HMS Group OJSC to HMS Hydraulic Machines & Systems Group plc. The IFRS consolidated balance sheet at 31 December 2010 has been prepared using a predecessor accounting method. The assets and liabilities of HMS Group's subsidiaries were recorded in these consolidated financial statements at their pre-restructuring IFRS carrying amounts. The share capital and share premium are presented to provide useful information to the users of the financial statement about the share capital of the new parent using the predecessor basis as of 1 January 2009. The difference between the predecessor value of share capital and the value of the Company's share capital and share premium was recorded as an adjustment in retained earnings. Also, the difference between the predecessor value of other reserves and the value of other reserves of the restructured Group was recorded as an adjustment in retained earnings.

A reconciliation between previously presented equity items presented by HMS Group OJSC to the amounts disclosed in these consolidated financial statements is presented below:

	Share capital	Share premium	Share capital to be issued	Other reserves	Currency translation reserve	Retained earnings	Non-controlling interest	Total equity
At 1 January 2009								
Equity previously disclosed	591,180	-	-	(26,834)	(122,942)	1,635,994	648,114	**2,725,512**
Transfer due to restructuring	(555,026)	210,862	6,356	63,869	-	273,939	-	**-**
Other*	-	-	-	-	-	(88,975)	-	**(88,975)**
Equity after restructuring	**36,154**	**210,862**	**6,356**	**37,035**	**(122,942)**	**1,820,958**	**648,114**	**2,636,537**
At 31 December 2009								
Equity previously disclosed	591,180	-	-	(26,834)	(168,051)	1,308,801	669,631	**2,374,727**
Loss for the year ended 31 December 2009	-	-	-	-	-	(13,053)	-	**(13,053)**
Transfer due to restructuring	(555,026)	210,862	6,356	63,869	-	273,939	-	**-**
Other*	-	-	-	-	-	(88,975)	-	**(88,975)**
Equity after restructuring	**36,154**	**210,862**	**6,356**	**37,035**	**(168,051)**	**1,480,712**	**669,631**	**2,272,699**
At 30 September 2010								
Equity previously disclosed	591,180	-	-	(26,834)	(215,099)	2,289,106	1,493,756	**4,132,109**
Loss for the year ended 31 December 2009	-	-	-	-	-	(13,053)	-	**(13,053)**
Loss for the nine months ended 30 September 2010	-	-	-	-	-	(6,198)	-	**(6,198)**
Transfer due to restructuring	(555,026)	210,862	6,356	63,869	-	273,939	-	**-**
Capital contributions from equity holders of the Company	-	-	-	85,806	-	-	-	**85,806**
Other*	-	-	-	-	-	(88,975)	-	**(88,975)**
Equity after restructuring	**36,154**	**210,862**	**6,356**	**122,841**	**(215,099)**	**2,454,819**	**1,493,756**	**4,109,689**

* Other – include effect of consolidation of companies that hold directly and indirectly 100% in share capital of HMS Group OJSC.

Consolidated financial statements

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values, other than equity-related contingent consideration, are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(R) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment";
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

When acquisition does not meet the definition of a business, the Group allocates the cost of such acquisition between the individual identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units ("CGUs"), or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's subsidiaries and associates are Russian Roubles ("RR"), Ukrainian Hryvnas ("UAH"), and Belorussian Roubles ("BYR"); and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities, denominated in foreign currencies, are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

The results and financial position of all of the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2010 and 2009, the principal rates of exchange used for translating foreign currency balances were:

	2010	2009
1 USD = RR	30.4769	30.2442
1 UAH = RR	3.8283	3.7617
1 BYR = RR	0.01016	0.01061

Current and non-current assets and liabilities

The classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months after the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months after the reporting date. In case of construction contracts, an asset or liability is classified as non-current when the item is realised or settled respectively beyond the Group's normal operating cycle; and as a current asset or liability when the item is realised or settled in the Group's normal operating cycle. Accordingly, there are amounts due to/due from customers under construction contracts, inventories, advances to suppliers and subcontractors, which may not be realised within twelve months after the reporting date, that have been classified as current.

Property, plant and equipment

Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Years
Buildings	2-80
Plant and equipment	5-30
Transport	5-15
Other	3-7

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Other intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Years
Patents	5-20
Licensed technology	1-18
Software licenses	1-7
Customer relationships and order backlog	2-5
Trademarks	5-10
Websites	2-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Non-current assets held for sale
Non-current assets and disposal groups are classified in the consolidated statement of financial position as non-current assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Financial assets
All financial assets of the Group fall into one measurement category: loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, other long-term receivables and cash and cash equivalents in the statement of financial position.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less or deposits with original maturity of more than three month which could be withdrawn on demand. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are included in other non-current assets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

All financial liabilities of the Group fall into one measurement category: other financial liabilities, which include trade and other payables, borrowings and finance lease liabilities.

Trade and other payables. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity), borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Advances issued

Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries and associates operate and generate taxable income, primarily the Russian legislation. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount receivable, including VAT.

Provisions for liabilities and charges

Provisions, including provisions for environmental liabilities and asset retirement obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Uncertain tax positions

Management assesses, based on its interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. The assessment is based on the interpretation of law tax that have been enacted or substantively enacted by the end of the reporting period and any know court or other rulings on such issues. Liability for penalties, interest and taxes other than on income is recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Pension and other post-employment benefits

Group companies operate unfunded post-employment benefits plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of any plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are recognised immediately in the profit or loss as they arise.

Past service costs are recognised immediately in profit and loss, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Short-term employee benefits

Wages, salaries, contributions to the state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses.

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorised for issue.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, risks and rewards of ownership of the goods have been transferred and it is probable that future economic benefits will flow to the entity. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the statement of financial position date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within trade accounts receivable.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with revenue, result or assets exceeding ten percent of the respective total amount for all segments are reported separately.

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Agreements for construction and delivery of pumping units for Purpe-Samotlor and Eastern Siberia Pacific Ocean oil pipelines

During the year ended 31 December 2010, the Group entered into a number of agreements for construction and delivery of oil-trunk pumping units and spare parts for the oil pipelines Purpe-Samotlor and Eastern Siberia Pacific Ocean, which are constructed to provide export of crude oil from Russia to the Asian Pacific markets, including Japan, China and Korea. Pumping units, which will be combined in pumping stations, constructed under these agreements, represent complex highly customised equipment consisting of unique components and parts. Under these agreements, the Group will also perform supervision of pumping units installation and pumping stations start-up process. Total budgeted revenue for these contracts at 31 December 2010 exceeds RR 12 billion. The contracts are expected to be executed during 2010-2013.

The Group applied percentage of completion method to the accounting for these contracts. Revenue for these contracts is recognised as the production and construction work progresses. In determining the stage of completion, the Group also considers work performed by subcontractors, involved by the Group into these projects.

Method of accounting used for these contracts places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the respective contract significant estimates include total contract costs, remaining cost to completion, contract risks and other judgments. Management of the respective operating divisions continually reviews all estimates involved in such construction contracts and adjusts them as necessary.
In accordance with Russian Civil Code and the terms of the respective agreements, in certain circumstances and where supply terms are not adhered to, the Group may be subject to penalties or rejection by the customer to accept the equipment. Management assesses such risk as remote and does not expect such conditions to result in a loss to the Group.

Provisions for warranty corresponding to sale of pumping units and spare parts are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation.

For the year ended 31 December 2010, the Group recognised revenue in respect of these contracts of RR 3,494,235. This amount is included as part of revenue from construction contracts (Note 26). At 31 December 2010, payables due to customers (Note 21) include the amount of RR 5,598,531, representing net amount of advances received from customers of RR 9,092,766 (excluding VAT) and recognised revenue of RR 3,494,235, and advances paid to suppliers and subcontractors (Note 14) include the amount of RR 3,299,726 (including VAT), related to these contracts.

In accordance with internal management reports, which form the basis for the Group’s segment reporting, these contracts relate to Industrial pumps segment.

(b) Assessment of construction revenue and receivables related to construction contracts

Under IAS 11, construction revenue is measured at the fair value of the consideration received or receivable. The amount of revenue and estimates should be revised as events occur and any uncertainties are resolved.

A variation is included in contract revenue when: it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and the amount of revenue can be reliably measured. Because of the frequency and large number of disputes that arise on construction contracts and the length of time over which negotiations may stretch, the Group takes variations and claims into account only when they have actually been approved by the customer. In 2010, the Group recognised RR 121,532 of construction revenue based on the written confirmation by the customer to sign off the additional agreement to existing construction contract.

In addition, receivables related to construction contracts are subject to credit risk. In other words, although some revenue continues to be contractually bound, the customer can still refuse to pay or to pay in time. Where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, any provision against the amount due is recognised as an expense.

(c) Presentation of inventory/net payable or receivable on construction contracts

The Group's construction contracts include substantial amounts of materials bought from customers and subsequently re-invoiced to customers together with the cost of construction services provided. Final settlements are usually made through offsetting the payables for these materials and related receivables and paying the resulting balance. The Group bears all risks and rewards on buying and using these materials. Therefore, management decided that revenues and costs related to these materials are to be recognised and presented in the profit or loss for the period on a gross basis and the inventories/net payable or receivable in the statement of financial position.

(d) Assessment of useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (h) technical or commercial obsolescence arising from changes in market conditions.

If the management's estimates on useful lives differ by 10%, the impact on depreciation for the year ended 31 December 2010 would be either increase or decrease by RR 36,115 (2009: RR 32,297).

(e) Estimated impairment of property, plant and equipment and goodwill

At 31 December 2010, the Group performed an impairment test of certain cash generating units. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. As a result of this test, the Group recognised an impairment of property, plant and equipment of HMS Household Pumps OJSC in amount of RR 19,288 (Note 7).

(f) Provision for pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 19). The Group's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions.

(g) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 34.

(h) Related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Refer to Note 33.

(i) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

5. Adoption of New or Revised

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 12, Service Concession Arrangements (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, with early adoption permitted). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. IFRIC 17 is not relevant to the Group's operations.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements as the Group does not apply hedge accounting.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have any impact on the Group's consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The revised IAS 27 has been applied by the Group. As a result of this application, there is no material impact on these consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 has been applied by the Group prospectively and therefore there is no impact on prior periods in these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. These amendments did not have any material effect on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendments did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, "Determining Whether an Arrangement Contains a Lease" when the application of their national accounting requirements produced the same result. The amendments did not have any impact on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Group concluded that the amendments did not have any material effect on its consolidated financial statements.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 and which the Group has not early adopted.

(i) Adopted by the European Union

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The IFRIC is not expected to have an impact on the Group's consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

(ii) Not adopted by the European Union

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment was incorporate into IAS 12 after excluding guidance regarding investment property measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7. Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost	125,158	2,263,606	1,708,552	162,978	167,508	260,847	4,688,649
Accumulated depreciation	-	(153,191)	(462,575)	(70,206)	(74,304)	-	(760,276)
Carrying amount at 1 January 2009	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Acquisitions through business combinations (Note 10)	10,746	90,274	25,886	1,174	2,967	-	131,047
Additions	7,637	45,914	115,650	8,418	34,413	104,066	316,098
Transfers	-	138,731	46,296	-	3,670	(188,697)	-
Disposals	(5,098)	(2,166)	(7,606)	28	(2,118)	(30,603)	(47,563)
Impairment charge	-	(1,850)	(6,699)	-	(1,082)	(927)	(10,558)
Depreciation	-	(74,974)	(192,811)	(24,381)	(30,420)	-	(322,586)
Translation to presentation currency	(713)	(23,792)	(13,824)	(1,284)	(609)	218	(40,004)
Cost	137,730	2,510,359	1,866,313	167,577	202,145	145,831	5,029,955
Accumulated depreciation and impairment	-	(227,807)	(653,444)	(90,850)	(102,120)	(927)	(1,075,148)
Carrying amount at 31 December 2009	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Acquisitions through business combinations (Note 10)	8,293	1,302,442	102,088	10,548	106,982	34,549	1,564,902
Additions	8,475	66,927	198,923	41,460	52,615	586,326	954,726
Transfers	-	51,830	32,014	6	1,052	(84,902)	-
Assets of disposal group classified as held for sale	-	(94,562)	(1,533)	-	-	-	(96,095)
Impairment charge	-	(19,288)	-	-	-	-	(19,288)
Disposals	-	(8,205)	(9,389)	(2,048)	(13,786)	(12,014)	(45,442)
Depreciation	-	(106,230)	(178,524)	(24,524)	(51,868)	-	(361,146)
Translation to presentation currency	505	(1,594)	335	(61)	20	(2,995)	(3,790)
Cost	155,003	3,811,800	2,137,494	206,569	334,025	665,868	7,310,759
Accumulated depreciation and impairment	-	(337,928)	(780,711)	(104,461)	(138,985)	-	(1,362,085)
Carrying amount at 31 December 2010	**155,003**	**3,473,872**	**1,356,783**	**102,108**	**195,040**	**665,868**	**5,948,674**

At 31 December 2010, the Group's property, plant and equipment for a total of RR 496,930 had been pledged as security for certain borrowings (31 December 2009: RR 1,009,149) (Note 17).
Construction-in-progress includes advances for capital expenditures for a total of RR 94,222 at 31 December 2010 (31 December 2009: RR 49,843).

At 31 December 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 105,777 (31 December 2009: RR 33,168).

Due to impairment indicators, which arose as a result of the economic crisis, occurred at the end of 2009 and during 2010 the impairment test was performed for certain cash-generating units.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of impairment tests the Group recognised an impairment of property, plant and equipment of HMS Household Pumps OJSC in amount of RR 19,288 at 31 December 2010 and for the year then ended (at 31 December 2009 and for the year then ended: RR 10,558 for property, plant and equipment and RR 3,290 for other intangible assets related to HMS Household Pumps OJSC).

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	31 December 2010	31 December 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 14% to 19%	From 16% to 22%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

8. Other Intangible Assets

	Patents	Licensed technology	Acquired software licenses	Customer relationships and order backlog	Trademarks	Websites	Total
Cost	12,576	13,097	18,429	7,595	14,528	70	66,295
Accumulated amortisation and impairment	(550)	(4,610)	(4,661)	(2,586)	(434)	(15)	(12,856)
Carrying amount at 1 January 2009	12,026	8,487	13,768	5,009	14,094	55	53,439
Acquisitions through business combinations (Note 10)	-	2,390	-	-	-	-	2,390
Additions	19	4,638	10,131	-	3,935	1,134	19,857
Disposals	(6)	(1,565)	(969)	(213)	-	-	(2,753)
Impairment charge	-	(700)	(2,590)	-	-	-	(3,290)
Amortisation	(2,990)	(4,168)	(6,720)	(4,504)	(2,944)	(75)	(21,401)
Translation to presentation currency	(1,198)	(13)	(25)	320	(215)	(2)	(1,133)
Cost	11,015	15,955	26,767	4,893	18,108	1,201	77,939
Accumulated amortisation and impairment	(3,164)	(6,886)	(13,172)	(4,281)	(3,238)	(89)	(30,830)
Carrying amount at 31 December 2009	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Acquisitions through business combinations (Note 10)	13	102	5,014	275,354	33,826	-	314,309
Additions	587	14,807	30,662	-	2,150	44	48,250
Disposals	-	(519)	(1,578)	-	(8,774)	-	(10,871)
Amortisation	(2,185)	(5,733)	(11,660)	(61,582)	(7,328)	(142)	(88,630)
Translation to presentation currency	(75)	24	(89)	-	129	-	(11)
Cost	9,464	25,064	54,111	275,355	39,910	1,202	405,106
Accumulated amortisation and impairment	(3,273)	(7,314)	(18,167)	(60,971)	(5,037)	(188)	(94,950)
Carrying amount at 31 December 2010	**6,191**	**17,750**	**35,944**	**214,384**	**34,873**	**1,014**	**310,156**

9. Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	2010	2009
Gross book value at 1 January	**423,990**	**306,682**
Accumulated impairment at 1 January	(116,998)	-
Carrying amount at 1 January	**306,992**	**306,682**
Acquisitions of subsidiaries (Note 10)	1,481,442	117,308
Disposals of subsidiaries (Note 10)	(4,519)	-
Impairment of goodwill	-	(116,998)
Gross book value	**1,900,913**	**423,990**
Accumulated impairment losses	(116,998)	(116,998)
Carrying amount at 31 December	**1,783,915**	**306,992**

Goodwill allocation to CGUs or groups of CGUs is as follows:

	31 December 2010	31 December 2009
EPC segment (goodwill acquired in aquisition of Giprotyumenneftegaz OJSC)	1,481,442	-
EPF “SIBNA” Inc. OJSC	117,308	117,308
Trest Sibkomplektmontazhnaladka OJSC	95,691	95,691
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Tomskgazstroy OJSC	16,757	16,757
Gydromash-Industria LLC	-	4,519
Total carrying amount of goodwill	**1,783,915**	**306,992**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge was required at 31 December 2010.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	31 December 2010	31 December 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 14% to 19%	From 16% to 22%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of impairment tests performed at 31 December 2009 an impairment loss in relation to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Institute Rostovskiy Vodokanalproekt OJSC ("IRVKP") (RR 22,117) was identified and recognised in consolidated financial statements of the Group for the year ended 31 December 2009.

10. Business Combinations

Acquisition of Giprotyumenneftegaz OJSC

In June 2010, the Group acquired 51% of ordinary shares in Giprotyumenneftegaz OJSC ("GTNG") for RR 2,467,330 paid in cash. Based on the acquired entity's share capital structure, 51% of ordinary shares represented the effective interest of 38.26% of total equity of GTNG.

The acquired entity's activity is rendering design and engineering services for oil and gas companies located mainly in Tyumen Region. GTNG is the leading design and engineering institute servicing the oil and gas industry in Russia. This acquisition significantly enhanced the Group's engineering, procurement and construction segment allowing the Group to extend the range of services provided to oil and gas industry.

The acquired company contributed revenue of RR 1,380,664 and profit after income tax of RR 122,622 to the Group for the period from the date of acquisition to 31 December 2010. Had the acquisition occurred on 1 January 2010, the revenue from the acquired business would have been RR 2,203,945 and profit after income tax would have been RR 134,707 for the year ended 31 December 2010.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at its respective share in the acquired entity's identifiable net assets at the date of acquisition.

At the time of acquisition, the Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis and reported the provisional results of acquisition in the unaudited consolidated condensed interim financial information for the nine months ended 30 September 2010. The purchase price allocation was finalised during the three months ended 31 December 2010 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	IFRS carrying amounts immediately before the business combination	Provisional value at the date of acquisition	Final value at the date of acquisition
Property, plant and equipment	1,398,104	1,547,154	1,564,902
Intangible assets	4,890	38,955	314,309
Other long-term receivables from the Group	402,888	402,888	402,888
Inventories	28,897	28,897	28,897
Trade and other receivables	756,309	756,309	732,162
Advance payment for investment to the Group's subsidiary	428,420	428,420	428,420
Cash and cash equivalents	127,873	127,873	127,873
Deferred tax liability	(193,359)	(229,982)	(288,839)
Pension liability – non-current portion	(70,820)	(109,745)	(109,745)
Trade and other payables	(561,199)	(561,199)	(535,856)
Pension liability – current portion	(10,467)	(10,467)	(10,467)
Other taxes payable	(77,641)	(77,641)	(77,641)
Carrying value of net assets/ Fair value of net assets	**2,233,895**	**2,341,462**	**2,576,903**
Less: Non-controlling interest	-	(1,445,651)	(1,591,015)
Fair value of acquired interest in net assets		**895,811**	**985,888**
Goodwill	-	1,571,519	1,481,442
Total purchase consideration	**-**	**2,467,330**	**2,467,330**
Less: cash and cash equivalents of subsidiaries acquired	-	(127,873)	(127,873)
Outflow of cash and cash equivalents on acquisition	**-**	**2,339,457**	**2,339,457**

The goodwill is primarily attributable to the unique expertise and experience of the acquiree, to profitability of the acquired business, as well as to synergy expected to be realised in relation to the Group's servicing of oil and gas industry.

Acquisition of EPF "SIBNA"

In June 2009, the Group acquired control over EPF "SIBNA" Inc. OJSC by increasing its share from 29.9% to 76.7% for purchase consideration of RR 247,896, paid in cash. The acquired entity's activity is the sales and repair oil and gas equipment, design of instrumentation technology. The acquired company contributed revenue of RR 108,799 and profit after income tax of RR 16,365 to the Group for the period from the date of acquisition to 31 December 2009. Had the acquisition occurred on 1 January 2009, the revenue from the acquired business would have been RR 176,596, and profit after income tax would have been RR 18,645 for the year ended 31 December 2009.

The summary of assets acquired and liabilities assumed are as follows:

	Fair value
Property, plant and equipment	131,047
Intangible assets	2,390
Other long-term receivables	1,186
Inventories	62,414
Trade and other receivables	30,785
Cash and cash equivalents	8,090
Deferred tax liability	(16,445)
Pension liability	(2,724)
Trade and other payable	(9,946)
Pension liability	(494)
Other taxes payable	(3,937)
Fair value of net assets	**202,366**
Less: Minority interest	(9,335)
Less: Fair value of the interest in associate previously held	(62,443)
Fair value of acquired interest in net assets	**130,588**
Goodwill	117,308
Total purchase consideration	**247,896**
Less: cash and cash equivalents of subsidiaries acquired	(8,090)
Outflow of cash and cash equivalents on acquisition	**239,806**

The goodwill is primarily attributable to the profitability of the acquired businesses, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser.

The acquired entity did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Disposal of controlling interest in Hydromash-Industria LLC

In June 2010, the Group sold its 100% share in Hydromash-Industria LLC for a cash consideration of RR 7,475. Loss on disposal of this investment, amounting to RR 4,360, was included in the consolidated statement of comprehensive income as other operating expenses.

Acquisition/disposal of non-controlling interest in subsidiaries

In March 2010, the Group acquired an additional 3.36% interest in Tomskgazstroy OJSC for RR 32,164, paid in cash. As a result of this transaction, the Group increased its ownership interest in Tomskgazstroy OJSC from 77.42% to 80.78% decreasing the non-controlling interest by RR 21,344.

On 25 May 2010, GTNG entered into the share purchase agreement with OJSC Trest Sibkomplektmontazhnaladka ("SKMN"), a subsidiary of the Group, to acquire an additional share issue of SKMN for a cash consideration of RR 428,420. As a result of the purchase of the additional share issue GTNG obtained 32.71% interest in SKMN in July 2010. As a result, the Group's effective share in SKMN decreased from 100.00% to 79.63% and non-controlling interest decreased by RR 94,033. Also, as a result of this transaction, the Group's interest in HYDROMASHINPROM CJSC, SKMN's subsidiary, decreased from 71.34% to 61.68% increasing the non-controlling interest by RR 5,298, the Group's interest in Sibservice LLC, SKMN's subsidiary, decreased from 71.34% to 61.68% increasing the non-controlling interest by RR 2,600, the Group's interest in IRVKP, SKMN's subsidiary, decreased from 72.03% to 67.43% increasing the non-controlling interest by RR 9,134.

In June 2010, the Group acquired an additional 2.40% interest in HMS Pumps OJSC (formerly Livhydromash OJSC) for RR 7,945 paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Pumps OJSC from 95.83% to 98.23% decreasing the non-controlling interest by RR 16,546.

In August 2010, the Group acquired an additional 1.61% interest in HMS Neftemash OJSC (formerly Neftemash OJSC) for RR 119,645, paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Neftemash OJSC from 80.44% to 82.05% decreasing the non-controlling interest by RR 119,187. As a result of the acquisition of an additional interest in HMS Neftemash OJSC, the Group increased its effective ownership interest in Nizhnevartovskremservis CJSC from 80.44% to 82.05% decreasing the non-controlling interest by RR 4,721, the Group increased its effective ownership interest in EPF "SIBNA" Inc. OJSC from 76.73% to 78.26% decreasing the non-controlling interest by RR 3,348 and in Livnynasos OJSC from 80.36% to 82.04% decreasing the non-controlling interest by RR 9,525.

In September 2010, the Group acquired an additional 7.62% interest in GTNG for RR 417,982, paid in cash. As a result of this transaction, the Group increased its ownership interest in GTNG from 38.26% to 45.88% decreasing the non-controlling interest by RR 432,901. As a result of this transaction, the Group increased its ownership interest in SKMN from 79.63% to 82.14% decreasing the non-controlling interest by RR 9,483.

In November 2010, the Group acquired an additional 39.78% interest in HMS Household Pumps OJSC (formerly Electrodvigatel OJSC) for RR 1,975 paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Household Pumps OJSC from 56.89% to 96.67% increasing the non-controlling interest by RR 10,145.

In November 2010, the Group acquired an additional 1.77% interest in HMS Pumps OJSC for RR 500 paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Pumps OJSC from 98.23% to 100% decreasing the non-controlling interest by RR 9,595.

In December 2010, the Group acquired an additional 17.95% interest in HMS Neftemash OJSC for RR 612, paid in cash. As a result of this transaction, the Group increased its ownership interest in HMS Neftemash OJSC from 82.05% to 100% decreasing the non-controlling interest by RR 41,166. As a result of the acquisition of an additional interest in HMS Neftemash OJSC, the Group increased its effective ownership interest in Nizhnevartovskremservis CJSC from 82.05% to 100% decreasing the non-controlling interest by RR 60,532, the Group increased its effective ownership interest in EPF "SIBNA" Inc. OJSC from 78.26% to 95.39% decreasing the non-controlling interest by RR 5,276 and in Livnynasos OJSC from 82.04% to 100.00% decreasing the non-controlling interest by RR 70,936.

In December 2010, the Group acquired an additional 20,62% interest in HYDROMASHINPROM CJSC for RR 7 paid in cash. As a result of this transaction, the Group increased its ownership interest in HYDROMASHINPROM CJSC from 61.68% to 82.30% increasing the non-controlling interest by RR 59,410.

For the year ended 31 December 2010, other transactions with non-controlling interest resulted in the decrease of non-controlling interest by RR 3,568.

In January 2009, the Group acquired an additional 1.4% interest in SKMN for RR 1,900, paid in cash. As a result of this transaction, the Group increased its ownership interest in SKMN from 98.6% to 100% decreasing the non-controlling interest by RR 2,713.

During 2009, in a series of transactions the Group acquired an additional interest 15.89% in Tomskgazstroy OJSC for RR 144,296 paid in cash. As a result of these transactions, the Group increased its ownership interest in Tomskgazstroy OJSC from 62.01% to 77.90% decreasing the non-controlling interest by RR 59,083.

In February 2009, the Group acquired an additional 0.01% interest in Nizhnevartovskremservice CJSC ("NRS") for RR 24 paid in cash. In June 2009, the Group transferred 19.84% interest in NRS from HYDROMASHSERVICE CJSC to Neftemash OJSC. As a result of these transactions, the Group decreased its ownership interest in NRS from 100% to 80.16% increasing the non-controlling interest by RR 55,029.

In March 2009, the Group acquired an additional 10.36% interest in Livnynasos OJSC for RR 62,086, paid in cash. As a result of this transaction, the Group increased its ownership interest in Livnynasos OJSC from 70.00% to 80.36% decreasing the non-controlling interest by RR 39,885.

In August 2009, the Group acquired an additional 0.31% interest in Electrodvigatel OJSC for RR 26, paid in cash. As a result of this transaction, the Group increased its ownership interest in Electrodvigatel OJSC from 56.58% to 56.89% decreasing the non-controlling interest by RR 11.

In September 2009, the Group transferred its 99.53% interest in SPA Gydromash CJSC from HYDROMASHSERVICE CJSC to Nasosenergomash OJSC. As a result of this transaction, the Group decreased its ownership interest in SPA Gydromash CJSC from 99.53% to 82.89% increasing the non-controlling interest by RR 22,327.

In September 2009, the Group acquired an additional 0.28% interest in Nasosenergomash OJSC for RR 467, paid in cash. As a result of this transaction, the Group increased its ownership interest in Nasosenergomash OJSC from 83.00% to 83.28% decreasing the non-controlling interest by RR 2,514.

In 2009, the Group transferred interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 98.1% to 98.9% and decreased the non-controlling interest by RR 2,305.

11. Investments in Associates

In June 2009, the Group increased its nominal interest in Dimitrovgradkhimmash OJSC by 10% for RR 122,756 paid in cash. The Group's share within associated net assets at acquisition date was RR 76,820.

In February 2009, one of the Group's subsidiaries – IRVKP disposed of its 35.29% share in Vodokanalproektirovanie LLC through the return of capital contribution previously made by property, plant and equipment.

Investments in associates at 31 December 2010 include goodwill of RR 113,195 (31 December 2009: RR 113,195).

The Group's investments in associates are as follows:

	2010	2009
Carrying amount at 1 January	**507,293**	**449,848**
Cost of acquisition of associates	-	122,756
Cost of disposal of associates	-	(11,031)
Reclassification due to acquisition of controlling interest	-	(62,443)
Dividends	(16,800)	(10,313)
Share of after tax results of associates	15,108	17,193
Translation to presentation currency	1,540	1,283
Carrying amount at 31 December	**507,141**	**507,293**

At 31 December 2010, the Group's interest in associates and total financial information including assets, liabilities, revenue and gains and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,119,608	340,956	1,126,062	44,319	40.00%	Russian Federation
VNIIAEN OJSC	208,548	33,713	67,483	(5,553)	47.18%	Ukraine

At 31 December 2009, the Group's interest in associates and total financial information including assets, liabilities, revenue and gains and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,034,601	258,265	910,840	77,297	40.00%	Russian Federation
VNIIAEN OJSC	198,571	21,075	76,404	(14,224)	47.18%	Ukraine

12. Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2010	31 December 2009
Cash on hand	1,322	723
RR denominated balances with banks	234,549	268,532
Foreign currency denominated balances with banks	26,817	107,088
RR denominated bank deposits	87,220	381,044
Other cash equivalents	1,178	740
Total cash and cash equivalents	**351,086**	**758,127**

At 31 December 2010, the closing balance of short-term bank deposits comprised short-term bank deposits in three banks with 1.6-14.0% interest rate (31 December 2009: 1.0-13.0% – six banks).

Restricted cash

Restricted cash of RR 4,978 (31 December 2009: RR 905) represents minimum balances for settlement and corporate plastic cards accounts.

13. Inventories

	31 December 2010	31 December 2009
Raw materials and supplies	1,088,447	951,228
Inventory for implementation of construction contracts	482,978	1,072,281
Work in progress	726,119	414,879
Finished goods and goods for resale	490,605	838,670
Other inventories	173,499	127,087
Provision for obsolete inventories	(120,903)	(224,501)
Total inventories	**2,840,745**	**3,179,644**

At 31 December 2010, inventories of RR 454,241 were pledged as collateral for certain borrowings (31 December 2009: RR 527,890) (Note 17).

The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 27.

14. Trade and Other Receivables and Other Financial Assets

	31 December 2010	31 December 2009
Trade receivables	3,096,779	1,507,542
Less: provision for impairment of trade receivables	(91,980)	(111,184)
Short-term loans issued	3,011	4,727
Bank promissory notes receivable	5,389	3,533
Bank deposits	47,534	24,518
Promissory notes receivable	-	2,706
Other receivables	68,847	80,105
Less: provision for impairment of other receivables	(932)	(23,189)
Receivable due from customers for construction work (Note 20)	388,442	154,388
Less: provision for receivable due from customers for construction work	(95,560)	(95,560)
Financial assets within trade and other receivables, net	**3,421,530**	**1,547,586**
Advances to suppliers and subcontractors	4,705,203	714,064
Less: provision for impairment of advances to suppliers	(80,284)	(52,069)
VAT receivable	2,350,783	585,890
Provision for VAT receivable	(21,915)	(32,802)
Other taxes receivable	24,536	15,379
Non-financial assets within other receivables, net	**6,978,323**	**1,230,462**
Total trade and other receivables	**10,399,853**	**2,778,048**

Included in VAT receivable at 31 December 2010 is VAT related to advances received from customers in amount of RR 1,874,742 (31 December 2009: RR 63,866). This amount will be recovered as goods, work and services are provided after the reporting date. Also, VAT receivable includes export tax which will reduce VAT payable to the state budget after confirmation from tax authorities is received after the reporting date.

Current trade receivables consist of trade receivables for goods shipped and services delivered.

At 31 December 2010, trade receivables of RR 91,980 (31 December 2009: RR 111,184) and other financial receivables of RR 96,492 (31 December 2009: RR 118,749) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations. Provision for receivable due from customers for construction work in progress of RR 95,560 at 31 December 2010 and 2009 relates to the customer of the Group – Gazpromstroy LLC, for increased cost of materials used in construction. The Group pursued legal actions against the company but latest court holdings were judged for the defendant.

Movement in provision for impairment of financial assets is presented below:

	2010		2009	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision for impairment of financial assets at 1 January	**111,184**	**118,749**	**126,729**	**7,822**
Provision for receivables impairment	-	-	-	110,927
Unused amounts reversed	(19,095)	(22,142)	(19,459)	-
Effect of translation to presentation currency	(109)	(115)	-	-
Business combinations	-	-	3,914	-
Provision for impairment of financial assets at 31 December	**91,980**	**96,492**	**111,184**	**118,749**

Movement in provision for impairment of non-financial assets within other receivables is presented below:

	2010	2009
Provision for impairment of non-financial assets at 1 January	**84,872**	**76,863**
Provision for receivables impairment	28,214	29,918
Unused amounts reversed	(10,887)	(21,909)
Provision for impairment of non-financial assets at 31 December	**102,199**	**84,872**

The carrying amounts of the Group's financial assets within trade and other receivables are denominated in the following currencies:

	31 December 2010	31 December 2009
RR	3,288,172	1,464,287
USD	115,087	52,630
EURO	946	11,151
UAH	7,276	8,190
BYR	10,049	11,328
	3,421,530	**1,547,586**

15. Other Long-term Receivables

	31 December 2010	31 December 2009
Long-term loans issued	21,267	15,728
Long-term trade receivables	-	4,349
Long-term other receivables	-	28,000
Long-term deposits receivable	-	11,421
Financial assets within other long-term receivables	**21,267**	**59,498**
Other non-current assets	5,856	1,864
Total other long-term receivables	**27,123**	**61,362**

16. Non-current Assets Held for Sale

At 31 December 2010, the assets classified as held for sale in the amount of RR 96,095 represented certain buildings and plant and equipment which the Group intends to dispose of in the next twelve months in accordance with the approved plan of sale. Initially, this property was classified as part of property, plant and equipment. No loss was recognised on reclassification of this property as held for sale assets.

17. Borrowings

	Interest rate	Denominated in	Maturity	31 December 2010	31 December 2009
Long-term loans:					
Long-term loan 1	9.55%	RR	August 2012	800,000	800,000
Long-term loan 2	9.55%	RR	December 2012	500,000	500,000
Long-term loan 3	11.30%	RR	May 2015	1,455,337	-
Long-term loan 4	8.75%	RR	February 2012	-	873,113
Long-term loan 5	10.5%	RR	April 2014	994,065	995,667
Long-term loan 6	9.55%	RR	May 2014	110,000	110,000
Long-term loan 7	MosPrime+ 3.50%	RR	December 2011	-	100,000
Long-term loan 8	MosPrime+ 5.35%	RR	December 2011	-	17,986
Long-term loan 9	4.00%	EUR	February 2014	66,607	-
Long-term loan 10	0.00%	RR	December 2015	-	14,005
Long-term loan 11	0.00%	RR	April 2016	-	10,560
Long-term loan 12	0.00%	RR	May 2016	-	50
Long-term loan 13	0.00%	RR	December 2016	-	8,094
Long-term loan 14	8.90%	RR	April 2012	254,808	-
				4,180,817	**3,429,475**
Less: current portion of long-term borrowings				(316,641)	-

Total long-term borrowings	**3,864,176**	**3,429,475**

	Interest rate	Denomi-nated in	31 December 2010	31 December 2009
Short-term unsecured loans:				
Unsecured bank loan 1	10.50%	RR	12,500	1,050,000
Unsecured bank loan 2	MosPrime+ 5.35%	RR	335,463	62,500
Unsecured bank loan 3	8.75-16.50%	RR	-	388,121
Unsecured bank loan 4	8.44%	RR	100,000	-
Unsecured bank loan 5	LIBOR+8.75%	USD	-	238,929
Unsecured loan 6	15.50%	RR	-	33,000
Unsecured loan 7	0.00%	RR	75	1,131
Unsecured loan 8	10.00%	RR	1,660	-
			449,698	**1,773,681**
Short-term secured loans:				
Secured bank loan 1	16.00%	RR	929	3,230
Secured bank loan 2	16.00%	RR	-	40,988
Secured bank loan 3	10.75%	USD	-	30,299
Secured bank loan 4	23.00%	UAH	-	11,210
Secured bank loan 5	23.00%	RR	-	10,958
Secured bank loan 6	15.00%	BYR	1,446	2,202
Secured loan 7	0.00%	UAH	2,680	-
			5,055	**98,887**
Current portion of long-term borrowings			316,641	-
Interest on short-term borrowings			3,848	7,346
Short-term borrowings			**775,242**	**1,879,914**

The Group's borrowings are denominated in the following currencies:

	31 December 2010	31 December 2009
RR	4,568,653	5,025,588
EUR	66,607	-
USD	-	269,895
BYR	1,478	2,272
UAH	2,680	11,634
Total borrowings	**4,639,418**	**5,309,389**

At 31 December 2010, the Group pledged property, plant and equipment and inventories in total amount of RR 496,930 and 466,897 (2009: RR 1,009,149 and RR 527,890), respectively. At 31 December 2010, the Group pledged 25% plus one share of HMS Neftemash OJSC as a security for certain borrowings. Pledged value of this interest was RR 1,376,302. The Group also pledged its 51% of ordinary shares in GTNG as a security for the Long-term loan 3, obtained for the acquisition of GTNG.

During 2010, interest rates on long-term borrowings were revised and decreased for 4-7% per annum on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates.

At 31 December 2010 and 2009, the fair value of long-term and short-term borrowings approximated their carrying amount.

The Group has not entered into any hedging agreements in respect of its foreign currency obligations or interest rate.

18. Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 19.6% at 31 December 2010 (31 December 2009: 22.1%) and are effectively collateralised by the leased assets, as the assets revert to the lessor in the event of default.

	Minimum lease payments at 31 December		Discounted value of minimum lease payments at 31 December	
	2010	**2009**	**2010**	**2009**
Finance lease payable:				
Not later than 1 year	9,192	16,512	8,446	13,094
Later than 1 year and not later than 5 years	9	9,225	9	8,479
Total	**9,201**	**25,737**	**8,455**	**21,573**
Future finance charges on finance lease	(746)	(4,164)	-	-
Present value of liabilities	**8,455**	**21,573**	**8,455**	**21,573**
Short-term finance lease liabilities	**-**	**-**	**8,446**	**13,094**
Long-term finance lease liabilities	**-**	**-**	**9**	**8,479**

19. Retirement Benefit Obligations

The entities within the Group provide post-employment and other long-term payments of a defined benefit nature to its employees. These defined benefit plans maintained by each entity separately include lump sum upon retirement, in case of disability, death or attaining jubilee age as well as financial support after retirement. All plans are completely unfunded, i.e. provided on pay-as-you-go basis.

Liability arisen from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using Projected Unit Credit Method as required by IAS 19, Employee Benefits. Assumptions were determined based on market conditions as at statement of financial position dates.

The following assumptions were used for the actuarial assessment at 31 December 2010 and 2009:

	31 December 2010	31 December 2009
Discount rate	7.5%	9.0%
Inflation	6.4%	6.5%
Expected annual increase in salaries	7.5%	7.5%
Mortality	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognised in profit or loss:

	2010	2009
Current service cost	12,813	12,378
Interest cost	19,500	17,113
Past service cost	(6,295)	(194)
Curtailment of plans	(43,756)	-
Net actuarial loss/(gain) recognised during the year	51,546	(11,624)
Net periodic benefit expense	**33,808**	**17,673**

During 2010, several entities of the Group cancelled or otherwise changed certain clauses of the respective defined benefit plans, which led to a decrease of defined benefit obligations for RR 41,726. This change was accounted for as a curtailment of benefit plans and included in net periodic benefit expense. The amounts recognised in the consolidated statement of financial position were as follows:

	31 December 2010	31 December 2009
Present value of defined benefit obligations	286,974	145,319
Unrecognised past service cost	287	1,010
Liability in the statement of financial position	**287,261**	**146,329**

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2010	31 December 2009
Present value of defined benefit obligations at the beginning of the year	**145,319**	**149,754**
Current service cost	12,813	12,378
Interest expense	19,500	17,114
Actuarial loss/(gain)	51,546	(11,625)
Curtailment of plans	(43,756)	-
Benefits paid	(14,017)	(9,849)
Exchange adjustments	931	(2,853)
Liabilities acquired in a business combination	120,212	3,218
Past service cost	(5,574)	(12,818)
Present value of defined benefit obligations at the end of the year	**286,974**	**145,319**

Short-term and long-term classification was determined based on discounted value of future obligation which is payable within 12 months from the statement of financial position date:

	31 December 2010	31 December 2009
Short-term	24,736	20,922
Long-term	262,525	125,407
Discounted value of defined benefit obligations at the end of the year	**287,261**	**146,329**

The expected contributions under voluntary pension programs in 2011 are expected in the amount close to RR 30,427.

20. Construction Contracts

During 2010 and 2009, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures relate to the Group's activities under construction contracts:

	2010	2009
Construction contracts revenue	9,886,840	4,182,873
Contract cost expensed	(8,464,697)	(3,834,804)
Gross margin	**1,422,143**	**348,069**

	31 December 2010	31 December 2009
Advances from customers, related to construction contracts	286,273	140,738
Retentions	103,197	44,471

The Group's financial position with respect to construction contracts in progress is as follows:

	31 December 2010	31 December 2009
Aggregate amount of contract cost incurred	6,438,210	2,569,400
Aggregate amount of recognised profits	471,972	134,279
Aggregate amount of recognised losses	(16,066)	(1,097)
Less: Progress billings	(6,505,674)	(2,548,194)
Gross amount due from customers for contract work	**388,442**	**154,388**

	31 December 2010	31 December 2009
Aggregate amount of contract cost incurred	5,689,468	1,206,334
Aggregate amount of recognised profits	1,647,779	298,218
Aggregate amount of recognised losses	(68,270)	(2,633)
Less: Progress billings	(13,061,396)	(1,665,390)
Gross amount due to customers for contract work	**(5,792,419)**	**(163,471)**

21. Trade and Other Payables

	31 December 2010	31 December 2009
Trade payables	1,287,523	1,264,490
Other payables	106,936	58,110
Financial trade and other payables	**1,394,459**	**1,322,600**
Advances from customers	3,319,527	1,561,765
VAT on advances from customers included in receivables due from/payables due to customers for construction work	-	-
Payables due to customers for construction work (Note 20)	5,792,419	163,471
Wages and salaries payable	292,953	207,697
Other non-financial payables	**9,404,899**	**1,932,933**
Total trade and other payables	**10,799,358**	**3,255,533**

22. Other Taxes Payable

	31 December 2010	31 December 2009
VAT	983,560	207,737
Unified social tax	43,422	42,549
Personal income tax	27,598	24,302
Property tax	11,016	11,514
Transport tax	2,970	2,595
Land tax	1,976	2,039
Water tax	83	72
Other taxes	736	2,491
Total other taxes payable	**1,071,361**	**293,299**

Included in VAT payable at 31 December 2010 is VAT related to advances paid to suppliers and subcontractors in amount of RR 622,761 (31 December 2009: RR 130,303).

23. Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Unused vacation allowance
At 1 January 2009	**27,111**	**-**	**21,919**	**150,306**
Additional provisions	6,600	11,550	17,242	-
Unused amounts reversed	-	-	(3,587)	(10,070)
Business combinations	60	-	179	-
At 31 December 2009	**33,771**	**11,550**	**35,753**	**140,236**
Additional provisions	26,081	25,028	34,073	20,150
Effect of translation to presentation currency	(1,451)	(887)	(400)	136
Unused amounts reversed	-	-	-	-
Business combinations	-	-	-	23,864
At 31 December 2010	**58,401**	**35,691**	**69,426**	**184,386**

Warranty

The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 94,092 has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

Legal claims

The balance at 31 December 2010 is expected to be utilised by the end of 2011. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

24. Share Capital, Other Equity Items and Earnings per Share

Share capital and share premium

The Company was incorporated with a share capital of EUR 26 thousand (RR 1,010 at the incorporation date), representing 26,000 authorised and outstanding fully paid ordinary shares with par value of EUR 1, issued on 27 April 2010 with no premium (Note 1). On 7 June 2010, those shares were split into 2,600,000 shares with par value of EUR 0.01.

Further, in accordance with the restructuring plan, agreed and entered into by the shareholders of HMS Group (Note 1), the Company issued additionally 100,000,000 shares. Those shares were distributed between the Company's shareholders pro rata to their existing interests at the date of the restructuring agreement. These additionally issued shares were paid by the shareholders with their shares in certain limited liability companies, registered in the Russian Federation, which directly and indirectly held 100% interest in HMS Group OJSC.

Below are the details of share issues:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand
27 April 2010	26,000	1.00	1,010	-
6 June 2010 – share split	2,600,000	0.01	1,010	-
30 September 2010	84,994,600	0.01	35,144	210,862
19 October 2010	15,005,400	0.01	6,356	-
Total	**102,600,000**		**42,510**	**210,862**

While the transfer of shares in HMS Group OJSC under the second additional issue occurred on 19 October 2010, this additional share issue was legally finalised with the Cyprus authorities on 8 December 2010. This issue was presented in the consolidated statement of financial position at 31 December 2009 as share capital to be issued and was reclassified to share capital upon completion of legal registration.

At 31 December 2010, the Company's authorised share capital consisted of 102,600,000 ordinary shares issued and fully paid.

Other reserves

During 2010, the members of Hydroindustry LLC and Hydromashinvest LLC made cash contributions into the capital of these entities in amount of RR 85,817.

At 31 December 2010, included in other reserves were expenses in amount of RR 83,865, incurred by the Group in relation to its preparation for an initial public offering ("IPO") of the Company's shares on the London Stock Exchange, which was successfully completed in February 2011 (Note 37). These expenses include the fees of RR 3,066 for other assurance services charged by the Company statutory auditor. Upon completion of the IPO transaction, all accumulated issue costs are reclassified as a deduction to share premium.

Dividends

During 2010, dividends were accrued only to the holders of preference shares in the subsidiaries in amount of RR 320,458 (2009: RR 160,009), but no dividends were paid to the shareholders or non-controlling interest holders of common shares. As a result, allocations of net assets to non-controlling interest holders of preference shares and common shares were reflected in this consolidated condensed interim financial information.

Earnings per share

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue during the year ended 31 December 2010 and 2009 was calculated as if the Company existed at 1 January 2009 and through 2009 with 102,600,000 issued ordinary shares.

Profit/(loss) for the year ended 31 December 2010 and 2009 from continuing operations attributable to ordinary shareholders is calculated as follows:

	2010	2009
Profit/(loss) for the year attributable to ordinary shareholders	1,469,116	(31,819)
Weighted average number of ordinary shares in issue (thousands)	102,600	102,600
Basic and diluted earnings per ordinary share (expressed in RR per share)	**14,32**	**(0.31)**

25. Income Taxes

Income tax expense for the year ended 31 December 2010 and 2009 included:

	2010	2009
Current tax	395,556	270,277
Deferred tax	186,743	(57,891)
Total income tax expense	**582,299**	**212,386**

Income before tax for financial reporting purposes is reconciled with the income tax expense as follows:

	31 December 2010	31 December 2009
Income before tax	**2,163,427**	**282,483**
Estimated tax charge at applicable tax rates of 20.6% (2009: 26.0%)	(446,353)	(73,385)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible social expenditures	(2,245)	(15,614)
Effect of adjustment resulting from intra-group sales of subsidiaries	(60,757)	(31,603)
Impairment of goodwill	-	(23,400)
Other non-deductible expenses	(72,944)	(68,384)
Income tax charge	**(582,299)**	**(212,386)**

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 16-25% (Ukrainian tax legislation), 24% (Belorussia tax legislation) and 10% (Cypriot tax legislation), accordingly. With effect from 1 January 2011 a new Tax code is applied in the Ukraine, which provides for the gradual decrease of profit tax rate from 25% to 16% during 2011-2014. Consequently, at 31 December 2010, deferred tax assets and liabilities of Ukrainian entities of the Group were measured at the rates, which will be enacted at the time when respective deferred assets and liabilities are utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The gross movement on the deferred income tax account is as follows:

	1 January 2010	Credited/ (charged) to profit or loss	Business combinations (Note 10)	Translation differences recognised in equity	Change in income tax rate recognised in profit and loss	Credited directly to equity	31 December 2010
Deferred tax liabilities							
Property, plant and equipment	(320,389)	44,058	(273,628)	658	(323)	-	(549,624)
Intangible assets	(6,679)	11,546	(62,855)	(36)	48	-	(57,976)
Other current assets	-	(17,141)	16,591	-	-	-	(550)
Cash and cash equivalents	-	(718)	-	-	-	-	(718)
Other non-current assets	-	(2,185)	-	19	(18)	-	(2,184)
Finance lease liability	(217)	(637)	-	-	-	-	(854)
Trade and other payables	-	(413,604)	57,498	865	(2,016)	4,024	(353,233)
Short-term borrowings	(21)	(158)	-	-	-	-	(179)
Share of results of associates	(1,562)	(1,410)	-	-	-	-	(2,972)
Other taxes payable	(1,065)	1,065	-	-	-	-	-
	(329,933)	**(379,184)**	**(262,394)**	**1,506**	**(2,309)**	**4,024**	**(968,290)**
Deferred tax assets							
Inventory	32,354	(443)	36,214	(2,739)	2,095	-	67,481
Short-term trade receivables	23,423	163,018	(67,438)	(55)	6,056	-	125,004
Other current assets	4,322	(4,322)	-	-	-	-	-
Long-term trade receivables	-	1,590	26	-	-	-	1,616
Other non-current assets	643	(643)	-	-	-	-	-
Long-term provisions	18,325	13,296	-	839	(5,445)	-	27,015
Loss carried forward	18,769	68,106	-	-	-	-	86,875
Trade and other payables	67,028	(67,028)	-	-	-	-	-
Short-term provisions	21,754	18,899	4,753	339	(429)	-	45,316
	186,618	**192,473**	**(26,445)**	**(1,616)**	**2,277**	**-**	**353,307**
Total net deferred tax liability	**(143,315)**	**(186,711)**	**(288,839)**	**(110)**	**(32)**	**4,024**	**(614,983)**

	1 January 2009	Credited/ (charged) to profit or loss	Business combina-tions (Note 10)	Translation differences recognised in equity	31 December 2009
Deferred tax liabilities					
Property, plant and equipment	(315,869)	8,784	(18,061)	4,757	(320,389)
Intangible assets	(10,885)	4,257	(478)	427	(6,679)
Short-term trade receivables	(10,577)	10,577	-	-	-
Cash and cash equivalents	(2,451)	2,451	-	-	-
Long-term trade receivables	(86)	86	-	-	-
Finance lease liability	(541)	324	-	-	(217)
Short-term borrowings	(36)	15	-	-	(21)
Share of results of associates	-	(1,562)	-	-	(1,562)
Other taxes payable	-	(1,065)	-	-	(1,065)
	(340,445)	**23,867**	**(18,539)**	**5,184**	**(329,933)**
Deferred tax assets					
Inventory	6,229	27,113	(714)	(274)	32,354
Short-term trade receivables	-	20,634	2,509	280	23,423
Other current assets	1,100	3,227	(5)	-	4,322
Other non-current assets	649	(6)	-	-	643
Long-term liabilities	5,214	(5,214)	-	-	-
Long-term provisions	8,677	9,607	49	(8)	18,325
Loss carried forward	19,953	(1,184)	-	-	18,769
Trade and other payables	77,452	(10,414)	-	(10)	67,028
Other taxes payable	5,278	(5,278)	-	-	-
Short-term provisions	25,446	(3,837)	255	(110)	21,754
	149,998	**34,648**	**2,094**	**(122)**	**186,618**
Total net deferred tax liability	**(190,447)**	**58,515**	**(16,445)**	**5,062**	**(143,315)**

At 31 December 2010, the Group has not recognised a deferred tax liability in respect of temporary differences of RR 4,209,970 thousand (31 December 2009: RR 2,911,856) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

According to the Tax Code of the Russian Federation tax losses incurred, and current income tax overpaid, by a Group company may not be offset against current tax liabilities and taxable income of any other Group companies. Therefore, deferred tax assets and deferred tax liabilities of the Group companies may not be offset.

26. Revenue

	2010	2009
Revenue from construction contracts	9,886,840	4,182,873
Sales of pumps and spare parts	6,781,633	5,947,107
Sales of modular equipment	4,711,176	3,391,206
Sales of repair services for equipment	553,355	704,600
Sales of electric motors	198,934	151,327
Sales of products, work and services of auxiliary units	69,901	43,763
Sales of other services and goods	868,175	351,393
Total revenue	**23,070,014**	**14,772,269**

27. Cost of Sales

	2010	2009
Supplies and raw materials	10,361,499	6,186,920
Labour costs	2,693,873	1,798,137
Cost of goods sold	2,289,364	1,721,021
Construction and installation works of subcontractors	571,287	430,258
Depreciation and amortisation	340,133	259,435
Utilities	217,545	168,019
Warranty provision	51,109	18,150
Defined benefits scheme expense	31,169	-
Impairment of property, plant and equipment and intangible assets	19,288	13,848
Provision for obsolete inventories	(107,634)	95,949
Change in work in progress and finished goods	(25,618)	(44,516)
Other expenses	925,389	516,981
Total cost of sales	**17,367,404**	**11,164,202**

28. Distribution and Transportation Expenses

	2010	2009
Labour costs	217,077	196,185
Transport expenses	153,714	124,875
Agency services	33,573	3,542
Packaging and storage expenses	32,300	24,832
Advertising	23,519	13,344
Customs duties	19,340	13,933
Insurance	17,397	14,831
Entertaining costs and business trip expenses	15,807	22,341
Depreciation and amortisation	8,644	11,251
Products certification	4,058	2,652
Capital assets repair and maintenance	3,919	3,855
Lease	1,108	9,469
Defined benefits scheme expense	547	-
Other expenses	42,195	41,466
Total distribution and transportation expenses	**573,198**	**482,576**

29. General and Administrative Expenses

	2010	2009
Labour costs	1,307,694	1,089,996
Taxes and duties	110,524	74,142
Depreciation and amortisation	99,540	72,203
Bank services	77,876	38,631
Audit and consultancy services	86,686	102,962
Stationary and office maintenance	56,679	45,978
Entertaining costs and business trip expenses	51,152	33,540
Security	35,003	31,285
Provision for legal claims	34,073	13,655
Telecommunications services	30,069	25,877
Insurance	27,610	18,886
Property, plant and equipment repair and maintenance	26,713	32,411
Training and recruitment	14,966	9,409
Rent	9,983	16,614
Defined benefits scheme expense	2,092	17,673
Provision for impairment of accounts receivable	(13,023)	69,559
Provision for VAT receivable	(10,887)	29,918
Other expenses	155,892	104,450
Total general and administrative expenses	**2,102,642**	**1,827,189**

During the year ended 31 December 2010, the Group incurred fees of RR 1,850 for statutory audit services.

30. Other Operating Expenses, Net

	2010	2009
Charity, social expenditures	60,553	56,109
Fines and late payment interest under contracts	26,951	8,047
Impairment of taxes receivable	10,052	-
Depreciation of social assets	1,459	1,099
Foreign exchange loss/(gain), net	546	19,351
Gain on sales of inventories	(473)	(3,442)
Investments impairment provision	(1,338)	6,099
(Gain)/loss on transactions with securities	(5,272)	283
(Gain)/loss from disposal of property, plant and equipment and intangible assets	938	2,305
Other expenses, net	18,733	7,828
Total other operating expenses, net	**112,149**	**97,679**

31. Finance Income

	2010	2009
Interest income	57,089	42,790
Foreign exchange income, net	-	4,016
Total finance income	**57,089**	**46,806**

32. Finance Costs

	2010	2009
Interest expenses	815,810	857,896
Foreign exchange loss, net	4,618	-
Finance lease expenses	2,963	7,245
Total finance costs	**823,391**	**865,141**

33. Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category of related parties comprises individuals who are the ultimate owners of shares in the Company, who are also key management of the Group, and other key managers.

Balances with related parties	**31 December 2010**	
	Associates	**Other**
Accounts receivable	2,934	948
Accounts payable	784	74,560

Balances with related parties	**31 December 2009**	
	Associates	**Other**
Borrowings	-	31,154
Accounts receivable	6,637	-
Accounts payable	12,236	68,103

No provision was made for bad debts accounts receivable from related parties. Neither party issued guaranties to secure accounts receivable or payable.

Income /expenses on transactions with related parties		2010
	Associates	Other
Sales of goods and finished products	1,818	-
Sales of raw materials	384	4,698
Sales of services	127	-
Purchase of services	(45,460)	(175)
Purchase of goods	(53,387)	-
Purchase of raw materials	(57,355)	(3)
Finance lease expenses	(10,133)	-

Income /expenses on transactions with related parties		2009
	Associates	Other
Sales of goods and finished products	2,271	33,145
Sales of raw materials	375	-
Sales of services	-	158
Purchase of services	(40,309)	-
Purchase of goods	(34,200)	-
Purchase of raw materials	(27,181)	-
Finance lease expenses	(25)	(128)

In 2010, the Group did not receive any loans from related parties (2009: RR 9,037 with a weighted average interest rate of 14%). In 2010, the Group did not issue any loans to related parties (2009: RR 12,720 with a weighted average interest rate of 15.5%).

Key management compensation

Key management compensation amounted to RR 170,969 for the year ended 31 December 2010 (2009: RR 134,506) and included short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually. Included in these amounts are emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RR 75,802 for the year ended 31 December 2010 (2009: RR 50,778).

For the year ended 31 December 2010, preference dividends of RR 311,331 were accrued and paid by the Company's subsidiaries to the holders of non-controlling interests who are ultimate shareholders of the Group and the members of key management (2009: RR 150,020).

34. Contingencies and Commitments

(i) Legal proceeding

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

(ii) Tax legislation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian and Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court of the Russian Federation issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks at 31 December 2010 of RR 1,975 (31 December 2009: RR 1,975). These exposures primarily relate to bonuses to employees and return of goods.

(iii) Environmental matters

The enforcement of environmental regulation in Russian Federation and Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(iv) Insurance policies

The Russian and Ukrainian insurance services market is evolving. Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

(v) Contractual commitments

At 31 December 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 105,777 (31 December 2009: RR 33,168) and for the purchase of other intangible assets from the Group's associate for RR 602,780 (31 December 2009: RR 0).

The Group holds short-term cancellable and non cancellable operating leases. The future commitments of the non cancellable leases are not material.

(vi) Loan covenants

Under the terms of its loan agreements, the Group is required to comply with a number of covenants, including maintenance of the certain level of net assets and certain other requirements.

At 31 December 2009, due to the breach of certain covenants, the banks were contractually entitled to request early repayment of the outstanding amounts of RR 650,000 with original maturities of less than twelve months after the reporting date. The loans were not called by the lenders earlier than their respective contractual maturity dates.

35. Segment Information

Management has determined the operating segments based on the management reports, which are primarily derived from unaudited and not reviewed IFRS financial statements. The management reports are reviewed by the chief operating decision-maker that is used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Organizational structure of companies;
- Nature of production processes;
- Manufactured and sold products;
- Specific characteristics of buyers/customers.

The **first** operating segment **"Industrial pumps"** includes:

	31 December 2010	31 December 2009
1	HMS Pumps OJSC (formerly Livhydromash OJSC)	Livhydromash OJSC
2	LPKC LLC	LPKC LLC
3	HMS Household Pumps OJSC (formerly Electrodvigatel OJSC)	Electrodvigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)
8	SPA Gydromash CJSC	SPA Gydromash CJSC
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
10	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
11	Plant Promburvod OJSC	Plant Promburvod OJSC
12	-	IRVKP
13	-	Hydromash-Industria LLC

The **second** operating segment **"Modular equipment"** (former "Oil and gas equipment" segment) includes:

1	HMS Neftemash OJSC (formerly Neftemash OJSC)	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	SPA Gydromash CJSC	SPA Gydromash CJSC
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
5	EPF "SIBNA" Inc. OJSC	EPF "SIBNA" Inc. OJSC

The **third** operating segment **"Engineering, procurement and construction"** (EPC, former "Oil and gas construction" segment) includes:

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	HYDROMASHSERVICE CJSC	-
3	Tomskgazstroy OJSC	Tomskgazstroy OJSC
4	Giprotumenneftegaz OJSC	-
5	IRVKP	-

The table below contains **other** companies that did not fall under the above listed operating segments

1	HMS Group Management LLC (formerly Hydraulic Machines and Systems Management LLC)	Hydraulic Machines and Systems Management LLC
2	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Sibservice LLC (no business)	Sibservice LLC (no business)
6	Hydromashkomplekt LLC	Hydromashkomplekt LLC
7	Business Centre Hydromash LLC	Business Centre Hydromash LLC
8	HMS-Promburvod CJSC	HMS-Promburvod CJSC
9	Hydroindusriya LLC	-
10	Hydromashinvest LLC	-
11	HMS-Holding LLC	-
12	Promhydroservice LLC	-
13	HMS Hydraulic Machines & Systems Group plc	-

Associates. The first operating segment "Industrial pumps" also includes VNIIAEN OJSC, an associate of the Group. The second operating segment "Modular equipment" also includes Dimitrovgradkhimmash OJSC, an associate of the Group.

Geographically, management considers the performance of their subsidiaries in Russia, Ukraine, Belorussia and location of the customers where the Group performs its trade and commercial activities.

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, modular oil and gas equipment and other modular equipment, oil and gas construction and the other products and services.

Sales between segments are carried out at the arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

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.

For this purpose, EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortisation, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects on non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and goodwill impairments, when the impairment is a result of an isolated, non-recurring event.

The segment information provided to the CODM for the reportable segments is reconciled to corresponding amounts reported in the Group's consolidated financial statements prepared in accordance with IFRS.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2010 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total
Revenue External, management report	10,712,374	5,804,694	6,134,904	418,042	23,070,014
Revenue Internal, management report	105,368	9,776	1,114	563,503	679,761
EBITDA, management report	2,367,037	598,939	549,508	3,936	3,519,420
Depreciation and amortisation	(120,870)	(72,226)	(222,850)	(29,047)	(444,993)
Finance income	164,854	43,596	29,412	20,580	258,442
Finance cost	(492,721)	(347,108)	(102,514)	(65,121)	(1,007,464)
Income tax expense	(477,344)	(60,731)	(25,851)	(20,214)	(584,140)
Share of results of associates	(2,620)	17,728	-	-	15,108

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2009 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total
Revenue External, management report	6,143,653	4,180,065	4,105,031	245,342	14,674,091
Revenue Internal, management report	82,774	59,974	-	512,939	655,687
EBITDA, management report	1,046,542	768,003	(1,409)	1,681	1,814,817
Depreciation and amortisation	(114,187)	(75,668)	(119,784)	(25,868)	(335,507)
Finance income	104,101	154,345	452	7,274	266,172
Finance cost	(519,333)	(357,937)	(150,460)	(52,734)	(1,080,464)
Income tax expense	(151,014)	(84,115)	27,434	(3,320)	(211,015)
Share of results of associates	(6,711)	39,385	-	-	32,674

Reconciliation of financial information analysed by CODM to corresponding information presented in these consolidated financial statements is presented below:

	2010				
	Industrial pumps	Modular equipment	EPC	All other segments	Total
Revenue, management report	10,817,742	5,814,470	6,136,018	981,545	23,749,775
Less intersegment revenue	(105,368)	(9,776)	(1,114)	(563,503)	(679,761)
Other adjustments	-	-	-	-	-
Revenue, IFRS	**10,712,374**	**5,804,694**	**6,134,904**	**418,042**	**23,070,014**

	2010					
	Industrial pumps	Modular equipment	EPC	All other segments	Intersegment transactions	Total
EBITDA, management report	**2,367,037**	**598,939**	**549,508**	**3,936**	**-**	**3,519,420**
Eliminations	-	-	-	-	(176)	(176)
Other adjustments	-	-	-	-	-	-
EBITDA, adjusted	**2,367,037**	**598,939**	**549,508**	**3,936**	**(176)**	**3,519,244**
Depreciation and amortisation						(449,776)
Non-monetary items*						(24,869)
Impairment of property, plant and equipment and intangible assets						(19,288)
Other operating expenses, net						(110,690)
Operating profit						**2,914,621**
Finance income						57,089
Finance costs						(823,391)
Share of results associates						15,108
Profit before income tax, IFRS						**2,163,427**

	2009				
	Industrial pumps	Modular equipment	EPC	All other segments	Total
Revenue, management report	6,226,427	4,240,039	4,105,031	758,281	15,329,778
Less intersegment revenue	(82,774)	(59,974)	-	(512,939)	(655,687)
Adjustments related to revenue from construction contracts	-	-	95,560	-	95,560
Other adjustments	164,411	(13,889)	(11,853)	(136,051)	2,618
Revenue, IFRS	**6,308,064**	**4,166,176**	**4,188,738**	**109,291**	**14,772,269**

	2009					
	Industrial pumps	Modular equipment	EPC	All other segments	Intersegment transactions	Total
EBITDA, management report	**1,046,542**	**768,003**	**(1,409)**	**1,681**	**-**	**1,814,817**
Adjustments related to revenue from construction contracts	-	-	95,560	-	-	95,560
Other adjustments	(34,656)	18,459	(60,809)	413	55,852	(20,741)
EBITDA, adjusted	**1,011,886**	**786,462**	**33,342**	**2,094**	**55,852**	**1,889,636**
Depreciation and amortisation						(343,987)
Non-monetary items*						(248,446)
Other operating expenses, net						(213,578)
Operating profit						**1,083,625**
Finance income						46,806
Finance costs						(865,141)
Share of results associates						17,193
Profit before income tax, IFRS						**282,483**

* Non-monetary items consists of provisions: inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expenses, warranty provision, provision for legal claims etc.

	2010	2009
Depreciation and amortisation, management report	(444,993)	(335,507)
Adjustments on additional depreciation	(4,783)	(8,480)
Depreciation and amortisation, IFRS	**(449,776)**	**(343,987)**
Finance income, management report	258,442	266,172
Intercompany eliminations	(201,353)	(227,193)
Adjustments on reclassifications of foreign exchange differences	-	7,827
Finance income, IFRS	**57,089**	**46,806**
Finance cost, management report	(1,007,464)	(1,080,464)
Intercompany eliminations	184,073	215,575
Other adjustments	-	(252)
Finance cost, IFRS	**(823,391)**	**(865,141)**
Income tax expense, management report	(584,140)	(211,015)
Other adjustments	1,841	(1,371)
Income tax expense, IFRS	**(582,299)**	**(212,386)**
Share of result of associates, management report	15,108	32,674
Adjustments related to revaluation of net assets of associates	-	(15,481)
Share of results of associates, IFRS	**15,108**	**17,193**

	2010				
Revenue by major customers	**Industrial pumps**	**Modular equipment**	**EPC**	**All other segments**	**Total**
Total revenue, including	10,712,374	5,804,694	6,134,904	418,042	23,070,014
RN-Purneftegaz	4,443	25,290	2,227,105	-	2,256,838
Other (each<10% of total revenue)	10,707,931	5,779,404	3,907,799	418,042	20,813,176

	2009				
Revenue by major customers	**Industrial pumps**	**Modular equipment**	**EPC**	**All other segments**	**Total**
Total revenue, *including*	6,308,064	4,166,176	4,188,738	109,291	14,772,269
RN-Purneftegaz	27,964	188,767	1,832,729	-	2,049,460
Other (each<10% of total revenue)	6,280,100	3,977,409	2,356,009	109,291	12,722,809

The Group subsidiaries carry out trade and commercial activities in the CIS countries, European and Asian countries, which management assesses by location (the country) of the external customers of products and services based on accounting records used to prepare IFRS financial statements:

	Consolidated revenue for 2010	**Consolidated revenue for 2009**	**Non-current assets at 31 December 2010**	**Non-current assets at 31 December 2009**
Revenue by customers' location	23,070,014	14,772,269	8,042,745	4,308,908
Including				
Russia	20,742,893	13,486,474	7,093,008	3,840,561
Kazakhstan	632,350	310,967	-	
Iraq	546,305	267,190	-	-
Turkmenistan	427,651	93,746	-	-
Ukraine	232,947	99,726	849,997	353,259
Belorussia	223,084	315,210	99,740	115,088
Other	264,784	198,956	-	-

The information about non-current assets is submitted to persons responsible on a regular basis to take management decisions by operating segments.

36. Financial Risk Management

Financial risk factors

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 minimize 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.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2010 and 2009 respectively:

	31 December 2010			31 December 2009		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	136,833	(83,740)	53,093	128,163	(308,124)	(179,961)
EUR	2,740	(708,446)	(705,706)	22,620	(2,331)	20,289
Total	**139,573**	**(792,186)**	**(652,613)**	**150,783**	**(310,455)**	**(159,672)**

At 31 December 2010, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RR 8,495 lower/higher (2009: 28,794 higher/ lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and trade receivables.

At 31 December 2010, if RR had strengthened/weakened by 20% against euro with all other variables held constant, profit for the year would have been RR 112,913 higher/lower (2009: RR 3,246 lower/higher), mainly as a result of foreign exchange gains/losses on translation of EUR-denominated trade payables and borrowings.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management monitors net monetary position of the Group's financial assets and liabilities denominated in foreign currency on a regular basis.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because both its finished products and purchased raw materials are not traded on a public market.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the Group's finance department as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on short-term borrowings (Note 17). The Group does not have significant interest-bearing assets.

The fair value of the Group's bonds is disclosed in Note 17 and is estimated based on the market quotations. The fair value of the rest of financial instruments is approximately equal to their carrying value.

At 31 December 20010, if interest rates at that date had been 10% basis points higher/lower with all other variables held constant, profit for the year would have been RR 46,393 (2009: RR 52,755) lower/higher, mainly as a result of lower interest expense on variable interest liabilities.

All other financial instruments are non-interest bearing.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

	31 December 2010	31 December 2009
Trade and other receivables (Note 14, 15)		
- Trade receivables	3,004,799	1,400,707
- Other financial receivables	437,998	206,377
Cash and cash equivalents (Note 12)		
- Bank balances (incl. restricted cash)	354,742	758,292
- Cash on hand	1,322	740
Total on-balance sheet exposure	**3,798,861**	**2,366,116**
Total maximum exposure to credit risk	**3,798,861**	**2,366,116**

Cash and short-term deposits. Cash, cash equivalents and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. All the bank balances and term deposits are neither past due nor impaired.

Analysis by credit quality of bank balances and short-term deposits is as follows:

Agency	Rating	31 December 2010	31 December 2009
Fitch***	B	47,177	211,486
Moody's*	Aaa	144,166	319,695
S&P's**	BBB-	13,254	13,682
National rating Agency	UaBBB+	54,170	-
Moody's*	-	4,007	68,908
Fitch***	B	541	-
Moody's*	Not Prime	-	28,536
S&P's**	B-	475	1,018
Moody's*	Aa3	28,292	-
S&P's**	B	228	763
National rating Agency	A	14,427	14,325
RUS rating	BB	-	60,300
Moody's*	E+	-	16,839
Other	-	49,327	23,480
Total		**356,064**	**759,032**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

**** Information Center Rating

Trade and other financial receivables

The Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analyzed before the Group provides it with the terms of goods supply and payments. The Group commercial department reviews ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large buyers of industrial equipment and oil and gas companies, which have similar credit risk profile to the Group. The Group does not analyse its customers by classes for credit risk management purposes.

As of the reporting date analysis of credit quality of trade and other accounts receivable was as follows:

	31 December 2010		31 December 2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total not overdue and not impaired, including:	**2,933,418**	**432,037**	**1,044,976**	**208,987**
Large enterprises	1,640,516	293,118	706,848	71,241
Middle and small size companies	1,229,134	18,233	335,752	80,659
Government organization and agencies	4,891	3,257	2,297	301
Scientific research institutes	-	-	-	-
Individuals	13.173	48,294	79	15,585
Banks*	-	49,697	-	35,939
Other	45,704	19,438	-	913
Total past due but not impaired, including:	**71,381**	**5,961**	**355,731**	**1,739**
- less than 60 days overdue	16,851	100	179,004	50
- 61 to 180 days overdue	11,790	2	112,187	745
- 181 to 365 days overdue	25,986	1,010	42,547	917
- over 365 days overdue	16,754	4,849	21,993	27
Individually impaired (gross), including:	**91,980**	**96,492**	**111,184**	**118,749**
Current to be impaired	26,538	-	32,362	11,936
- less than 60 days overdue	5,568	138	2,715	-
- 61 to 180 days overdue	25,842	784	7,170	3,283
- 181 to 365 days overdue	3,681	708	12,856	6,010
- over 365 days overdue	30,351	94,862	56,081	97,520
Less impairment provision	**(91,980)**	**(96,492)**	**(111,184)**	**(118,749)**
Total	**3,004,799**	**437,998**	**1,400,707**	**206,377**

* Analysis of credit ratings of banks is provided below.

Analysis by credit quality of short-term and long-term deposits placed in banks is as follows:

Agency	Rating	31 December 2010	31 December 2009
Moody's*	Aaa	1,949	11,421
S&P's**	B-	5,407	10,256
National rating Agency	AAA	8,563	14,262
National rating Agency	UaBBB+	2,565	-
Moody's*	Baa1	11,079	-
Moody's*	Ba3	20,000	-
Total		**49,563**	**35,939**

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) at 31 December 2010 is RR 3,442,797 (2009: RR 1,607,084).

Credit risks concentration

Date	Numbers of counterparties with aggregated receivables balances above RR 50,000	Total aggregate amount of these balances	% of the gross amount of trade and other receivables
At 31 December 2010	12	1,714,536	47%
At 31 December 2009	9	975,746	53%

The Group's bank deposits are held only with 6 banks (2009: 8 banks) thus exposing the Group to a concentration of credit risk.

Cash is collected according to the contractual terms during the reporting and subsequent periods, and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The table below gives information on the contractual repayment dates of the Group's financial liabilities as of the reporting date with regard to expected cash flows:

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2010**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans*	4,568,359	1,231,343	1,728,685	2,673,893	-
Other loans*	71,059	23,605	51,953	-	-
Finance lease liabilities*	8,455	9,192	9	-	-
Trade accounts payable	1,287,523	1,287,523	-	-	-
Other payables	106,936	106,936	-	-	-

		Cash flows under the contract			
Statement of financial position item	**Carrying amount at 31 December 2009**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans*	5,242,540	2,541,386	1,658,602	2,464,950	-
Other loans*	66,840	34,131	-	-	32,709
Finance lease liabilities*	21,573	16,512	9,216	9	-
Trade accounts payable	1,264,490	1,264,490	-	-	-
Other payables	58,110	58,110	-	-	-

* As the amounts included in the table are the contractual undiscounted cash flows, including future interest, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings and trade and other payables.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the consolidated statement of financial position date.

The Group is extensively expanding its business by raising external finance. The Group uses credit facilities in major multinational and Russian banks. Availability of open credit lines together with long-term borrowings gives the Group the possibility to balance credit portfolio and decrease risk of adverse fluctuations of financial markets.

The table below analyses credit lines of the Group at 31 December 2010 and 31 December 2009:

	31 December 2010	**31 December 2009**
Credit lines	8,597,261	6,300,477
Undrawn credit facilities	4,016,153	1,065,174

The Group did not exceed the credit limits of any of the banks during the reporting period. The management of the Group does not see any credit risks that could arise as a result of financial transactions (as well as any threat of discontinued operation) of these banks.

Liquidity ratio

The Group's approach to managing liquidity is to ensure, to the extent possible, that the Group maintains, at all times, sufficient liquidity for settling its liabilities in due time avoiding unacceptable losses or risks of damaging Group reputation. In perspective, the Group's strategy is to maintain the liquidity ratio at 1.50.

	31 December 2010	**31 December 2009**
Liquidity ratio	1.05	1.20
Current assets	13,770,204	6,810,953
Current liabilities	13,106,696	5,697,591

To manage the targeted liquidity ratio the Group transfers its short-term loans and borrowings to long-term ones.

Management of capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. For different borrowings taken by different companies banks provide different interest rates (Note 17).

Gearing ratio

The Group pursues a policy of ensuring a sustainable level of capital that allows the Group to maintain the trust of the investors, creditors and the market, and secure future business development. The Group strives to maintain a balance between the potential increase of revenues, which could be achieved with higher level of borrowings, and the advantages and safety, which the sustainable equity position gives.

The Group controls capital by calculating a Gearing ratio. This ratio is calculated as the net borrowing divided by total capital. The net borrowing includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents and restricted cash. The capital is calculated as the sum of equity attributable to the shareholders of the Company and non-controlling in the consolidated statement of financial position. In 2010, the Group's strategy have been to maintain the gearing ratio at the level not exceeding 200%.

At the end of the reporting period the gearing ratio was as follows:

	31 December 2010	31 December 2009
Long-term loans	3,864,176	3,429,475
Short-term loans	775,242	1,879,914
Total borrowings received	**4,639,418**	**5,309,389**
Cash and cash equivalents	(351,086)	(758,127)
Restricted cash	(4,978)	(905)
Net borrowing	**4,283,354**	**4,550,357**
Equity attributable to the shareholders of the Company	2,954,870	1,603,068
Non-controlling interest	1,508,263	669,631
Total capital	**4,463,133**	**2,272,699**
Gearing ratio	**96%**	**200%**

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost

Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of borrowings and trade and other payables approximate fair values.

37. Subsequent Events

Authorised share capital

On 12 January 2011, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital of the Company was increased from EUR 1,026,000, divided into 102,600,000 ordinary shares of EUR 0.01 each, to EUR 1,207,058.82, divided into 120,705,882 ordinary shares of EUR 0.01 each.

Initial public offering

In February 2011, the Company successfully completed the IPO of its shares on the London Stock Exchange. The Company, HMST and Skye Commercial Corp. (together with HMST, the "Selling Shareholders") offered, respectively, 14,563,427 global depositary receipts ("GDRs"), 23,041,279 GDRs and 6,035,294 GDRs, with each GDR representing 1 ordinary share of the Company. The offer price was USD 8.25 per GDR. The gross proceeds from the IPO, related to and receivable by the Company, amounted to approximately RR 3,530 million and the Company's transaction costs amounted to approximately RR 211 million.

Borrowings

Subsequent to the statement of financial position date the Group's subsidiaries received long-term RR-denominated loans in amount of RR 1,363 million from Sberbank and OJSC NOMOS-BANK, bearing interest rates of 8.90-9.00% per annum and payable from March 2012 to March 2014. During March 2011, the Group prepaid certain short-term and long-term borrowings for a total amount of approximately RR 3,304 million.

Amendments to the shareholders' agreement

In March 2011, HMST, the controlling shareholder of the Company, announced of the amendments made to the shareholders' agreement, dated 24 December 2010. These, inter alia, included the amendment to the rights of HMST Shareholders to appoint and remove directors of the Company (the "Company Directors"), so that any decision by HMST as to how to vote its shares in the Company on any appointment or removal of a Company Director must (a) prior to 1 March 2012, be approved by all but one of the directors of HMST and (b) after 1 March 2012, be approved by a simple majority of the directors of HMST. These amendments also eliminated the right of group of shareholders comprising former shareholders of Hydroindustry LLC to appoint all members of the Boards of Directors of HMST and of the Company, other than one director.

APPENDIX 2: DIRECTOR`S REPORT AND PARENT COMPANY FINANCIAL STATEMENTS

HMS Hydraulic Machines & Systems Group plc

International Financial Reporting Standards
Parent Company Financial Statements
and Independent Auditor's Report

31 December 2010

CONTENTS

Board of Directors

Mr. German A. Tsoy
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Artem V. Molchanov
Executive Managing Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Yury N. Skrynnik
Executive Director
Member of Remuneration Committee

Mr. Nikolai N. Yamburenko
Executive Director

Mr. Vladimir V. Lukyanenko
Non-executive Director
Member of the Remuneration and Audit Committees

Mr. Philippe Delpal
Non-executive Director
Chairman of the Audit Committee

Mr. Andreas S. Petrou
Non-executive Director

Mr. Gary S. Yamamoto
Non-executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee

Board support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

Company Secretary
Chrysses Demetriades & Co. LLC
Fortuna Court
284 Makarios III Avenue
Limassol 3105
Cyprus
Phone +35725800000
chrussesd@demetriades.com
http://www.demetriades.com

Registered office
Capital Centre, 9th Floor,
2-4 Arch. Makarios III Avenue
Nicosia 1065
Cyprus

Report of the Board of Directors

The Board of Directors presents its first report together with the audited parent company financial statements for the period from 27 April 2010 (date of incorporation) to 31 December 2010. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activity of the Company is the holding of investments.

Review of developments, position and performance of the Company's business

The net loss of the Company for the year ended 31 December 2010 was RR 3,903. At 31 December 2010, the total assets of the Company were RR 255,013 and net assets were 202,793. The financial position and financial performance of the Company as presented in the financial statements are considered satisfactory.

Principal risks and uncertainties

The Company's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 13 to the financial statements.

The Company's contingencies are disclosed in Note 2 to the financial statements.

The Board has adopted a formal process to identify, evaluate and manage significant risks faced by the Company.

Future developments

The Board of Directors does not expect any significant changes in the activities of the Company in the foreseeable future. The Group's strategic objective is to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Group also intends to enhance its research and development capabilities leveraging the experience and knowledge base of its existing teams to develop upgrades and new solutions, as well as more energy efficient pumps. In addition, the Group will continue to pursue selective, value-enhancing acquisitions which enable it to enter attractive new markets, provide access to complementary technology and research and development facilities and which offer cost and revenue synergies with its existing businesses.

Results

The Company's results for the period are set out on page 12b of the parent company financial statements.

Dividends

Pursuant to its Articles of Association, the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of global depository receipts (GDRs) on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by such subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and, in the case of Russian subsidiaries, is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to Russian law.
As a newly incorporated company, the Company has not previously declared any cash dividends on its share capital. The Board of Directors does not recommend any payment of cash dividends in respect of the year ended 31 December 2010.

Share capital

The Company was incorporated under the name of Bishopstow Holdings plc on 27 April 2010 as a public limited company with an authorised share capital of EUR 26,000 (RR 1,010 thousand) divided into 26,000 ordinary shares of EUR 1 each. On 7 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, the existing authorised share capital of EUR 26,000, divided into 26,000 ordinary shares of EUR 1 each, was subdivided into 2,600,000 ordinary shares of EUR 0.01 each.

On 18 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from Bishopstow Holdings Plc to H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED. The name was approved by the Registrar of Companies of Cyprus on 29 June 2010.

On 28 September 2010, pursuant to the unanimous written resolution of the general meeting of the Company the authorised share capital was increased from EUR 26,000, divided into 2,600,000 ordinary shares of EUR 0.01 each, to EUR 875,946 (RR 36,154 thousand), divided into 87,594,600 ordinary shares of EUR 0.01 each.

On 15 November 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED to HMS Hydraulic Machines & Systems Group plc. The name was approved by the Registrar of Companies of Cyprus on 3 January 2011.

On 8 December 2010, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital of the Company was increased from EUR 875,946, divided into 87,594,600 ordinary shares of EUR 0.01 each, to EUR 1,026,000 (RR 42,510 thousand), divided into 102,600,000 ordinary shares of EUR 0.01 each.

On 12 January 2011, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital was increased from EUR 1,026,000, divided into 102,600,000 ordinary shares of EUR 0.01 each, to EUR 1,207,058.82, divided into 120,705,882 ordinary shares of EUR 0.01 each.

Following the offering on 9 February 2011 ("the Offering") of GDRs, on 10 February 2011, the Company has issued 14,563,427 new ordinary shares out of the authorised share capital as fully paid at a price of USD 8.25. In the context of the Offering, the existing shareholders have also sold 29,076,573 shares to the public. Each GDR is represented by one ordinary share of the Company. The gross proceeds from the IPO, related to and receivable by the Company, amounted to approximately RR 3,530 million and the Company's transaction costs amounted to approximately RR 171 million.

At the date of approval of these financial statements, the Company's issued share capital consisted of 117,163,427 ordinary shares with par value of EUR 0.01, which are fully paid, and the Company's authorised share capital consisted of 120,705,882 ordinary shares.

The Company does not have in issue any listed or unlisted securities not representing its share capital. Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its ordinary shares.
Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Company's Articles of Association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

The role of the Board of Directors

The Company is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Company. The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Company's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 3b.

In accordance with the Company's Articles of Association all the Directors retire at the first Annual General meeting and being eligible offer themselves for re-election. At every subsequent Annual General Meeting one third of Directors shall retire by rotation and will be entitled to run for re-election.

There were no significant changes in the assignment of responsibilities of the Board of Directors.

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors at 31 December 2010 are shown below:

Director	Interest in the share capital of the Company at 31 December 2010	Interest in the share capital of the Company at 20 April 2011
Vladimir V. Lukyanenko	36.6%	24.0%
German A. Tsoy	26.6%	17.3%
Artem V. Molchanov	9.0%	5.3%
Nikolai N. Yamburenko	7.9%	5.0%
Yury N. Skrynnik	4.1%	2.7%
Kirill V. Molchanov	2.8%	1.6%

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 13 to the financial statements.

The Board Committees

The Company has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee. The audit committee comprises three directors, two of whom are independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Philippe Delpal and the other members are Gary S. Yamamoto and Vladimir V. Lukyanenko. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Company's financial statements, including its annual and interim financial statements, and the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues and assesses the efficiency of work of the Chairman of the Board of Directors.

Remuneration Committee. The remuneration committee comprises four directors and expects to meet at least once each year. Currently the remuneration committee is chaired by Gary S. Yamamoto, an independent director, and Vladimir V. Lukyanenko and Yury N. Skrynnik and German Tsoy are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, the Company's remuneration policies. The remuneration of independent directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Corporate Governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. The Company's and the Group's corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit and remuneration committees, ethical conduct, securities dealings and disclosure.

Board and Management Remuneration

The Directors of the Company did not receive remuneration directly from the Company for the period ended 31 December 2010. The remuneration received by the Company's Directors from subsidiaries in their executive capacity is disclosed in the consolidated financial statements published by the Company.

Branches

The Company did not operate through any branches during the year ended 31 December 2010.

Treasury shares

The Company did not acquire either directly or through a person in his own name, but on the Company's behalf any of its own shares.

Going concern

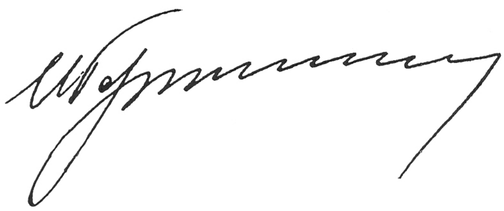
Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Company's budget for 2010, including cash flows and borrowing facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

German A. Tsoy
Chairman of the Board of Directors
Limassol
20 April 2011



Directors' responsibility statement

Each of the Directors, whose names and functions are listed in page 3b of the parent company financial statements confirm that, to the best of each person's knowledge and belief, the parent company financial statements:

- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113;
- give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

By order of the Board

Artem V. Molchanov
Director
20 April 2011

Kirill V. Molchanov
Director
20 April 2011

Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Pic

Report on the financial statements

We have audited the accompanying parent company financial statements of HMS Hydraulic Machines & Systems Group Pic (the "Company"), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the period from 27 April 2010 (date of incorporation) to 31 December 2010, and a summary of significant accounting policies and other explanatory information.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

Board of Directors'responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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pwc

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company HMS Hydraulic Machines & Systems Group Pic as at 31 December 2010, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal and regulatory requirements

Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the Company;
- The Company's financial statements are in agreement with the books of account;
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required;
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 20 April 2011

HMS Hydraulic Machines & Systems Group plc

Statement of Financial Position at 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010
ASSETS		
Non-current assets:		
Investments in subsidiaries	7	252,362
Total non-current assets		**252,362**
Current assets:		
Cash and cash equivalents	6	2,651
Total current assets		**2,651**
TOTAL ASSETS		**255,013**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	8	42,510
Share premium	8	210,862
Retained earnings		(3,903)
Other reserves	8	(46,676)
TOTAL EQUITY		**202,793**
LIABILITIES		
Current liabilities:		
Other payables		17,963
Short-term borrowings	11	34,257
Total current liabilities		**52,220**
TOTAL LIABILITIES		**52,220**
TOTAL EQUITY AND LIABILITIES		**255,013**

Approved for issue and signed on behalf of the Board of Directors on 20 April 2011.

The accompanying notes on pages 16b to 29b are an integral part of these financial statements.

HMS Hydraulic Machines & Systems Group plc

Statement of Comprehensive Income for the period ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2010
General and administrative expenses	10	(3,357)
Other operating expenses, net		(326)
Operating loss		**(3,683)**
Finance costs	11	(220)
Loss before income tax		**(3,903)**
Income tax expense	9	-
Loss for the period and total comprehensive loss for the period		**(3,903)**

The accompanying notes on pages 16b to 29b are an integral part of these financial statements.

HMS Hydraulic Machines & Systems Group plc

Statement of Cash Flows

for the period ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2010
Cash flows from operating activities		
Loss before income tax		(3,903)
Adjustments for:		
Finance costs		220
Operating cash flows before working capital changes		**(3,683)**
Increase in other payables		1,855
Cash used in operations		**(1,828)**
Net cash used in operating activities		**(1,828)**
Cash flows from financing activities		
Proceeds from borrowings		34,037
Cash contribution to share capital	8	1,010
Expenses related to share issue	8	(30,568)
Net cash generated from financing activities		**4,479**
Net increase in cash and cash equivalents		**2,651**
Cash and cash equivalents at the date of incorporation		**-**
Cash and cash equivalents at the end of the period		**2,651**

The accompanying notes on pages 16b to 29b are an integral part of these financial statements.

HMS Hydraulic Machines & Systems Group plc

Statement of Changes in Equity
for the period ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance at the date of incorporation		**-**	**-**	**-**	**-**	**-**
Loss for the period and total comprehensive loss for the period		-	-	-	(3,903)	(3,903)
Contribution to share capital	8	42,510	210,862	-	-	253,372
Expenses related to share issue	8	-	-	(46,676)	-	(46,676)
Balance at 31 December 2010		**42,510**	**210,862**	**(46,676)**	**(3,903)**	**202,793**

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

The accompanying notes on pages 16b to 29b are an integral part of these financial statements.

1. General Information

Country of incorporation

HMS Hydraulic Machines & Systems Group plc (the "Company") was incorporated in Cyprus on 27 April 2010 and registered at 2-4 Arch. Makarios III Avenue, 1065 Nicosia, Cyprus, under the name of Bishopstow Holdings plc, with a start share capital of EUR 26 thousand (RR 1,010). In June 2010, the Company was acquired by a group of individuals, jointly controlling Open Joint Stock Company HMS Group ("HMS Group OJSC"), and renamed H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED. Since the date of incorporation and up to the legal acquisition of HMS Group, the Company did not have any activities. On 3 January 2011, the Company was renamed HMS Hydraulic Machines & Systems Group plc.

Restructuring

The principal business activities of HMS Group OJSC and its subsidiaries (the "HMS Group") are the manufacture of a wide range of pumps and pumping units, manufacturing and repairing of modular equipment, including oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. HMS Group OJSC is incorporated and domiciled in the Russian Federation. The address of its registered office is Chayanova St. 7, 125047 Moscow. The HMS Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tumen regions of the Russian Federation, Sumy in Ukraine and Minsk in Belorussia.

The parent company of HMS Group OJSC is HMS-Holding LLC which till September 2010 was jointly controlled by Hydroindustry LLC and Hydromashinvest LLC. In accordance with the charter of HMS-Holding LLC, Hydroindustry LLC had the right to appoint the executive body of HMS-Holding LLC and its subsidiaries (including HMS Group OJSC) and Hydromashinvest LLC had the right to appoint the checkup committee of HMS-Holding LLC and its subsidiaries (including HMS Group OJSC).

In September 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of HMS Group OJSC signed a restructuring agreement. Under this agreement, the shares of those shareholders in the entities, holding shares in HMS-Holding LLC and direct shares in HMS Group OJSC, were contributed into the share capital of the Company in exchange for newly issued shares (Note 8), so that their shares in this new parent company reflect their respective effective shares in HMS-Holding LLC and in HMS Group OJSC before the restructuring. The shareholders' rights in respect of the Company's governance and control were contractually retained during the restructuring period.

In December 2010, the shareholders of the Company signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in the Company into the share capital of a private Cyprus entity named H.M.S. Technologies Ltd. ("HMST"). In accordance with this agreement, upon the contribution of shares, occurred in steps in January and February 2011, the group of shareholders comprising former shareholders of Hydroindustry LLC obtained the right to appoint all members of the Boards of Directors of HMST and of the Company, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC obtained the right to appoint one director to the Boards of Directors of HMST and of the Company, who oversees the control and revision function. Consequently, the group of shareholders comprising former shareholders of Hydroindustry LLC obtained control over the Company (see Note 13). At 31 December 2010, this group of shareholders consisted of Mr. Tsoy G.A., Mr. Molchanov A.V., Mr. Molchanov K.V., Mr. Khromov V.V., Mr. Frolov A.V. and Mr. Borovko A.A.

Approval of the financial statements
These financial statements were authorised for issue by the Board of Directors of the Company on 20 April 2011.

Global depository receipts
Global depository receipts each representing one ordinary share of the Company are listed on the London Stock Exchange International Main Market following the IPO in February 2011 (Note 13).

Principal activities
The principal activity of the Company is the holding of investments.

Consolidated financial statements
The Company also prepared consolidated financial statements; these financial statements should be read in conjunction with the consolidated financial statements.

2. Operating Environment of the Company

The Company's subsidiaries mainly operate in the Russian Federation, Ukraine and Belorussia.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The Company has prepared these parent's separate financial statements for compliance with the requirements of Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with IFRS, as adopted by EU, and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group).

Users of this parent's separate financial statements should read them together with the Group's consolidated financial statements at and for the year ended 31 December 2010 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and of the Group.

Adoption of New or Revised Standards and Interpretations

The Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2010.

Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's functional currency and presentation currency is Russian Rouble ("RR").

Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency at the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") at the respective statement of financial position date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss.

At 31 December 2010, the principal rates of exchange used for translating foreign currency balances were:

	2010
1 USD = RR	30.4769
1 EUR = RR	40.3331

Cash and cash equivalents
Cash and cash equivalents include cash on hand and deposits held at call with banks.

Other payables
Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

Income taxes
The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the income tax assets and liabilities relate to income taxes levied by the same taxation authority.

Investments in subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. The Company measured cost of its investments in subsidiaries at the carrying amount of its share of the equity items shown in the separate financial statements of these companies since the restructuring explained in Note 1 met the requirements of IAS 27.38B.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Such costs are initially presented within other reserves and subsequently reclassified as a deduction to share premium upon issuance of shares. Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity.

Dividends
Dividends are recognised as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorised for issue.

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

At 31 December 2010 and for the year then ended, the management of the Company did not exercise judgements and did not made estimates and assumptions that would have significant effect on the amounts recognised in the financial statements.

5. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 and which the Company has not early adopted.

(i) Adopted by the European Union

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company concluded that this amendment does not have any effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company is currently assessing the impact of the amendment on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The IFRIC is not expected to have an impact on the Company's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company does not expect the amendment to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company concluded that this amendment does not have any effect on its financial statements.

(ii) Not adopted by the European Union

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Company's financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment was incorporate into IAS 12 after excluding guidance regarding investment property measured at fair value. The Company does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Company does not expect the amendments to have any effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

6. Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2010
Cash at bank in USD	2,421
Cash at bank in EUR	230
Total cash and cash equivalents	**2,651**

7. Investments in Subsidiaries

Movement in investments in subsidiaries was as follows:

	2010
At the date of incorporation	-
Capital contribution to share capital (Note 8)	252,372
At 31 December	**252,372**

Details of the investments in the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	% interest held at 31 December 2010
Hydroindustry LLC	Russia	Holding company	100
Hydromashinvest LLC	Russia	Holding company	100
Promhydroservice LLC	Russia	Holding company	100
Promhydroinvest LLC	Russia	Holding company	100

The above subsidiaries collectively owned 100% of HMS-Holding LLC which is the immediate parent company of HMS Group OJSC. Refer also to Note 13.

8. Share Capital and Other Equity Items

Share capital and share premium

The Company was incorporated with a share capital of EUR 26 thousand (RR 1,010 at the incorporation date), representing 26,000 authorised and outstanding fully paid ordinary shares with par value of EUR 1, issued on 27 April 2010 with no premium (Note 1). On 7 June 2010, those shares were split into 2,600,000 shares with par value of EUR 0.01.

Further, in accordance with the restructuring plan, agreed and entered into by the shareholders of HMS Group (Note 1), the Company issued additionally 100,000,000 shares. Those shares were distributed between the Company's shareholders pro rata to their existing interests at the date of the restructuring agreement. These additionally issued shares were paid by the shareholders with their shares in certain limited liability companies (Note 7), registered in the Russian Federation, which directly and indirectly held 100% interest in HMS Group OJSC.
Below are the details of share issues:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RR thousand	Share premium, RR thousand
27 April 2010	26,000	1.00	1,010	-
6 June 2010 – share split	2,600,000	0.01	1,010	-
30 September 2010	84,994,600	0.01	35,144	210,862
19 October 2010	15,005,400	0.01	6,356	-
Total	**102,600,000**		**42,510**	**210,862**

At 31 December 2010, the Company's authorised share capital consisted of 102,600,000 ordinary shares issued and fully paid.

Other reserves

At 31 December 2010, included in other reserves were expenses in amount of RR 46,676, incurred by the Company in relation to its preparation for an initial public offering ("IPO") of its GDRs on the London Stock Exchange, which was successfully completed in February 2011 (Note 13). These expenses include the fees of RR 3,066 for other assurance services charged by the Company statutory auditor. Upon completion of the IPO transaction, all accumulated issue costs are reclassified as a deduction to share premium.

9. Income Taxes

Loss before tax for financial reporting purposes is reconciled with the income tax expense as follows:

	2010
Loss before tax	(3,903)
Estimated tax charge at statutory rate of 10%	390
Tax effect of items which are not deductible or assessable for taxation purposes:	
Unrecognised loss carry forward	(390)
Income tax charge	**-**

The Company is subject to corporation tax on taxable profits at the rate of 10%.

10. General and Administrative Expenses

	2010
Auditors' remuneration – statutory auditor	1,850
Legal, consulting and other professional services	1,446
Bank services	61
Total general and administrative expenses	**3,357**

11. Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Company`s related party balances and transactions are disclosed below:

Balances with related parties	31 December 2010
Short-term borrowings from subsidiary	34,037
Interest on short-term borrowings from subsidiary	220
Total	**34,257**

Income /expenses on transactions with related parties	2010
Interest expense	220

In November 2010, the Company received unsecured short-term loan from HIDROMASHSERVICE CJSC, an indirect subsidiary of the Company, amounted to RR 34,037 with annual interest rate of 10%.

12. Financial Risk Management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

(a) Market risk

Foreign exchange risk. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euro (“EUR”). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

The tables below summarise the Company’s exposure to foreign currency exchange rate risk at 31 December 2010:

	Monetary financial assets	Monetary financial liabilities	Net position
USD	2,421	(13,042)	(10,621)
EUR	230	(3,066)	(2,836)
Total	**2,651**	**(16,108)**	**(13,457)**

At 31 December 2010, if RR had strengthened/weakened by 20% against US dollar with all other variables held constant, loss for the year would have been RR 2,124 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2010, if RR had strengthened/weakened by 20% against euro with all other variables held constant, loss for the year would have been RR 567 higher/ lower, mainly as a result of foreign exchange gains/losses on translation of EUR-denominated trade receivables.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company’s operations. However, management monitors net monetary position of the Company’s financial assets and liabilities denominated in foreign currency on a regular basis.

(b) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company’s financial assets which consist of cash and cash equivalents. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

At 31 December 2010, the Company had RR 2,651 of cash placed in one bank with Standard & Poor’s rating of BBB+.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company’s finance department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The operational, capital, tax and other requirements and obligations of the Company are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

At 31 Decemder 2010, the Company’s financial liabilities are payable within one year.

Management of capital

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital.

13. Subsequent Events

Authorised share capital

On 12 January 2011, pursuant to the unanimous written resolution of the general meeting of the Company, the authorised share capital of the Company was increased from EUR 1,026,000, divided into 102,600,000 ordinary shares of EUR 0.01 each, to EUR 1,207,058.82, divided into 120,705,882 ordinary shares of EUR 0.01 each.

Group restructuring

In February 2011, as part of HMS Group restructuring procedures, Hydroindustry LLC, Hydromashinvest LLC, Promhydroservice LLC and Promhydroinvest LLC were merged into HMS-Holding LLC, an immediate parent of HMS Group OJSC, and ceased to exist as separate legal entities. This procedure resulted in no gain or loss for the Company.

Initial public offering

In February 2011, the Company successfully completed the IPO of its GDRs on the London Stock Exchange. The Company, HMST and Skye Commercial Corp. (together with HMST, the "Selling Shareholders") offered, respectively, 14,563,427 global depositary receipts ("GDRs"), 23,041,279 GDRs and 6,035,294 GDRs, with each GDR representing 1 ordinary share of the Company. The offer price was USD 8.25 per GDR. The gross proceeds from the IPO, related to and receivable by the Company, amounted to approximately RR 3,530 million and the Company's transaction costs amounted to approximately RR 171 million.

Loans provided to subsidiaries

In February 2011, the Company provided to its subsidiary a short-term loan in amount of RR 3,294,664 with an interest rate of 4.5% per annum.

Amendments to the shareholders' agreement

In March 2011, HMST, the controlling shareholder of the Company, announced of the amendments made to the shareholders' agreement, dated 24 December 2010. These, inter alia, included the amendment to the rights of HMST Shareholders to appoint and remove directors of the Company (the "Company Directors"), so that any decision by HMST as to how to vote its shares in the Company on any appointment or removal of a Company Director must (a) prior to 1 March 2012, be approved by all but one of the directors of HMST and (b) after 1 March 2012, be approved by a simple majority of the directors of HMST. These amendments also eliminated the right of group of shareholders comprising former shareholders of Hydroindustry LLC to appoint all members of the Boards of Directors of HMST and of the Company, other than one director.

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HMS GROUP

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