HMS GROUP

Annual Report and Accounts 2011

NEW LEVEL OF DEVELOPMENT

HMS Group is Russia's leading pump and associated equipment manufacturer, providing design, manufacturing, EPC, installation and service facilities for the main basic industries - oil and gas, power and water utilities

CONTENTS

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 27, 2012

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.

Founded in 1993 as a pump trading and servicing company, HMS has grown organically and by pursuing an active M&A policy that has seen the completion of 18 acquisitions aimed at either adding products to portfolio or expanding into the adjacent business areas. Thus, since 2003 HMS Group has consolidated a number of leading pumps and equipment manufacturers in the former Soviet Union and formed a leading industrial group supported by a strong R&D base, which can offer full integrated solutions from design and manufacturing to engineering, construction works, repairs and maintenance.

The products offered by HMS Group are mission critical elements of infrastructure projects across Russia's basic industries: oil, power and water. The Company's ability to provide state-of-the-art design and testing facilities differentiates it from its local peers across Russia and the CIS and allows it to compete successfully for the most meaningful projects in the end-markets. HMS Group has participated in a number of such projects in Russia, including the Vankor oilfield development and the East Siberia–Pacific Ocean oil pipeline.

One of the HMS Group's competitive advantages is the number of pumps already in operation, where the Group has a dominant market share. The extensive installed base of pumping equipment throughout the former Soviet Union and several other countries, including Iraq, provides a natural market for the Company's maintenance services and after market support, as well as for replacement equipment and spare parts for upgrade, modernisation and overhaul services. Furthermore, technical and regulatory requirements for pumping equipment in Russia and the CIS differ significantly from those in other international markets which creates high entry barriers for foreign competitors.

Founded in 1993 as a pump trading and servicing company, HMS has grown organically and by pursuing an active M&A policy completed 18 acquisitions aimed at either adding products to the portfolio or expanding into adjacent business areas.

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Currently, HMS Group has three business segments: industrial pumps, oil and gas equipment and EPC (engineering, procurement and construction). Each of them represents one of the Company's principal segments for key management reporting and accounting purposes:

HMS Group

	Activities	Core products and services
Industrial pumps business segment	Design, manufacture, installation and servicing of industrial pumps	Water injection pumps Trunk pipeline pumps Nuclear and Thermal power pumps Water utilities pumps General industrial pumps
Oil and gas equipment business segment	Design, manufacture and installation of ready-made units for the oil and gas industry	Oil pumping stations and pump stations for water injection Oil and gas water processing units High-precision and automated metering units
Engineering, Procurement and Construction (EPC)	Design, project planning and management, procurement and implementation	Oil and gas project focused design and planning Oilfield infrastructure and pipelines construction Supplying of equipment

Industrial pumps business segment

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 pump unit's principal products include ready-made pumps based on standard specifications, customised pumps and integrated pump systems. As the Company has developed, it has made a structural shift to higher margin products and services in the pump sector, particularly in terms of bespoke, integrated pump systems built on a turnkey basis for large infrastructure projects.

The industrial pumps business unit also provides aftermarket services, maintenance, repair and other support for its products

Oil and gas equipment business segment

The Company designs, manufactures and installs pump stations, metering equipment, oil, gas and water processing units and other equipment for oil upstream and midstream. The segment's products are equipment packages installed inside a self-contained, free-standing structure that could be delivered to and installed on the customer's site as a modular and completely integrated part of the customer's operations. The segment also provides aftermarket services, maintenance, repair works and other support for its products.

Engineering, Procurement and Construction (EPC)

The Company designs, engineers, manages and constructs projects, including on a turnkey basis, for customers in the upstream oil and gas, oil and gas transportation and water utility sectors.

Investment thesis

HMS Group operates in growing markets with attractive industry fundamentals, having leading market positions in core business segments. Operational and product quality excellence as well as unique R&D capabilities and testing facilities allows the Group to successfully compete for the most important infrastructure projects in Russia and the CIS.

A diversified and well-established customer base consisting of blue-chip companies in the main sectors with a dominant share in the installed base and the strongest sales team in the industry makes the group well-positioned to deliver sustainable financial growth. HMS Group has a strong management team with a sound track record that has proved its ability to deliver organic growth and make value-added acquisitions.

Other: The Company earns other revenue from the rental of equipment and non-operating income.

History and developments

HMS Group was founded in 1993 with the creation of Hydromashservice, a specialised 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, oil and gas equipment production facilities and engineering and construction companies with the goal of integrating the flow control market in Russia and the former Soviet Union.
The timeline below highlights key events in 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 skid assembly business.

2003

HMS Group began to manufacture pumps through the acquisition of Livgidromash (currently HMS Pumps), one of the largest manufacturers of industrial pumps in the CIS.

2004

HMS Group enhanced its product offering for oil and gas equipment through the acquisition of Neftemash (Tyumen), one of the largest Russian producers of modular flow control equipment for surface oilfield sites.

The Company also acquired Elektrodvigatel (Bavleni), a manufacturer of submersible electric water pumps (currently, HMS Households Pumps).

2005

HMS Group became a leading manufacturer of high capacity customised pumps through the acquisition of Nasosenergomash (NEM), located in Ukraine, one of the major companies for the nuclear and thermal power generation industries and trunk oil pipelines in the CIS.

2006

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

2007

HMS Group entered the EPC market through the acquisition of SKMN (Sibkomplektmontazhnaladka), a provider of integrated EPC services for the development and construction of oilfield infrastructure. 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, an R&D centre and the only one of its kind in the CIS, which specialises 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 that consequently has been joined to NEM;

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 oilfield 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.

2011

HMS Group went public in February 2011, placing 37.2% of its stock via GDRs on the London Stock Exchange. Being a consolidator in the domestic pumping industry HMS completed 3 acquisitions (Sibneftemash, Bobruisk Machine Building Plant and Dimitrovgradkhimmash) seeking opportunities to increase its presence in existing and adjacent markets. The Company almost completely replaced the large ESPO-related contracts with a diversified pool on new ones mainly in the oil and gas and EPC segments bringing the backlog back to RUB

17.8 bn

Organisational structure

HMS Hydraulic Machines & Systems Group plc.

The diagram opposite sets out the organisational structure of HMS Group's principal operating subsidiaries and associates by business segment and the percentage of voting shares owned or controlled by Hydraulic Machines & Systems Group plc both directly and indirectly as at the date of this Annual Report

Industrial pumps business unit

HMS Household Pumps 96.7%

Livnynasos 100%

Nasosenergomash 83.3%

Promburvod Plant 51.3%

HMS Household Pumps 96.6%

HYDROMASHSERVICE 100%

Bobruisk Machine Building Plant (Belarus) 57%

Dimitrovgradkhimmash 51%

VNIIAEN (Ukraine) 47.2%

Oil and Gas equipment business unit

HMS Neftemash 100%

Sibnefteavtomatica (SibNA) 94.3%

Nizhnevartovskremservis (NRS) 100%

Sibneftemash (SNM) 98.6%

HYDROMASHSERVICE 100%

EPC business unit

Giprotyumenneftegaz (GTNG) 45.9%

Sibkomplektmontazh-naladka 82.3%

TomskGazStroy 80.8%

Rostovskiy Vodokanalproekt Institute 77,3%

HYDROMASHSERVICE 100%

Chairman's statement

German Tsoy,
Chairman of the Board of Directors

Dear shareholders and business partners,

We saw 2011 as a year when HMS Group achieved significant progress in different areas of business:

- For the first time we managed to reach revenue close to the symbolic level of USD 1 bn while profit for the year beat USD 100 mn and reached USD 115 mn with good prospects to grow further.
- For the first time we concluded 4 contracts with expected revenue of more than RUB 1 bn to be executed in the coming years as opposed to the regular single contract of this value per year in the recent years.
- We demonstrated the reliability of our strategy focused on the development of strong liaison between the R&D and manufacturing processes.
- We have been the only Russian issuer that managed to complete a successful IPO in the first quarter of 2011. Together with an assigned "BB-" credit rating from the international rating agency Standard and Poor's we obtained easy access to the financial markets.

As a result, 2011 has become a year when we managed to step up to a new level of development that will allow us to make a great leap in business development in 2012-2015, similar to that which we achieved in 2006-2007 and 2010-2011. In particular:

- We see an ongoing infrastructure boom in Russia that offers new opportunities for participation in large projects.
- We became larger which allows us to successfully compete for bigger contracts from our customers.
- We enhanced our potential in the R&D and project and design areas, so we've been entrusted to execute more technologically sophisticated contracts that usually produce higher profitability.
- We are comfortable seeking new M&A opportunities due to easy access to the capital markets.

All of these developments create a "snowball effect" whereby the current market demand generates more contracts for us and, as we become a larger company, the number of contracts also builds upon itself, creating larger and more sophisticated opportunities.

For the first time we managed to reach revenue close to the symbolic level of USD **1 bn** while profit for the year beat USD **100 mn** and reached USD **115 mn** with good prospects to grow further

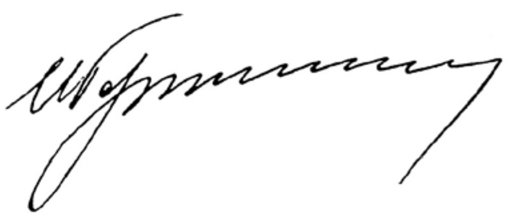
Now let me focus on the Group’s strategy. Between 2005 and 2010, our focus was to deliver our strategy of building a national pump industry champion. Now I can state that we have successfully achieved this objective. Since 2010, our strategy has been to transform the Company into the leading provider of flow control technology-based integrated solutions with high value added for Russia’s and the FSU’s major industries such as oil and gas, power, water supply with pump business as the core of HMS Group’s business. That’s the strategic task we set for the period 2010-2015. We are making steady progress and I am confident we have chosen the right path for the Company. From 2009 to 2011, we doubled our revenue and tripled EBITDA while our net profit grew by more than 40 times. Given the stable growth we have experienced in new orders, I have no doubts that we will be successful with our business strategy and I expect to see continued growth in 2012. Taking into consideration analysis of the potential large-scale projects and current negotiations with customers, I also believe that the growth will continue in 2013-2015.

This growth could not be achieved without excellent management teamwork and I’d like to express my gratitude to Artem Molchanov and his team for the successful results we have achieved in such a challenging and volatile economic environment. At the end of 2011 we launched option scheme that created long-term incentives for the management team to fulfill the strategy and to keep creating long-term value for our shareholders in order to achieve our target market capitalisation of USD 2bn by 2015.

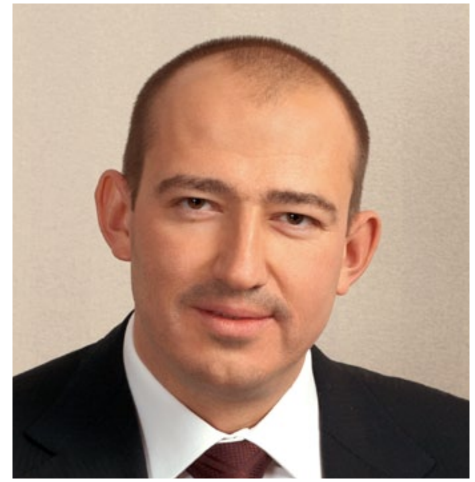
With regards to market capitalisation, as Chairman and one of the major shareholders, I was disappointed with the share price performance in 2011. However, I firmly believe that this is a direct reflection of the turmoil in the financial markets in the second half of 2011 and the subsequent lack of investors’ confidence in the possible growth of HMS in 2012. The performance of the order intake affirms the weakness of the concerns regarding the “one-off” nature of the HMS financial performance in 2011.

Nevertheless, we greatly appreciate the support of investors that bought a stake during our IPO during a period of such financial uncertainty in the markets. Although initially we decided to start dividend payments from financial year 2012 with a target payout ratio not less than 25%, I’m pleased to say that we made a decision to include into the Board’s meeting agenda the item of an early start of dividend payments from 2011, a higher payout ratio for 2011 to be considered. We express our thanks both with words and actions.

Coming back to the growth outlook, we will continue to focus on organic growth together with selective M&A activity to fill the existing gaps in our product range or market niches. For 2012-2013, our priority will be entering into the gas contracts market via the \acquisition of a compressor manufacturer. From my standpoint the market of gas production owing to Gazprom and independent gas companies offers new mid-term opportunities comparable or even exceeding the oil market’s capacity.



CEO statement



Artem Molchanov,
Chief Executive Officer

Dear shareholders and business partners,

I'm pleased to say that in 2011 we...

- continued to strengthen our position in the Russian markets for pumps and oil and gas equipment through our organic growth
- completed several selective M&A deals, filling gaps in the Group's product range
- entered capital markets, having raised capital through an IPO and obtained credit ratings
- and substantially enhanced our R&D competence with the launch of a unique testing facility for increased capacity pumps and designed several unique pump models for the most important infrastructure projects in Russia.

In 2011, revenue grew by 19% year-on-year, and reached RUB 27.5 billion while EBITDA increased 57% and amounted to RUB 5.5 billion. Profit for the year was RUB 3.4 billion, up 114% year-on-year. We managed to build up an excellent order intake in 2011. As a result, our backlog as of December 31, 2011 amounted to RUB 17.8 billion. Although this is slightly less than RUB 19.8 billion in the beginning of the previous year, it is well structured and significantly more diversified. We will keep working on gaining new orders and concluding new contracts that allow us to be confident that we can maintain our upward trend in revenue growth in 2012.

The Group's performance has given even more credibility to our strategy to focus on technically sophisticated projects that require advanced R&D competence. Thanks to excellent R&D facilities we managed to win the contracts that led to the increase of our revenue and margins.

In 2011, we enjoyed a successful year in terms of our participation in large-scale projects. It's worth mentioning the most essential ones; we have successfully completed a pilot turnkey construction project of an irrigation station in Turkmenistan and the delivery of pump-based integrated solutions for the Purpe-Samotlor pipeline. We also continued the delivery of pump-based integrated solutions for the ongoing "East Siberia – Pacific Ocean" pipeline project and for the Russian nuclear power plants such as Beloyarskaya, Rostovskaya and Leningradskaya.

I'm pleased to say that several large-scale projects have been launched in 2011. Contracts for a turnkey project on the Srednebotuobinskoye oilfield and equipment delivery for the second stage of the Vankor oilfield development are among them. GTNG, acquired in 2010, entered the market of gas field and oil pipeline design. In the second half of 2011, we concluded several construction contracts for RUB 5.5bn including several contracts running into billions for the West-Tarkosolinskoye and Etipurovskoye oilfields. It's important to note that we've been sticking to the policy of avoiding low-margin construction contracts and this has resulted in healthy margins from all of the aforementioned contracts. In December 2011, we won a tender for pumps delivery for the Baltic and Rostov nuclear stations.

Customer satisfaction was a key factor in concluding these contracts since we either participated in these projects at the early stages or successfully completed similar customers' projects. Projects in oil and water segments such as projects on the Vankor oilfield and water projects across the CIS are a good illustration of the thesis.

We have a strong focus on the quality of our services and that is highly rated by our customers. They can be sure we'll keep on working to meet their needs in the best possible way.

In 2011, we acquired the Bobruisk Machinery Building Plant, the largest factory producing pumps for oil refineries of the Soviet era, which will allow us to strengthen our position in the market for pumps for oil refineries and leverage the powerful sales and R&D capabilities of HMS. We have also acquired Sibneftemash, which is located in the same city as the HMS Neftemash plant and will focus on the synergies in our product range. This will allow us to achieve significant cost savings and output growth for both operations. In 2011, we have also obtained control over DGHM (Dimitrovgradkhimmash). Given an effective collaboration with the plant's management for the last four years aimed at developing DGHM, the EV/EBITDA multiple contracted from an initial 9.8 in 2007 when the first stake was acquired to 2.2 in 2011 due to revenue and profitability growth. We're going to adhere to the policy of selective and value added acquisitions in 2012 as our balance sheet with Net debt-to-EBITDA of 0.9 will allow us to keep on consolidating the sector.

We also enhanced our corporate governance in 2011 and welcomed new independent directors onto the Board with their own unique expertise. Philippe Delpal focuses on finance and audit issues while Gary Yamamoto, apart from heading the Remuneration committee, has great expertise in the oil and gas equipment markets. We achieved a new level of development, having successfully completed an IPO and become a public company listed on the LSE. We have subsequently been assigned a «BB-» credit rating by the Standard and Poor's rating agency. This has allowed for streamlining of the company's access to the capital markets and cost reduction.

We keep working on the engineering and design of new modifications of customised pumps for our clients in the oil upstream and midstream, water utilities and power sectors. I'd like to emphasise the most important achievements we made in the R&D area in 2011 which saw one of the largest testing facilities in Europe with a capacity up to 14MW being launched by HMS. The facility will allow us to test customised pumps of increased capacity that are in great demand by our clients. That means we're the only Russian producer of customised pumps that is able to provide testing of the most sophisticated and powerful pumps and pump-based solutions under harsh conditions similar to those experienced in a 'live' operational environment.

Finally, I wouldn't like to sound excessively positive because we have to recognise there are several challenges on the way in our day-to-day activities. We have to meet the strict terms and timing schedules on the projects our customers have entrusted to HMS. We also have to control and monitor our project budgets on a regular basis and this requires the involvement of significant technical and management resources. However, we faced strong challenges in 2011 and we successfully coped with the overwhelming majority of them and I'd like to thank the whole HMS team from our top managers to our plant workers that devoted so much effort into ensuring we delivered new equipment for large-scale projects being implemented in Russia. As mentioned by government officials, having a bulk of large-scale infrastructure projects demonstrates that Russia is under way with a new era of industrialisation. We will do our utmost to ensure that HMS plays a worthwhile role in this process.

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14MW

being launched by HMS.

Pumps for Krasnodar combined heat & power station

Highlights

- Client: E4 Group.
- Project timing: 2010-2011.
- HMS Group was selected to engineer, manufacture and supply pumps for a new 410 MW CCGT and successfully met all of the client's requirement with custom-made pumping units.
- Krasnodar CHP is the main power plant in Krasnodar region and supplies energy and heat to Krasnodar city and surrounding areas.
- EPCM has been carried out by E4 Group for Lukoil-Kubanenergo.
- A new 410 MW CCGT allows to: increase CHP capacity by 50%; reduce fuel consumption by 25%; ensure high reliability and efficiency without increasing the impact on environment.

Krasnodar CHP with 743 MW capacity is the main power plant in Krasnodar region and supplies energy and heat to Krasnodar city and surrounding areas.

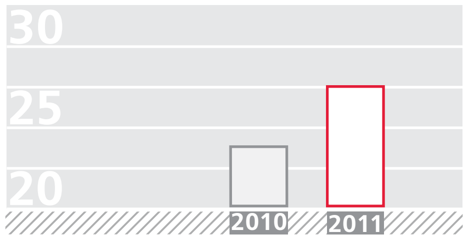
2011 Highlights

Financial performance

Revenue in 2011

27.5
bln RUB

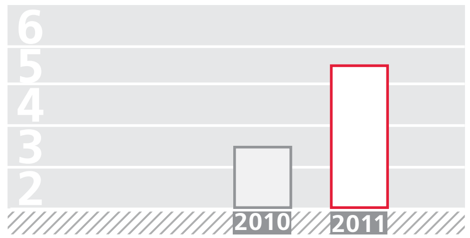
19.2%



EBITDA in 2011

5.5
bln RUB

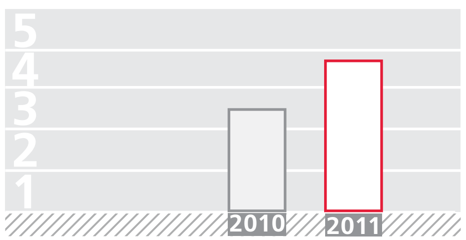
56.5%



Operating profit in 2011

4.5
bln RUB

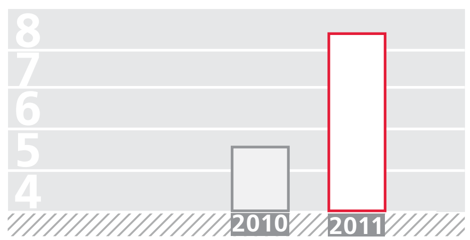
56.0%



Gross profit in 2011

8.4
bln RUB

50.2%

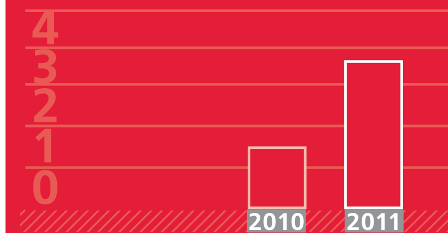


Perfomance indicators

Net income

3.4
bln RUB

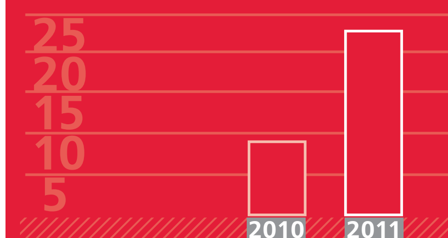
113.6%



Earnings per share

27.88
bln RUB

94.6%



Entering the international capital markets…

The company went public in February 2011, placing 37.2% of its stock via GDRs on the London Stock Exchange. One-third of the shares were newly issued, while the rest were offered by existing shareholders. The placement conducted at $8.25/GDR was the only transaction by Russian issuers successfully completed in Q1 2011. The proceeds were intended to be directed at reducing indebtedness. Following the offering, 70% of total debt has been successfully repaid.

In mid-2011 HMS was assigned a "BB-" credit rating by the international rating agency Standard and Poor's that reflects the Company's leading position in the Russian pumps markets and its solid balance sheet following the IPO that resulted in expectations that HMS will be able to protect its market share and take full advantage of the positive prospects for the Russian pumps industry, fuelled by the need for replacement and expansion of the country's infrastructure.

…supports attractive growth opportunities

In June 2011, HMS completed the acquisition of 98.9% of the share capital of Sibneftemash, an oilfield equipment manufacturer, for a total cash consideration of RUB 1.3 billion, financing the transaction with its available credit facility. Sibneftemash, located in the Tyumen Region of the Russian Federation, designs, manufactures and supplies a diverse range of equipment and appliances used in drilling, production of oil and gas and well servicing, including tank storage, cementing, well intervention and hydraulic fracturing equipment. The integration of HMS Neftemash (HMS Group subsidiary) and Sibneftemash created a major oilfield equipment manufacturer and provider of related services, strengthening the market position and diversifying HMS Group's product offering to oil companies and oilfield services providers.

In August 2011, HMS subscribed for 100% of newly-issued shares equal to 57% of the share capital of the Bobruisk Machine Building Plant (BMBP) located in Bobruisk, Belarus – one of the largest manufacturers of specialist centrifugal pumps in the CIS - for a total cash consideration of USD 9.7 million. The transaction was completed at the end of August 2011. All funds invested in the Plant have been used for the development of new product lines and equipment modernisation. BMBP has been generating good references and a recognisable brand portfolio, especially in oil refining and the metallurgy and mining industries, resulting in a large installed base across Russia, the CIS and other countries. This will help HMS to enter the "hot cycle" oil refining pumps and related equipment markets and to acquire new technologies. The Plant complements the existing business of HMS Group in "cold cycle" oil refining pumps.

The integration of HMS Neftemash (HMS Group subsidiary) and Sibneftemash created a major oilfield equipment manufacturer and provider of related services, strengthening the market position and diversifying HMS Group's product offering to oil companies and oilfield services providers.

BMBP acquisition will help HMS to enter the "hot cycle" oil refining pumps and related equipment markets and to acquire new technologies. The Plant complements the existing business of HMS Group in "cold cycle" oil refining pumps.

In December 2011, HMS obtained control of Dimitrovgradkhimmash (DGHM), the Russian manufacturer of equipment for oil refineries, chemical, petrochemical and gas processing plants. HMS increased its stake to 51% by acquiring a further 11% for RUB 206 million (USD 6.9 million) to add to the 40% already owned by HMS. Founded in 1931, DGHM supplies major oil & gas and chemical companies with a wide range of products – from pumps for oil and oil products to tanks and vessels and other special technological equipment for different applications. Having acquired a healthy company with a strong financial position, HMS retained a sound balance sheet that would support further growth initiatives.

Founded in 1931, DGHM supplies major oil and gas and chemical companies with a wide range of products – from pumps for oil and oil products to tanks and vessels and other special technological equipment for different applications. Having acquired a healthy company with a strong financial position, HMS retained a sound balance sheet that would support further growth initiatives.

Operational excellence in execution of ongoing contracts…

Over the course of 2011, HMS almost completed the whole scope of design, delivery, installation and commissioning of pumping systems based on new types of NM-10000 and NM-7000 pumps on the pumping station sites of the East Siberia- Pacific Ocean trunk pipelines (ESPO-2 pipeline, ESPO-1 extension).

HMS completed the delivery of eight upgraded trunk pipeline pump systems (based on the NM 7000-250 pump) to the Purpe-Samotlor oil pipeline. These new high capacity units were designed for two oil pumping stations – OPS Purpe and OPS Vingapur. The “Purpe-Samotlor” oil pipeline project includes the construction of a trunk pipeline with a total length of 429 km and an operational capacity of 25 million tonnes per year. The reliability and efficiency of these units are one of the best in class. The high technical level and quality of the developed equipment was confirmed by bench tests.

The Company’s EPC business unit completed a turnkey contract of the 1st stage of a crude oil metering station at the Dulisminskoe oilfield in the Irkutsk region of Russia for the NK Dulisma oil company. The metering station has been constructed for the future Dulisma oilfield-ESPO pipeline and will measure the amount of oil received from the oilfield and pumped to the ESPO pipeline. HMS Group carried out all necessary construction and procurement works as well as testing and commissioning.

Another successfully completed project by the EPC unit in 2011 was the construction of the infrastructure facilities for a boosting compressor station located at the Komsomolskoye oilfield, a mission critical part of an industrial complex designed for the extension of an associated gas utilisation ratio.

In 2011, HMS Group completed the construction of a main water pumping station in Turkmenistan. The project had strategic importance for the country’s infrastructure development. The impressive 126,000m3/h capacity allows for the supply of highly turbid water from Amu Darya River into the irrigation system. The project was carried out in complicated geotechnical conditions with constant forced dewatering. Launched in February 2011, the station has increased the irrigated area by 31,000 hectares and made it possible to build potash and cement plants etc.

On the strength of this project HMS Group has joined the list of nominees for the Pump Industry Awards, established by the British Pump Manufacturers’ Association.

…determines success in competing for new ones

In 2011, the Company secured several significant contracts with expected revenue of more than RUB 1 bn per contract, unlike in previous years when HMS usually had only one contract of that size per annum. This allowed HMS to successfully restore its backlog, replacing the large-scale Transneft's ESPO project and reflects its efforts to gain market share in premium niches, including engineering and design components, the procurement and construction (EPC) segment, turnkey solutions for oil & gas field developments and aftermarket services.

During 2011, HMS signed several contracts to deliver pumps for the nuclear power generation sector. HMS will deliver a broad range of specialist pumps for the Rostov and Baltic NPPs including 6 ACNA 400/95-8 pumps for the fourth unit of the Rostov NPP and more than 130 specialised pumps and pump systems for the construction of the Baltic NPP. The Baltic NPP is under construction in the Kaliningrad region of Russia and will comprise of two generating units with a total capacity of 2.3 GW. The ordered pumping equipment will be delivered for both the 1st and 2nd generating units of the Baltic NPP. Rostov NPP is one of the major power plants in the south of Russia, situated in the Rostov region, generating more than 15% of the region's annual power supply. Pumping equipment will also be produced for the 4th generating unit of the NPP that is currently under construction.

In Q4 2011, HMS signed several contracts for the delivery of a broad range of equipment for water processing and water injection units to be installed under the second stage of the Vankor oilfield development. Both units represent a part of the water treatment system that was designed by HMS Group in 2010. The Group will fit-out the units with equipment for water processing, heating, ventilation, air conditioning and firefighting systems as well as provide commissioning of the whole technological cycle. Following successful completion of the similar contract in 2009-2010, HMS gained an order for aftermarket service. Customer satisfaction played a key role in gaining a new contract on the same field.

In November, HMS signed a contract for a turnkey project on a Srednebotuobinskoe oil and gas condensate field, located in the Republic of Sakha, with explored reserves of approximately 122 mn t. Under the project, the Group will supply a broad range of services, including project design, procurement, manufacturing of pumps and other oilfield equipment as well as overall project management of the oilfield development.

GTNG, the main project and design subsidiary of HMS, made a strong contribution to the Company's successful performance in 2011. HMS supported GTNG capabilities that entered the gas condensate market (East and Novo-Urengoyskoye gasfield) and design of oil pipelines (Purpe-Zapolyarnoye pipeline). The Group is considering the gas market as a very attractive area for further expansion and is currently making its first steps aimed at tapping into the market.

The Group signed several contracts to provide construction and assembly works in different extraction regions including at the Etypurovskoye gasfield, the West-Tarkosalinskoye gasfield, the Priobskoye oilfield and the Srednebotuobinskoye oilfield. Under the contracts, HMS will provide a broad range of engineering services, including construction, installation and commissioning, as well as overall project management of the infrastructure facilities at the oil and gasfields under harsh environmental conditions.

Several aftermarket contracts for the production of spare parts, overhaul and modernisation of installed equipment have been successfully concluded by the Company. Customers are shifting their requirements from standalone pumps to complex integrated solutions with prospects for outsourcing of repairs and maintenance. As a result, HMS won new contracts with Transneft and Rosneft for aftermarket services for the equipment installed at the Vankor oilfield and modernisation of the pump systems for oil transportation.

In 2011, HMS Group completed the construction and launched a 14 MWt test-bed facility which will allow simultaneous testing of numerous large pumping units, particularly for oil transportation and nuclear applications. The testing capacity of the facility makes it unique in Russia and the CIS and is one of the largest in Europe. It creates an additional competitive advantage for the participation in large infrastructure projects where it's crucial to provide tests with conditions similar to 'live' operational environments.

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Strategy

Meeting growth opportunities

2011 saw the full-scale recovery of the Russian economy from the impact of the global financial crisis. The end users in the core target industries of HMS Group have initiated strategic long-term investment programmes, focused on the creation of new capacities and a thorough upgrade of existing facilities. HMS Group, with its revenue growth rate of 19%, intends to further contribute to the post-crisis recovery of the economy in Russia and the CIS countries by participating in the largest industrial projects in all its core markets.

HMS Group plans to support continued growth by focusing on industry trends and improving its operational efficiency in key areas. The Company will also utilise its extensive research and development capabilities to develop the next generation of customised pumps, technological upgrades and integrated pumping systems.

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.

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Broadening of integrated solutions offering

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. In addition, the provision of integrated solutions based on 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 support its focus on growing its integrated solutions offering.

The Company intends to keep these existing long-term strategic partnerships with virtually all industrial majors in Russia and the CIS countries and to contribute to the success of its clients.

Mission critical applications determine constant interaction with end-users and a deep understanding of a customer's processes and technologies, thus shaping the flexibility and client-oriented approach of all functions within HMS Group – from product design through production and testing to post-sale commissioning and service.

The Company intends to keep these existing long-term strategic partnerships with virtually all industrial majors in Russia and the CIS countries and to contribute to the success of its clients.

Harnessing growth in core end-user industries and diversifying into new markets

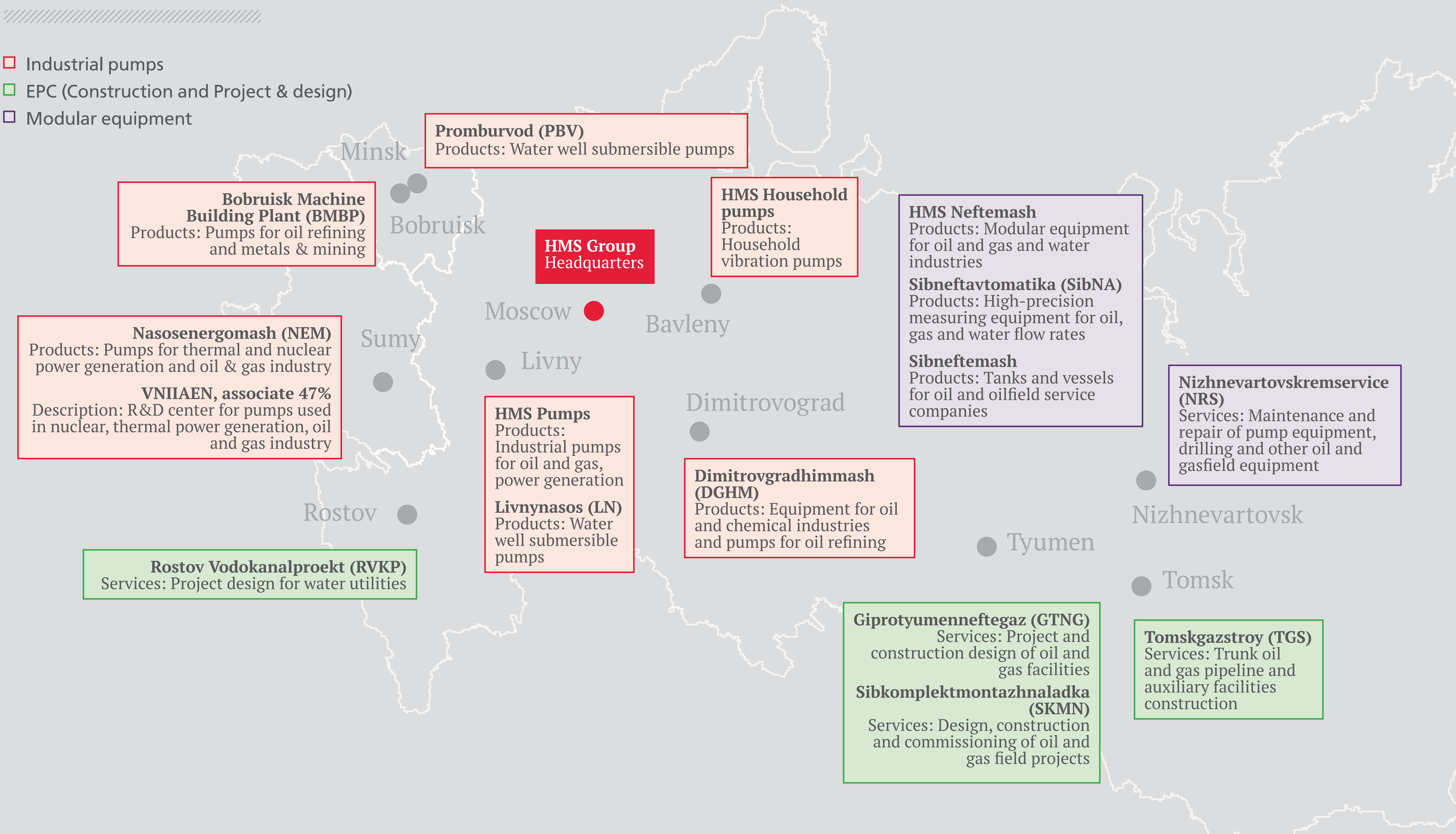
The Company intends to further penetrate its key markets through the diversification and enhancement of its product portfolio, including the development and production of next generation pumps and enhanced aftermarket sales and support. HMS Group anticipates that the ongoing modernisation of this infrastructure will continue to foster growth in the market for pumps and modular equipment for various applications. The Company also intends to strengthen its position in such growing markets as those for oil-refining equipment, associated gas processing equipment, and the chemical and metallurgy sectors of the Russian pump market.

Overseas sales platform

HMS Group is intensifying its export activities. In the past year, two representative offices have been founded in key regions of influence in the global engineering world; Milan and Dubai. This has established a structured export platform to promote highly competitive HMS products and solutions in selected high margin projects abroad. In order to compete successfully, HMS Group continues to modify its product ranges to comply to international standards, initiate vendor qualification procedures with leading global end-customers, EPC and technology providers, and to certify its products and processes.

Production Assets

- Industrial pumps
- EPC (Construction and Project & design)
- Modular equipment



Promburvod (PBV)
Products: Water well submersible pumps

Bobruisk Machine Building Plant (BMBP)
Products: Pumps for oil refining and metals & mining

HMS Group Headquarters

HMS Household pumps
Products: Household vibration pumps

HMS Neftemash
Products: Modular equipment for oil and gas and water industries

Sibneftavtomatika (SibNA)
Products: High-precision measuring equipment for oil, gas and water flow rates

Sibneftemash
Products: Tanks and vessels for oil and oilfield service companies

Nasosenergomash (NEM)
Products: Pumps for thermal and nuclear power generation and oil & gas industry

VNIIAEN, associate 47%
Description: R&D center for pumps used in nuclear, thermal power generation, oil and gas industry

Nizhnevartovskremservice (NRS)
Services: Maintenance and repair of pump equipment, drilling and other oil and gasfield equipment

HMS Pumps
Products: Industrial pumps for oil and gas, power generation

Livnynasos (LN)
Products: Water well submersible pumps

Dimitrovgradhimmash (DGHM)
Products: Equipment for oil and chemical industries and pumps for oil refining

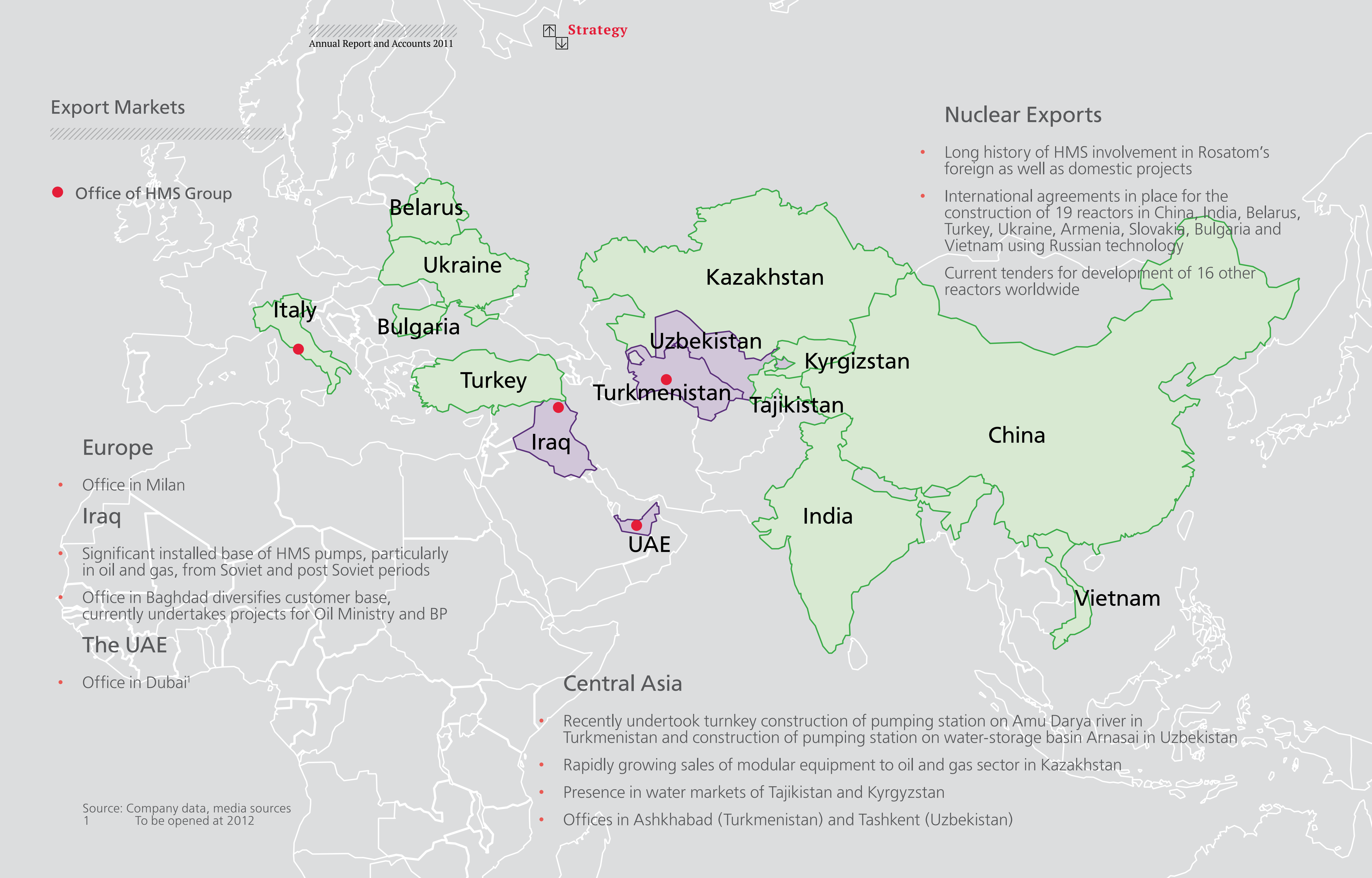
Rostov Vodokanalproekt (RVKP)
Services: Project design for water utilities

Giprotyumenneftegaz (GTNG)
Services: Project and construction design of oil and gas facilities

Sibkomplektmontazhnaladka (SKMN)
Services: Design, construction and commissioning of oil and gas field projects

Tomskgazstroy (TGS)
Services: Trunk oil and gas pipeline and auxiliary facilities construction

Export Markets



Nuclear Exports

- Long history of HMS involvement in Rosatom's foreign as well as domestic projects
- International agreements in place for the construction of 19 reactors in China, India, Belarus, Turkey, Ukraine, Armenia, Slovakia, Bulgaria and Vietnam using Russian technology
- Current tenders for development of 16 other reactors worldwide

Europe

- Office in Milan

Iraq

- Significant installed base of HMS pumps, particularly in oil and gas, from Soviet and post Soviet periods
- Office in Baghdad diversifies customer base, currently undertakes projects for Oil Ministry and BP

The UAE

- Office in Dubai[1]

Central Asia

- Recently undertook turnkey construction of pumping station on Amu Darya river in Turkmenistan and construction of pumping station on water-storage basin Arnasai in Uzbekistan
- Rapidly growing sales of modular equipment to oil and gas sector in Kazakhstan
- Presence in water markets of Tajikistan and Kyrgyzstan
- Offices in Ashkhabad (Turkmenistan) and Tashkent (Uzbekistan)

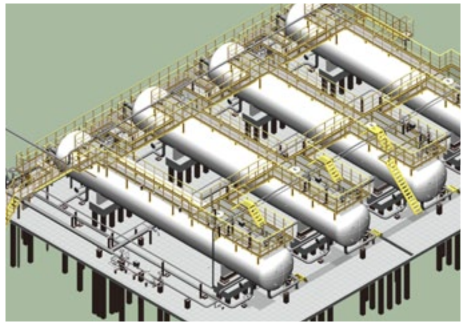
Source: Company data, media sources

1 To be opened at 2012

Enhance R&D and production capabilities supporting engineered products

The Company expands its R&D capabilities leveraging the experience and knowledge base of its existing teams. HMS Group also improves its pump design by investing in continued research in order to increase efficiency, mean time before failure, vibration characteristics, etc. R&D teams work closely with customers in order to develop technical solutions that will enable customers to improve the efficiency of their technological processes.

In order to maintain its leading position in the market, HMS Group invests in state-of-the-art production technology. The complexity of the Company's products determines the tailor-made machines and lines. Along with investments in unique testing facilities, one of the most powerful in Europe, this ensures the quality of the products and sufficient production capacities to meet the ever-growing demands of the market.



3D-modeling used for oilfield design

Focus on the human dimension

The Company, already rated as a top employer in the regions where it operates, plans to create a team of the best professionals in the CIS region in machine building and the EPC industries, using the extensive experience of the leading specialists already active in the Company and by acquiring new talent.

The Company's HR policy strives to unlock the potential of an individual and unite them with the collective effort. Existing and planned initiatives in relation to human resources are aimed at the development of the Company's personnel and ensuring the highest working conditions. Personnel training programmes include job-specific training, language courses, various management courses for team leaders and other initiatives. This fosters the growth of talent and skill sets within the company, helps to retain key personnel and acquires new specialists eager to work in such a creative environment.

Young talent is sought through universities where students are given an opportunity to test their skills in the Company's various challenging starting positions. Experienced professionals are recruited from within the industry not only in Russia and the CIS, but also from abroad.

Main Pumping Station for Water Supply System in Turkmenistan

Highlights

- Our Customer – Ministry of Water Industry of Turkmenistan.
- The main water pumping station design and turnkey construction to supply water from Amudarya River to Yilgynagyz channel.
- The entire project included the station's design, pump design, production and test, equipment procurement, construction installation, commissioning and operating personnel training.
- The pump station flow rate is 126,000 m³/h.
- The station is located in the area with seismicity of up to 8 on a MSK-64.
- The station was successfully launched in February 2011.

Launched in February 2011 the station has the increased irrigated area by 31,000 hectares and made it possible to build potash and cement plants etc.

Macro and industry developments

The global backdrop in 2011 was not linear over the whole year though downside risks increased noticeably in the second half of the year. The Eurozone remained at the heart of the negative backdrop story with continuous deleveraging by the continent's banks and an absence of a strong political solution to the sovereign debt crisis. Economic activity in the Eurozone, in particular, in the second half of 2011, was undermined by financial uncertainty. The problems experienced by Europe's banks and the associated sovereign debt crisis – as well as efforts by many member countries to shrink their budget deficits - had a negative impact on growth, lending and overall economic activity.

Slow growth in the U.S. also added to concerns over the sustainability of the developed world economy. For the United States, the main priority was to implement credible and well-paced medium term consolidation programmes focused on long-term debt sustainability - to stabilise the debt ratio by mid-decade and gradually reduce it thereafter under reasonable macroeconomic assumptions.

The uprisings in Northern Africa and the Middle East led to the loss of Libyan oil exports and a general increase in oil prices.

Amidst this negative global backdrop in 2011, the Russian economy, supported by strong commodity prices, remained resilient with inflation recording historical lows and growth persisting at a relatively high level while both the federal budget and balance of payments registered surpluses.

GDP growth reached 4.3% YoY in 2011, on a par with the 4.3% YoY growth last year that was revised upwards by the Ministry of Economy from the previously announced 4.0%. This growth rate was mainly driven by domestic consumption that increased by 6.4% YoY and fixed investment that grew by 6.2% supported by the expansion of consumer credit, lower inflation and reduced unemployment. The country's manufacturing industry (+6.1% YoY), agriculture (+16.1% YoY in 2011) and retail sales (+5% YoY) managed to outperform the average GDP growth.

Given the strong uphill trend in consumer inflation at the beginning of the year driven by food prices as a result of severe drought in the summer of 2010, it was difficult to assume that the government would manage to meet its moderate 2011 target of 6.5-7.5%. However, inflation grew 6.1% in 2011, according to Rosstat, a record low for the post-Soviet period while producer prices in Russia climbed to 12% YoY.

In 2011, real wages increased 3.5% YoY, less than the 5.2% YoY in 2010. Russia's unemployment rate resisted the traditional year-end rise and hit a low of 6.1%, only seen before in 2007 during the pre-crisis peak of economic activity.

The federal budget finished 2011 with a surplus reaching 0.8% of GDP after 2 years of budget shortfalls. Over 2011, the government spent RUB 198bn less than the planned amount; revenues were up RUB 216bn compared to the plan and reached RUB 11.3trl, mainly driven by higher commodities prices. The Reserve Fund stood at RUR811.5bn as of January 1, 2012 while the National Welfare Fund amounted to RUR2.8trl.

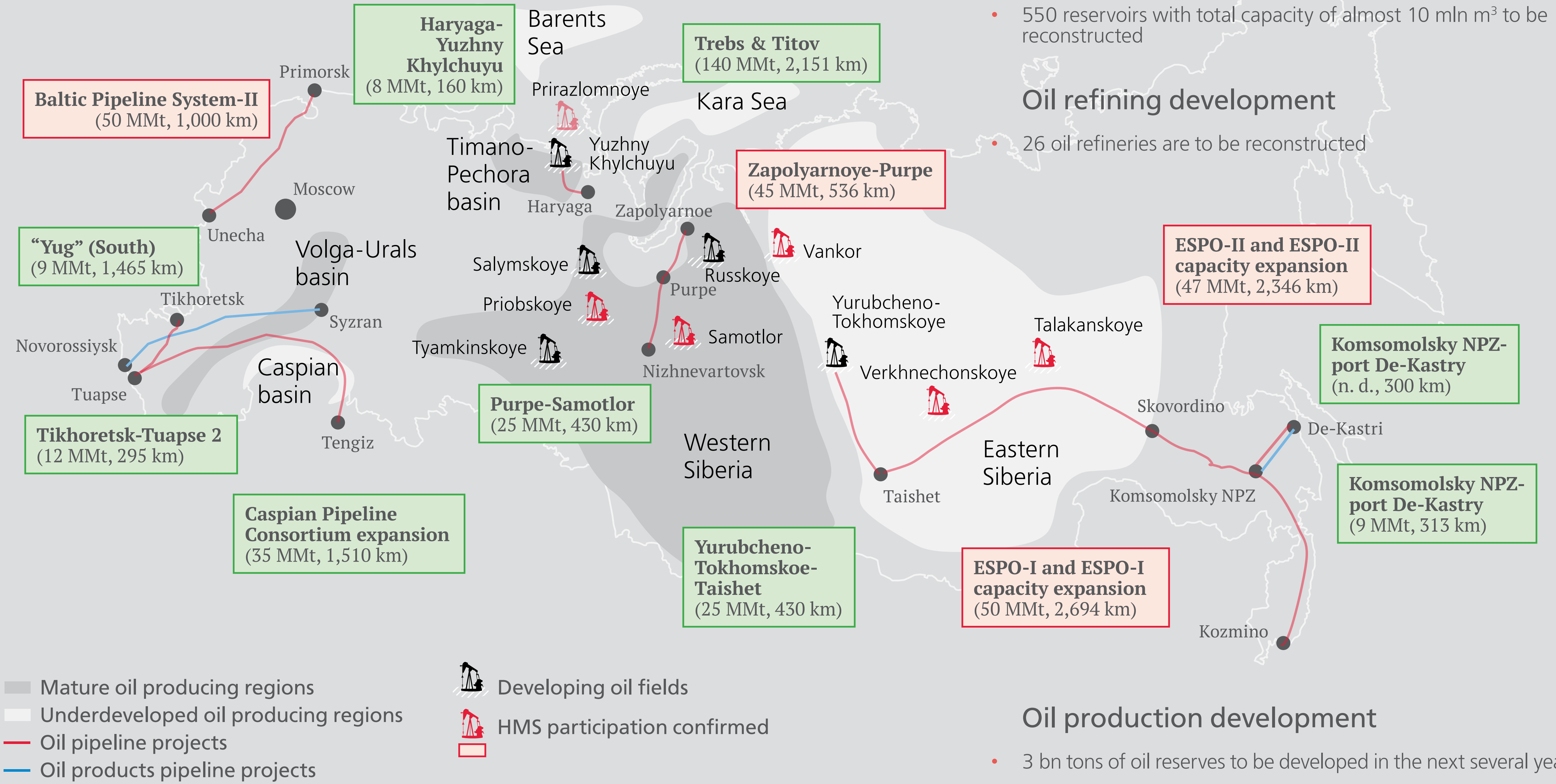
Russia now enjoys one of the most solid economies globally with a budget and current account in surplus, the world's fourth-largest foreign exchange reserves and a negligible external debt position.

The balance of payments posted a healthy 5.8% GDP current account surplus amid higher oil prices (the Urals average for 2011 was USD 109.3/bbl), along with some deterioration in the capital account, mainly due to the structural shortcomings of the economy and Russian entrepreneurs' lack of desire to invest domestically.

However, capital flows - which fuelled credit, private demand and growth before the crisis - have yet to return because investors remain wary of the thorny business climate. Capital flight more than doubled in 2011 to USD 84bn. On a positive note, there remained a steady inflow of FDI in Russia, which posted around USD 50bn in 2011 as a whole (a 28% YoY increase), suggesting that the international real sector has not been dashed either by domestic economy structural shortcomings or by the possibility of a global recession.

Investments constituted 26.6% of total GDP driven by infrastructure investment growth largely executed by state-owned companies in the energy sector and the federal budget. Russia comes through an infrastructure boom with a continued flow of infrastructure spending on major projects that demonstrated remarkable resilience even during the financial crisis. Over recent years, Russia has made significant progress in developing and modernising its industrial infrastructure. Several major projects are already mature or close to their completion stage – Vankor, ESPO, Ust-Luga, BPS-2, Apex-2012 and the Sochi Olympic Games, but a lot of infrastructure projects in the energy sector, transport, municipal services including heat, water distribution and treatment are still underway or in the preparation stage.

New Milestone Projects / Oil & gas production and oil transportation/



Transneft investment program 2010-2017

- 10,000 km of pipelines to be constructed or replaced
- 140 of pump stations to be constructed or reconstructed
- 550 reservoirs with total capacity of almost 10 mln m³ to be reconstructed

Oil refining development

- 26 oil refineries are to be reconstructed

Oil production development

- 3 bn tons of oil reserves to be developed in the next several years

Upstream

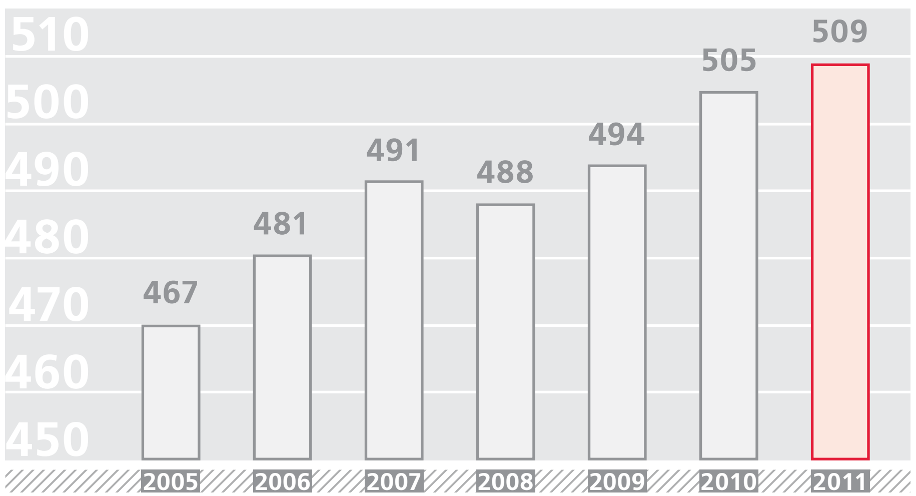
Russia's oil upstream industry is a backbone of the Russian economy as the industry's performance has an impact on its international balance of payments, maintaining the national currency and formation of investment resources of the economy.

According to the Russian Energy Ministry oil output in Russia edged up 0.8% to 509 M tonnes and reached a new high since Soviet times in 2011, supported by tax legislation changes and the launch of new pipeline flows to China. Average oil production stood at 10.27 million barrels for 2011 with approximately 7.2mn exported as either crude or product. The well stock reached 161 thousand versus 159 thousand in 2010 while more than 136 thousand (84%) of them are actively producing. Russia aims to maintain annual oil production at around 510mn tonnes, or just over 10mn bpd, over the next 10 years. Capital expenditures of the oil upstream sector increased from RUB 596 bln in 2010 to RUB 637 bln in 2011, demonstrating a 7% growth rate.

Over 2011, oil prices continued to show strong growth since its low level in the early financial crisis of 2009. The average price of a 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 returned back to the growth path and reached 80.5 USD in 2010. In 2011, the average oil price continued to grow, further driven by unstable political situations in key oil producing regions as well as the monetary policy of the developed countries and reached 111.2 USD in 2011. The industry forecast for 2012 is for prices to climb to over 120 USD per barrel.

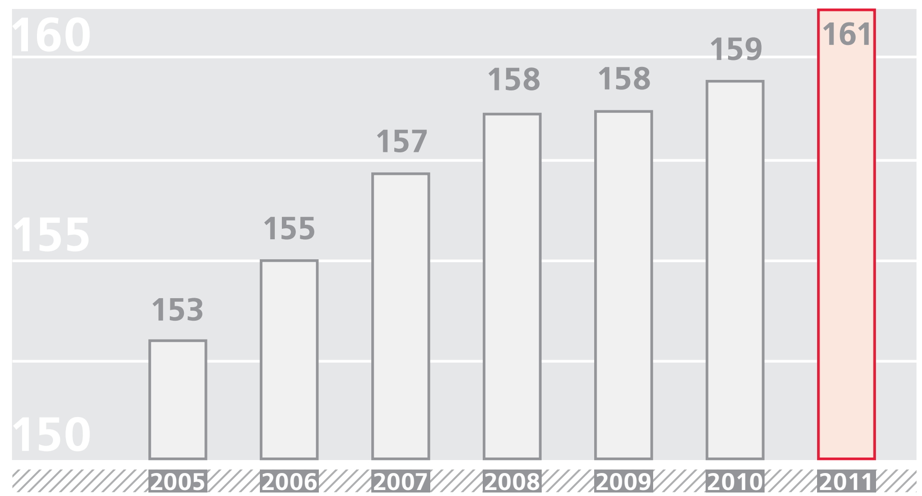
According to the Russian Energy Ministry oil output in Russia edged up 0.8% to **509 M tonnes** and reached a new high since Soviet times in 2011, supported by tax legislation changes and the launch of new pipeline flows to China.

Oil production in Russia in 2005–2011, mln t



Source: Ministry of energy

Russian well stock in 2005–2011, units



Source: Ministry of energy

Midstream

Having 50,177 km of oil pipelines and 411 installed pump stations, Russia has the largest oil pipeline system in the world. More than 93% of produced crude oil in Russia is transferred through the existing trunk pipeline system.

Transneft, the operator of the pipeline system, has significantly reformed the pipeline in the past 10 years to meet the needs of the post Soviet oil boom. When the system was created in Soviet times, it was primarily designed to supply the domestic market: the refineries located in European Russia and the nearby republics, with only some excess volumes destined for exports. With the collapse of the Soviet economy, oil producers redirected crude oil flows to more profitable markets in non-CIS countries, which resulted in export capacity bottlenecks in 2002-04. This was resolved by adding new pipeline capacity.

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The existing pipeline system is constantly expanding through the following projects:

Current projects

ESPO. The second stage of the project of the East Siberia – Pacific Ocean pipeline system is underway and implies construction of a main trunk pipeline at the section named Skovorodino – Kozmino SMNP (ESPO-2) and subsequent increase of the existing capacity of the Taishet GNPS – Skovorodino NPS line up to 50 million tons of oil per year. Eextension of ESPO-1 is also under way. BPS-2 includes the construction of a 1.000 km trunk pipeline with a 1020/1067 mm diameter and a capacity of up to 30 million tons of oil per year, construction of two oil pipeline systems as well as reconstruction of the existing oil pipeline systems: Unecha OPS No.1, Andreapol OPS No.5, and construction of the Ust-Luga tank farm.

The aim of the Purpe – Samotlor project is to ensure growth of the oil transportation volumes through the “Eastern Siberia – Pacific Ocean” pipeline with oil extracted in the Yamalo-Nenets Autonomous District and the North part of Krasnoyarsk District, including the Vankor oilfield.

The construction of the Zapolyarye – Purpe oil pipeline with overall capacity of 45 million tons per year is planned in order to transport oil from the green fields of Yamalo-Nenets Autonomous District and the North of Krasnoyarsk District.

The construction of the Tihoretsk – Tuapse-2 oil pipeline is to increase oil volumes delivered to the Tuapse oil refining plant. The estimated length of the oil pipeline is 247 km with a capacity of 12 million tons per year.

The amplification of CPC: The oil pipeline Tengiz – Novorossiysk of the Caspian Pipeline Consortium (CPC) is intended for the transportation of Russia’s and Kazakhstan’s oil exports through the sea terminal of CPC.

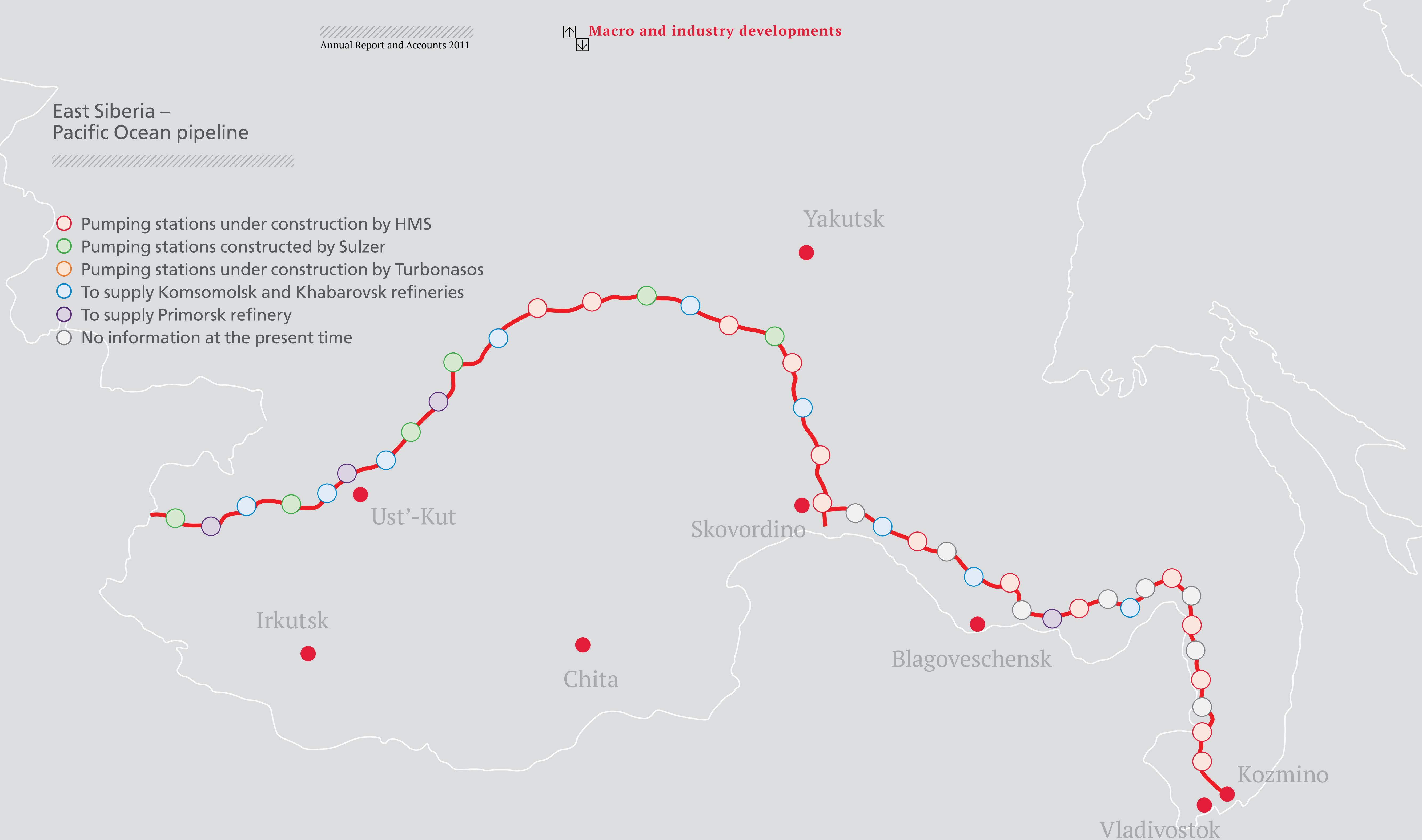
Prospective projects

The project “South” construction is the oil product pipeline linking Syzran – Saratov – Volgograd – Novorossiysk.

The length of the Samsun–Ceyhan oil pipeline will be 550 km with an estimated capacity of 50 million tons per year. The project is to create a competitive route for oil transportation and solve the problem of the overloaded straits of Bosphorus and Dardanelles.

The total capital expenditure by Transneft in 2011 was RUB 238.4 bln.

East Siberia – Pacific Ocean pipeline



Source: Company data, Transneft

Downstream

Russian oil refining volumes have been steadily growing after the recession of 2009 and the volume of primary processing hit a record level in 2011. Production growth has been driven by the increase in internal demand and expansion of gasoline exports. Rostehnadzorom (regulator authorities) signed an agreement with the oil majors to ensure modernisation of the oil refineries over the coming years. Almost all companies made announcements of investment plans in oil refining that in total amounted to USD billions.

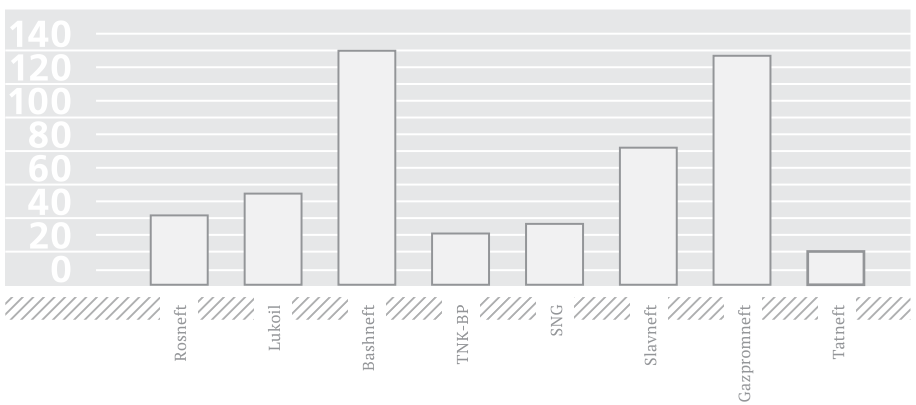
Oil refining grew by 4% year-on-year in 2011 and amounted to around 258 mt. with maximum capacity of the inland refineries at 260 mt/year. The majority of refineries are outdated and still require upgrading. This is well illustrated by the relatively low average processing depth for Russian refineries of 70.8% in 2011, down from 71.2% in 2010. The strategic goal set by the government is to reach processing depth of 77% in 2012, and 83% by 2015. Capital expenditures by the segment in 2011 were RUB 320 bn, up 18% compared to 2010.

The industry growth could be driven by new projects in 2012:

- The first stage of the «TANEKO» oil refining complex is to be put into operation and could lead to processing volume growth up to 5 mn tons.
- Gaspromneft has several large projects on the agenda; construction of the Nakhodka refinery plant (20 million t.) and modernisation of the Omsk and Moscow refineries.
- Rosneft announced plans to increase oil refining volumes by 11.5 % to 64.6 million t. Under the programme, the Tuapse and Novokuybyshevsk refineries ought to be upgraded.
- Surgutneftegaz is to make a decision on the designed capacity of deep oil refining at "Kirishinefteorgsinteze" in April, 2012. This will allow the company to increase production of light oil products by 3.5 million tons.
- Lukoil to launch the hydrocracker complex under the programme of the Volgograd refinery modernisation.

Russian oil refining volumes have been steadily growing after the recession of 2009 and the volume of primary processing hit a record level in 2011.

Refinery capacity to oil production, 2011, %



Source: Ministry of economic development

Power generation

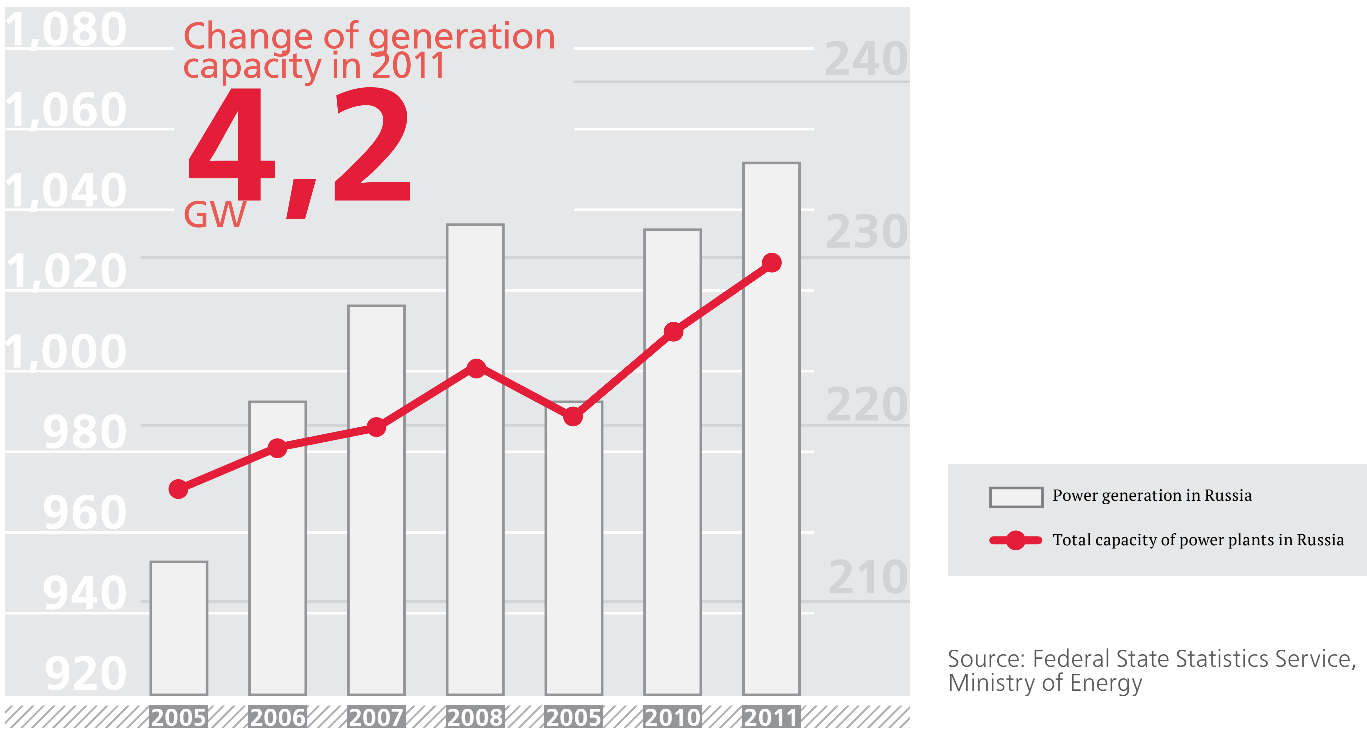
Russia remains one of the largest electricity producers in the world, lagging only behind China and the USA. Strong electricity demand is driven by the relatively low energy efficiency of national industries. This demand consequently challenges the limited and ageing energy producing capacity that results in permanent tariff growth and could be one of the sources for high investment programmes by the power generator companies.

The power complex of Russia includes about 600 power plants with individual capacity of over 5 MW. In 2011, the total capacity of Russian power plants amounted to 218,15 GW, exceeding the 2010 level by 4 817,3 MW. Growth was driven by the construction of new power facilities and modernisation of the existing infrastructure.

The power industry has the following structure of generation: 68,4 % - thermal plants, hydraulic – 20,3 %, nuclear – about 11,1 %.

Long term perspectives of the Russian power industry are framed by the General scheme of energy development for the period till 2020.

Power generation capacity



Source: Federal State Statistics Service, Ministry of Energy

Thermal power plants

For the most part, the thermal power stations in Russia work on organic fuel like gas or coal and basically consist of steam-turbine power stations. In 2011, Russia's overall thermal power plant capacity installed was 162 GW, 5% higher compared to the previous year.

The infrastructure in the thermal power sector is quite outdated — almost 60% of the installed capacities are more than 30 years old. As such the Russian plants have an efficiency ratio of 36.6% that is lower than the 41% level for the developed economies. This discrepancy dictates the necessity for equipment upgrades by all the major power generating companies. This is the reason why the technical modernisation and reconstruction of the existing power stations is a primary development goal of the Russian thermal power sector as well as a startup of new modern generating capacities. Around 30 projects have been executed over 2011 with a total capacity of 6.1 GW.

The sector's investments grew by 36% year-on-year and reached RUB 300 bn.

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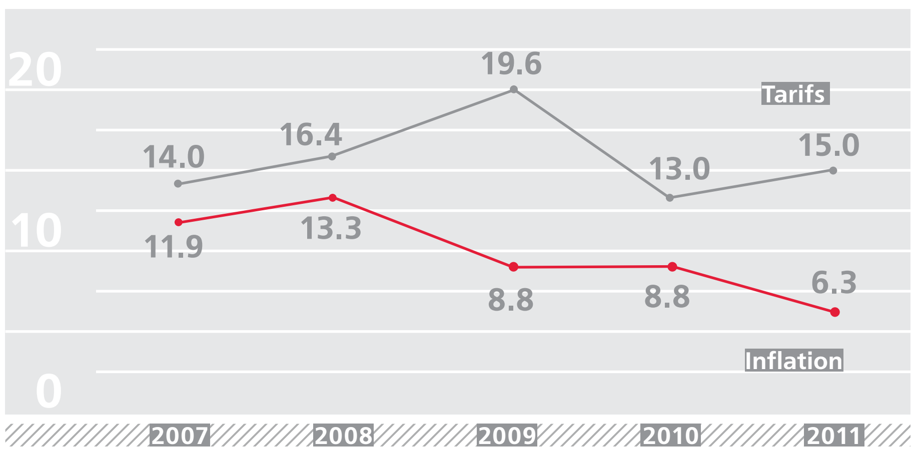
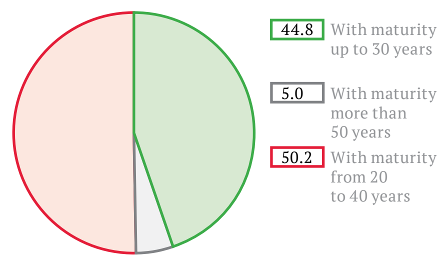
Utilities tariffs growth rate and inflation, %



Source: Federal State Statistics Service

Thermal power, maturity structure, %



Nuclear power plants

Russia has a full-cycle technology for the nuclear industry – from the extraction of uranium ore to electric power generation. Currently, Russia has 33 nuclear power units installed in 10 nuclear power stations with total capacity of 23,2 GW. This represents around 17% of the overall electricity output. The next 5 nuclear power stations are under construction. The nuclear sector is widely located in the European and North-West part of Russia with almost 30% and 37% of output respectively.

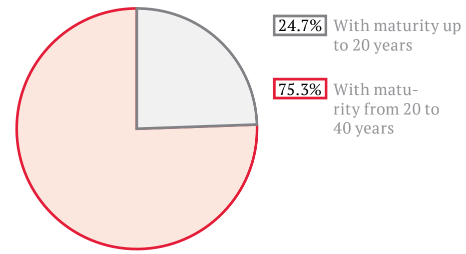
In 2011, Russia has 32 nuclear operating reactors with a capacity of 24,242 MW. Most of them are ageing; 80% of capacity is between 20-40 years old. This led to the development of a large-scale investment programme by the state operator Rosatom, under which several initial actions have already been taken.

Commissioning of the fourth nuclear power unit at the Kalinin NPP has added 1000Mw for the economy of the Central and North West regions. The number of overseas contracts almost doubled with 9 concluded in 2011. R&D remained a key focus and the programme of innovation development for 2011 has been completely executed.

Estimated investment of by the sector increased by 14% year-on-year and reached RUB 200 bn.

NPP, maturity structure

%



Water

Having more than 20% of the world's water reserves, Russia is one of the richest countries in terms of its water resources with almost 30.2 th. m3 per head annually. This significantly exceeds the minimal level of 1.7 th cum set by UNO. One of the historical issues for the Russian water sector has been insufficient rationing of high water intensity in the economy and relatively large losses in water transportation. Annual water losses amount to 7,5 km3, mainly driven by housing, by public utilities and agriculture. A low technical level and outdated infrastructure are among the main reasons for such losses. For instance, according to Rosvodokanal, a wear ratio of water-supply network is 65.3% for the water supply pipelines, 62.5% for drainage networks, 65.1% for water pumping stations, 57.1% for sewer pumping stations, 53.9% for waste water facilities and 56.2% for sewage treatment facilities.

A main source of capital expenditure of municipal utilities companies has been tariffs that have been growing higher than the average inflation level. The water component of tariffs grew up to 20% in 2011 while average tariff growth was 15% on the back of 6.1% of CPI.

Aside from the tariffs, the government approved several federal programmes to ensure the sectors' development. Under the "Clean Water" federal programme, a total of around RUB 330 bn is to be invested over the period from 2011 to 2017. Another RUB 520.6 bn is expected to be invested under the federal state program "Development of the water utilities in Russia in 2012-2020".

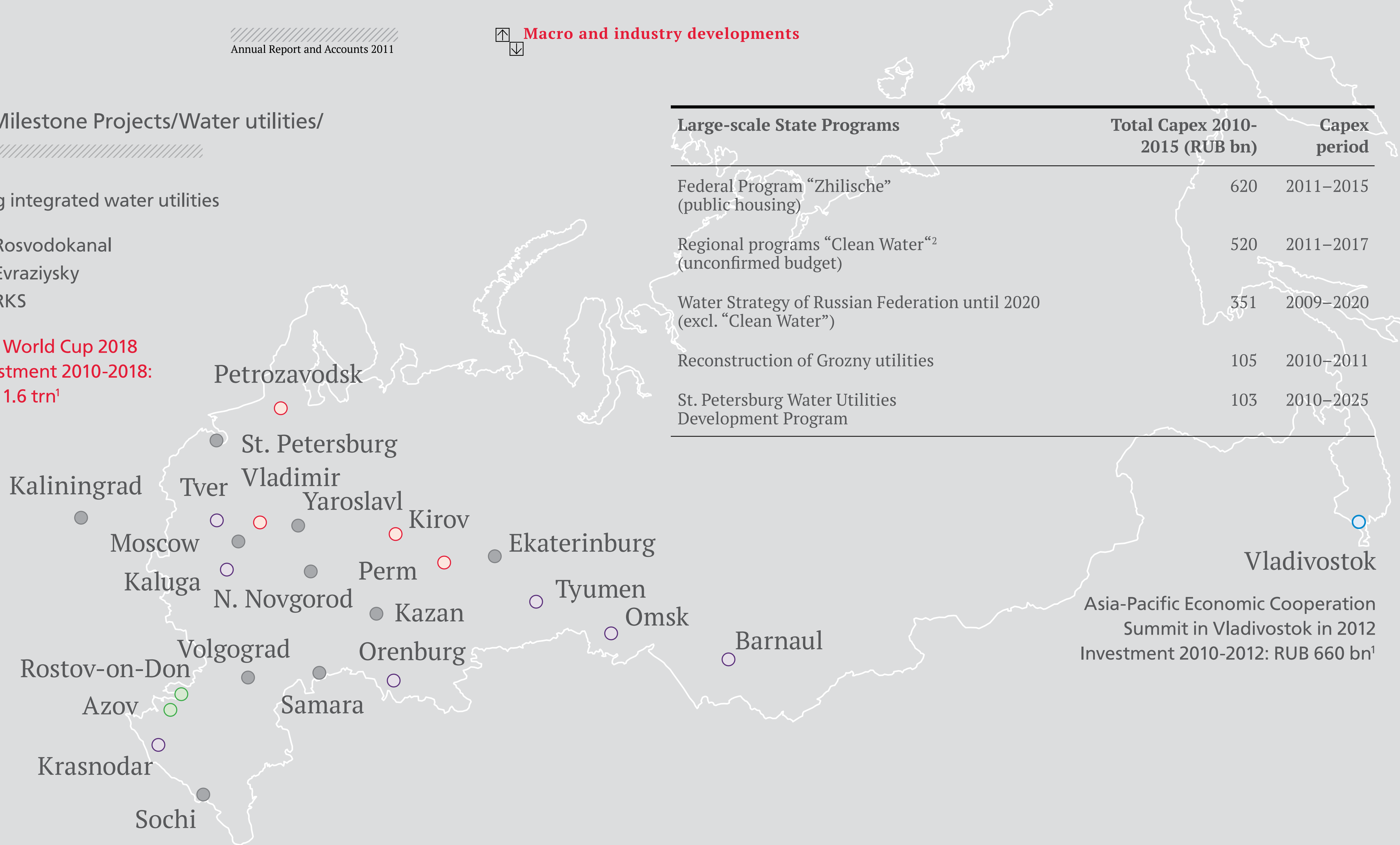
There are also a number of ongoing regional projects financed from all three levels of the state budget — federal, regional and municipal. On the regional level, Kalinigrad, Far East, Transbaikal, Kurily Island, and the Chechen Republic are expected to invest RUB 47 bn, focusing on the development of the water utilities segment.

New Milestone Projects/Water utilities/

Leading integrated water utilities

- JSC Rosvodokanal
- JSC Evraziysky
- JSC RKS

FIFA World Cup 2018
Investment 2010-2018:
RUB 1.6 trn[1]



Olympic Games in Sochi in 2014
Investment 2010-2014: RUB 930 bn[1]

Asia-Pacific Economic Cooperation
Summit in Vladivostok in 2012
Investment 2010-2012: RUB 660 bn[1]

Large-scale State Programs	Total Capex 2010-2015 (RUB bn)	Capex period
Federal Program "Zhilische" (public housing)	620	2011–2015
Regional programs "Clean Water"[2] (unconfirmed budget)	520	2011–2017
Water Strategy of Russian Federation until 2020 (excl. "Clean Water")	351	2009–2020
Reconstruction of Grozny utilities	105	2010–2011
St. Petersburg Water Utilities Development Program	103	2010–2025

Source: Frost & Sullivan report 2009, Media sources
1 Figures have been taken from various media sources; they are not final and may change in the future
2 The "Clean Water" program is a nationwide large investment plan aimed at improving drinking water quality.

Backup Oil Pump Stations for ESPO–1

Highlights

- Our Customer - Transneft.
- The backup oil pump station's manufacturing and delivery equipped with the diesel engines for the oil pump station No14 (Olekminsk town) and oil pump station No17 (Aldan town) of ESPO-1 pipeline.
- The entire scope of works included the equipment design, manufacture and procurement, installation supervision and commissioning.
- Heavy duty pump units with diesel engines: NM 500-560-type pumps, engines Cummins QSK60 – 2200 hp.
- Internal power supply comes from own diesel generators.
- Each station includes 4 modular blocks of pumping units, control room, fuel preparation system and auxiliary module.
- The pump stations were launched in April 2010

ESPO-1 is the first stage of the Eastern Siberia - Pacific Ocean pipeline system, with a capacity of up to 30 million tons per year and a length of 2694 km.

Operational and financial overview

Revenues
↑19.2%
year-on-year to RUB
27.5 billion
(In 2010: RUB 23.1 billion)

Adjusted EBITDA[3]
↑56.5%
year-on-year to RUB
5.5 billion
(In 2010: RUB 3.5 billion), with an EBITDA margin of 20.0%, up from 15.3% in the previous year

Profit for the year
grew by
↑114%
from RUB 1.6 billion in 2010 to RUB
3.4 billion

Order backlog[1]
surged
47%
quarter-on-quarter in Q4 to RUB
17.8 billion and was 10% lower in comparison with FY 2010 (RUB 19.8 billion). Continued steady demand is being driven by infrastructure projects.

Order intake[2]
amounted to RUB
23.2 bn
(USD 750 mn), 21% lower than in 2010. However, the Group enjoyed 37% YoY order intake growth, net of a large ESPO-related contract amounted to RUB 12.4 bn that had been signed in the first half of 2010.

Total debt increased by
↑38.1% from RUB 4.6 billion in 2010 to RUB
6.4 billion

Net debt grew by
↑11.3%
to RUB
4.8 billion
as of December 31, 2010 (in 2010: RUB 4.3 billion)

ROCE was
34.8%,
year-on-year, down from
36.3%
year-on-year

1 Under management accounts
2 Under management accounts
3 Hereinafter EBITDA is read as adjusted EBITDA

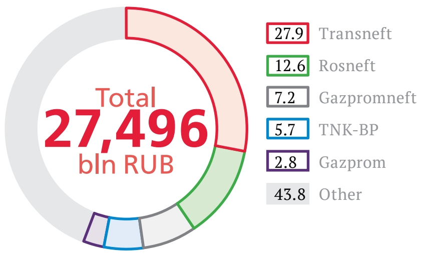
Operating review

HMS Group's consolidated revenues increased by 19.2% year-on-year for the full year in 2011, mainly driven by a gradual execution of the infrastructure projects implemented by the main oil and gas majors. Business growth was supported by oil transportation system expansion, oilfield development, strong activity in gas processing and energy markets in 2011. During 2011, HMS executed projects for the main oil and gas majors including delivery of pump-based integrated solutions for Transneft in the midstream, delivery of oil and gas equipment and providing EPC works for Rosneft, TNK-BP, Lukoil and Gazpromneft in the upstream and downstream as well as in gas processing for Gazprom and Novatek. However, to a large extent performance of the Group has been driven by small and mid-size contracts involving more than 4,893 customers. Thus, excluding the 3 largest clients, revenue per client amounted to RUB 2.9 million. On a like-for-like basis the Group's revenue grew by 15.9% YoY to RUB 26.7 billion.

The revenue growth in 2011 was driven by performance in the industrial pumps business segment, largely due to the large-scale projects with Transneft. The industrial pumps business segment accounted for approximately 54.3% of the Group's total consolidated revenue in 2011, while the oil and gas equipment business segment and EPC accounted for 22.6% and 21.7%, respectively.

	2011	2010	chg %, YoY
Key Financial Highlights			
Revenue	**27,496**	**23,070**	**19.2%**
Gross profit	8,375	5,573	46.9%
EBITDA	**5,509**	**3,519**	**56.5%**
Operating profit	4,547	2,915	54.1%
Net income (loss)	3,377	1,581	113.6%
Debt Position			
Total debt	6,408	4,639	38.1%
Net debt	4,784	4,283	11.3%
Net debt / EBITDA LTM	0.9	1.2	
Key Margins	–	–	–
Gross margin	30.5%	24.7%	574 bps
EBITDA margin	**20.0%**	**15.3%**	**478 bps**
Operating margin	16.3%	12.6%	371 bps
Net income margin	12.3%	6.9%	543 bps
ROCE	34.8%	36.3%	-140 bps

Revenue by customers, %



Although the order backlog has been gradually declining over the 9M 2011 driven by the ongoing ESPO contract execution, the total backlog was almost restored in Q4 to RUB 17.8 billion, driven by several hefty contracts secured during the winter. As a result, the total backlog was just 10% lower than the RUB 19.8 billion level in 2010 while a share of ESPO-related backlog contracted from c45% in 2010 to c10% in the reporting year reflects stronger backlog diversification that led to higher backlog-to-revenue ratio due to a higher share of contracts with maturity up to 1 year. It's worth mentioning that estimated revenue that is usually not reflected as a Company's backlog due to the short-term nature of the orders amounted to about RUB 4 bn per annum on average.

In 2011, overall order intake amounted to RUB 23.2 billion (USD 750 million). Although order intake over 2011 contracted by 21% in comparison with the previous year, the Group enjoyed 37% YoY order intake growth, net of a large ESPO-related contract amounting to RUB 12.4 billion that had been signed in the first half of 2010.

General and administrative expenses increased by 27.4% year-on-year to RUB 2,513 million for the full year 2011 while its share of total revenue remained flattish at 9.1%, versus 8.6% in the previous year.

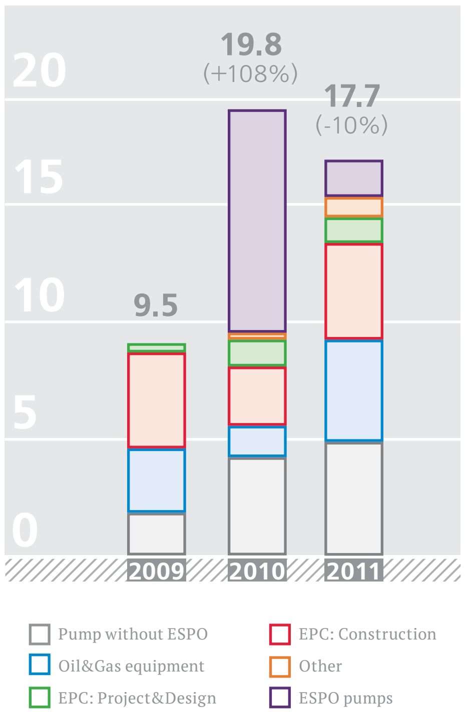
The Group's EBITDA increased by 56.5% year-on-year from RUB 3,519 million to RUB 5,509, primarily due to the impact of large-scale infrastructure contracts with strong profitability and improvements in operational efficiency. This resulted in an increase in the Group's EBITDA margin to 20.0% in 2011, compared to 15.3% in 2010. On a like-for-like basis EBITDA was RUB 5,349 mn, that is 52.0% higher than in 2010.

HMS Group's cost of sales grew by 9.3% year-on-year to RUB 19,121 million in 2011 compared to RUB 17,497 million in 2010, mainly due to a 43.3% increase in labour costs driven by inflation, new acquisitions and a 103.4% growth of subcontractor works due to the life-cycle of the existing Group's projects. As a result cost of sales accounted for 69.5% of the Group's revenue in 2011 versus 75.8% in the previous year.

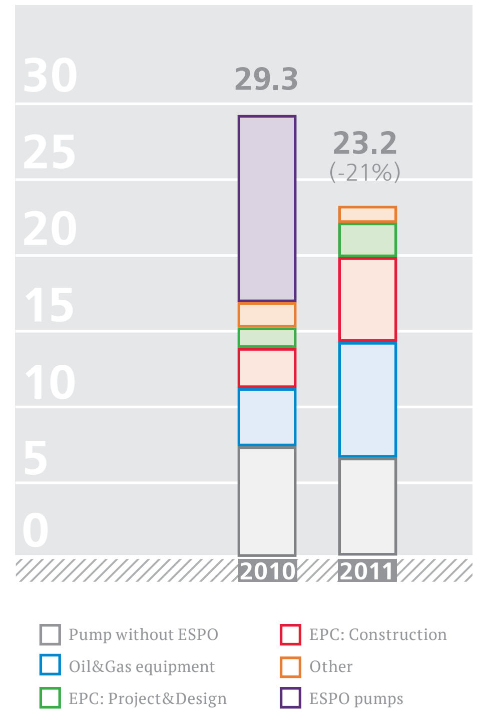
As a result, the Group's EBIT increased by 58.3% year-on-year in 2011. The EBIT margin increased to 17.4% in the reporting period from 13.1% in 2010.

The Group's profit for the year was 2.1 times higher than in the previous year and amounted to RUB 3,377 million in 2011 versus RUB 1,581 million in 2010. Implementation of the profitable contracts, debt burden decline and efficiency improvements were key contributing factors for the substantial increase in full year profits.

Backlog in 2010-2011



Order intake in 2010-2011



Industrial Pumps Business Segment

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps' and integrated solutions to customers in the oil and gas, power generation and water utility sectors in Russia, the CIS and internationally. The business unit's principal products include ready-made pumps built to standard specifications, customised pumps and integrated solutions. It also provides aftermarket sales, maintenance and repair services and other support for its products.

The industrial pumps business unit demonstrated 39.4% year-on-year revenue growth in the reporting period, generating RUB 14,938 million. This revenue growth mainly resulted from a number of large-scale projects with major customers mainly in the oil transportation, oil refineries and upstream segments. The acquired BMBP contributed revenue of RUB 149 million to the Industrial pumps' business segment for the period from the date of acquisition to 31 December 2011, having a negligible effect on the overall revenue performance.

Generally, sales of pumps for the oil industry demonstrated a solid performance, up almost three times, largely driven by revenue growth in oil transportation pump sales. HMS also focused on strengthening its market position on the pump markets with limited presence, such as pumps for oil refineries and metals and mining applications. Due to the acquisition of BMBP and overall market growth, sales of pumps for oil refineries grew by 92.5% while pumps for the metals & mining sector increased by 46.3%.

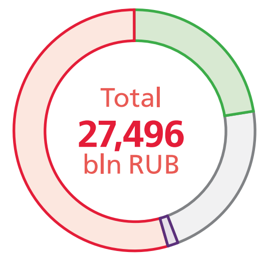
Completion of the CAPEX cycle in thermal power generation in early 2011, based on the main investments made in 2010, affected new sales of pumps for thermal power applications that declined by 9.8% year-on-year. At the same time, due to the long-term nature of the projects and on the back of a lack of new orders to be executed in 2011 from the nuclear industry, sales of pumps for nuclear power generation contracted by 36.5% year-on-year. A significant share of revenue from the current nuclear pumps backlog is expected to be recognised in 2012.

Sales of pumps to the water utilities segment increased by 13.8% year-on-year. Given the execution of federal and regional modernisation programmes and the development of water utilities and replacement of depreciated installed base, sales of water supply pumps grew by 14% year-on-year while the increase in submersible water well pumps was 17.4%. Sales of highly-competitive household pumps were almost flat, demonstrating a 2.7% year-on-year growth.

The industrial pumps business unit's EBITDA increased by 81.2% year-on-year to RUB 4,289 million in 2011, compared to RUB 2,367 million in 2010, as a result of the impact of high-margin contracts as well as improved operational performance and a generally solid market. The EBITDA margin increased to 28.7% in 2011 from 22.1% in 2010.

	2011	2010	chg %, YoY
Industrial pumps: Performance of Industrial pumps business segment			
Revenue	14,938	10,712	39.4%
EBITDA, adjusted	4,289	2,367	81.2%
EBITDA margin	28,7%	22,1%	662 bps

Revenue by business segments, %



1 Hereinafter the numbers for end-markets in the business segments are under management accounts.

Oil and Gas Equipment Business Segment

The oil and gas equipment business segment manufactures and installs modular pumping stations, automated 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 unit's products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's operations.

Sales were up 6.9% year-on-year and totalled RUB 6,203 million in 2011, compared to RUB 5,805 million in 2010. The increase was primarily attributed to the acquisition of Sibneftemash (SNM) and ongoing demand to equip new oilfields and modernise existing ones. The acquired company contributed revenue of RUB 604 million to the business segment for the period from the date of acquisition to 31 December 2011. Sales on a like-for-like basis amounted to RUB 5,599 million, down by 3.6%.

Sales of water injection pumping stations and other large technological units contracted by 5.4% year-on-year due to a lack of new large-scale projects booked for 2011 compared with those implemented in 2010, including Rosneft's Vankor oilfield. In 2011, the oil and gas equipment business segment generated an 18.8% year-on-year increase in sales of automated group metering units (AGMU) and other modular equipment for gas transportation, mainly due to active sales of HMS equipment in the segment driven by the growing needs of key customers.

The segment's EBITDA increased by 23.7% year-on-year to RUB 741 million in 2011, compared to RUB 599 million in 2010. The EBITDA margin was 11.9% in the reporting period, slightly up from 10.3% in 2010. EBITDA margin on a like-for-like basis accounted for RUB 10.9%.

	2011	2010	chg %, YoY
Oil and gas equipment: Performance of Oil and Gas Equipment business segment			
Revenue	6,203	5,805	6.9%
EBITDA, adjusted	741	599	23.7%
EBITDA margin	11.9%	10.3%	163 bps

Engineering, Procurement and Construction (EPC) Business Segment

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects, including on a turnkey basis, for customers in the upstream oil and gas, oil transportation and water utility sectors.

The EPC's revenues contracted by 3.0% year-on-year to RUB 5,953 million in 2011, compared to RUB 6,135 million in 2010 due to lower activity in the construction sub-segment as HMS maintained its policy of only participating in construction tenders with higher than average profitability.

Revenues from the construction sub-segment[1] contracted by 22.2% to RUB 3,586 million compared to RUB 4,610 million in 2010.

On the contrary, revenues from the project and design sub-segment5 grew by 55.2% to RUB 2,367 million following the consolidation of GTNG and entering the market for project and design works not only in oil but also in the gas processing industry.

The EBITDA grew by 3.7% year-on-year in 2011 and amounted to RUB 570 million, compared to RUB 550 million in 2010. In 2011, EBITDA margin stood at 9.6% versus 9.0% in 2010.

	2011	2010	chg %, YoY
Performance of EPC business segment			
Revenue	5,953	6,135	-3.0%
EBITDA, adjusted	570	550	3.7%
EBITDA margin	9.6%	9,0%	62 bps

1 Under management accounts.

Financial review

Operating cashflow before working capital changes increased to RUB 5,186 milllion, compared to RUB 3,426 million in 2010. Net working capital increase due to ongoing implementation of large-scale projects led to net cash outflow from operating activities of RUB (1,595) million[1], compared to net cash inflow of RUB 3,575 million in 2010.

Net cash used for investing activities totalled RUB 2,193 in 2011, compared to 3,292 million in 2010. The Group spent RUB 1,194 million in 2011 for capital expenditures, compared to RUB 999 million in 2010. Payments for acquisitions of BMBP, SNM, net of cash acquired, totalled RUB 1,049 million. The purchase consideration for 11% share in DGHM of RUB 206 mn was included in accounts payable as of 31 Dec 2011. This amount was paid to the seller of the share in January 2012.

Total debt grew by 38.1% year-on-year to RUB 6,408 million in the reporting period, compared to RUB 4,639 million in 2010, mainly driven by M&A activity and financing of working capital needs. By the end of the year, 69.2% of total debt was represented by long-term credit facilities.

Net debt of RUB 4,784 million led to the Net debt-to-EBITDA ratio (taken for the last 12 months) of 0.9 meaning that the Group is comfortable to attract additional funding for business development and expansion. The Group's cash balances stood at RUB 1,598 million by the end of 2011, compared to RUB 351 million by the end of 2010, that is almost completely cover outstanding short-term debt of the Group. The ability of the Group to meet its debt obligation remained very healthy with the interest coverage ratio based on the last 12 months performance of 9.7.

As of December 31, the Group's net working capital amounted to 24% of total revenue taken for the last 12 months, compared to 6% in 2010[2]. The net working capital position is expected to remain stable on the one hand and the Group is expected to receive the remaining pre-final payments on the large-scale contracts in oil transportation and advances for the contracts signed at the very end of 2011, but on the other hand several new contracts that require additional working capital have been signed recently.

1 Please note that changes in short-term deposits of 381,7 mn have been included into changes in receivables and had an impact on net operating cash-flow.

2 Please note that Working Capital (WC) is stated net of acquired companies WC and short-term deposits.

Innovations and technology

HMS Group views R&D as the cornerstone for achievement of technological leadership in the markets it serves. The innovative capacity of our engineers and technicians working in the 5 in-house R&D and production facilities is complemented by the strong expertise of one of the leading Russian project & design centres for integrated oilfield designing - Giprotyumenneftegaz. The Group coordinates the whole innovative cycle through a management company headquartered in Moscow, seeking a reduction of the new product development period and using state-of-the-art simulation and experimental technologies to manufacture new highly efficient and reliable pumping and modular equipment. At the same time, our range of standard products is always flexible enough to meet any specific customer requests.

Developing research and design across all business segments…

In oil and gas the Group continued the design and testing of new powerful pumping equipment for large scale projects for the ESPO-1 and ESPO-2 trunk pipelines, implemented by a Russian state-owned monopoly Transneft. A number of brand new large capacity pumps of the NM type for oil transfer were developed and successfully tested along with charging and export pumps.

In the meantime, the Group carried out a number of successful tests of oil trunk pumps based on double suction centrifugal pumps for another Transneft project- the construction of the Purpe Samotlor oil pipeline.

Another major project for the Group in 2011 was the designing, production and testing of technological modules based on improved injection pumps of the CNS-type for the Vankor oilfield, developed by one of the largest Russian oil companies, Rosneft. All the modules were developed and produced using the most sophisticated technologies to meet the customer's specific requirements. This type of modular equipment has never been produced in Russia before.

The design centre based on HMS Neftemash in 2010 continued its research and development work on equipment for oil and gas processing, and compressor and power generating equipment. The basic mission of the centre is to design new high-end types of products and modernise the existing product portfolio. In 2011, the centre elaborated on new types of gas processing and reducing units, solution and emulsion mixing plants and crude oil custody transfer metering units for a number of major Russian oil and gas companies.

In the industrial pumps sector, the Group has developed and successfully tested new types of high-efficiency feeding pumps of the PA type that were designed for nuclear companies such as the Russian Atomic Energy Corporation - Rosatom. These pumps are allocated for the Novovoronezh and Leningrad nuclear power plants and match the strictest requirements of the nuclear sector for working at extreme pressures and temperatures.

EPC sector research and development achievements are attributed to Giprotyumenneftegaz (GTNG), one of the leading Russian project & design centres that provided design and development services to over 200 oil, gas and gas-condensate fields in Russia, including field pipelines construction in permafrost areas. In 2011, the institute implemented a number of large scale design projects for condensate pipeline expansion at the Yurkhar oilfield for Novatek and the gas processing facility at the East Urengoy oilfield for Rospan International.

…with strong focus on advanced testing and production facilities…

HMS has always been at the leading technological edge among its peers. In the current environment of global competition, a well-timed modernisation of the equipment fleet is crucial to maintain leadership and remain a pathfinder for new technological solutions.

The previous year was marked with a launch of one of the most powerful testing facilities in Europe to conduct field tests of pumping equipment with a total capacity of 14 MW.

This facility is designed for field testing of pumping equipment in the operating mode measuring rotating speed, capacity, head and power and provides test benches for all sizes of pumps produced by the Group. This facility commissioning is an important milestone in the HMS Group development which strengthens its position as a provider of unique technical solutions tailored to the client needs regardless of their complexity.

In 2011, the Group continued to implement a modernisation and upgrading project on one of its subsidiaries - Livnynasos OJSC by completing the construction of a new 37500 sq ft shop floor. The plant upgrade project provided for the construction of additional production facilities, the overhaul of existing shop floors, installation of a new assembly conveyor and high-end machinery as well as the launch of a new testing facility with computerised data processing.

The high performance milling machinery centre DMF-260 of Deckel Maho (Germany) has been successfully commissioned at Nasosenergomash – another Group subsidiary. The centre is designed for highly-efficient machining of pump components with a complex form, including diffusers, inducers, equipment for moulding and other elements. This new milling centre provides new possibilities for manufacturing of high-end pump equipment.

HMS has always been at the leading technological edge among its peers. In the current environment of global competition, a well-timed modernisation of the equipment fleet is crucial to maintain leadership and remain a pathfinder for new technological solutions.

…upgrading IT solutions to meet the growing business goals

Apart from classic research and development efforts aimed at growing the product range and modernisation of the equipment fleet, HMS management pays particular attention to the upgrading of existing and installation of up-to-date IT systems to improve its business, accounting and financial processes.

In 2011, HMS became the first Russian manufacturer of pumping equipment to purchase the SpaixV3 sales solution system from Vogel Software (Germany), designed for the user-friendly selection of pumping systems and calculation of the necessary parameters. Software solutions produced by Vogel Software are successfully used by the leading international manufacturers of pumping equipment. This sales system will enable optimisation and facilitation of the selection process and will be used for advanced database search by internal sales, partners, distributors and customers.

The installation of the Oracle Hyperion Financial Management (HFM) information system both at the HQ level and all production subsidiaries of the Group was initiated in 2011. Unification of sources and processes of collection, consolidation and financial reporting in accordance with IFRS is the aim of the process. The implementation of Oracle HFM will essentially reduce the time needed for the preparation of financial results and provide HMS management with different practical reporting.

In order to improve procedures of operational management and increase operational efficiency, HMS has started an installation of Infor LN (the ERP-class system). This challenging task of business process integration across different departments of the main trading subsidiary (ZAO "HMS") and one of the main pump production assets (Nasosenergomash) onto a single enterprise-wide information system was initiated in 2011.

As a part of the enterprise resource planning process, HMS has also started the installation of several PDM-systems (Product Data Management) for different applications. A leading production subsidiary of the Group, Nasosenergomash is the first enterprise where the installation has been launched. The scope of installation works includes implementation of the different systems designed by leading IT provider Intermech focused on capturing and maintaining information on products and services through its development and useful life, engineering and technological database, planning and coordinating all transactional operations of operation planning management.

Apart from classic research and development efforts aimed at growing the product range and modernisation of the equipment fleet, HMS management pays particular attention to the upgrading of existing and installation of up-to-date IT systems to improve its business, accounting and financial processes.

Process Modules for Vankor field

Highlights

- The Customer - Rosneft.
- The scope of works included designing, production, procurement, installation supervision and commissioning of 12 processing assembled and frame-panel modules with control testing (assembling and disassembling) before shipping them to the Vankor site.
- Process modules are large buildings with overall dimensions 40x16x12 m and contain various pumps and equipment (water injection pumps, oil transfer pumps, pumps for heat agent, brine water and other liquids transfer, heat exchangers, metering equipment, etc.).
- All process modules and pumps were tailor made by HMS Group.

Vankor - a promising oil & gas field in the Krasnoyarsk region, Russia with recoverable reserves of oil of more than 524 million tons, gas - about 106 billion m^3. Project capacity - 14 million tons a year.

Risk Management and Internal Control

Overview

As any other company, the Group is exposed to various risks and uncertainties that may have undesirable financial or reputation implications. In order to minimise the negative impact of such risks and to benefit from opportunities, a risk management and internal control system should be established and integrated into the Group's operations. The overall objective is to obtain reasonable assurance that the Group's goals and objectives will be achieved. The main principle in the extent of designing and maintaining such systems is that expected benefits should outweigh the costs associated with them.

Main features of the Group's internal control system over financial reporting

The Group uses a formal risk management programme across its companies, i.e. there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. Risks are classified as to their possibility and significance; and different strategies are used to manage identified risks. This process is regularly reviewed by the Board in accordance with applicable guidance.

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

In the course of the audit of HMS Group's financial statements for the years ended 31 December 2007, 2008 and 2009, certain material weaknesses in HMS Group's internal controls were identified and HMS Group's independent auditor communicated these weaknesses to the Board of Directors of HMS Group. Under International Standards on Auditing, a material weakness is a weakness in the design or operation of one or more internal control components that does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Three areas of material weaknesses were identified in HMS Group's internal controls, some of which resulted in significant adjustments as part of the audit and review of HMS Group's financial statements:

- A lack of sufficient resources in HMS Group's IFRS reporting function.
- The internal controls of certain of HMS Group's subsidiaries over revenue and cost recognition for construction contracts.
- The financial statement close process used to transform the management accounts into IFRS financial statements. In particular, the Group does not have a comprehensive automated accounting system for IFRS transformation, consolidation and other entries.

To address each of the above weaknesses, the Group's management has hired and continues to hire additional personnel with IFRS expertise. To address the deficiencies identified in the financial statement close process used to prepare IFRS financial statements, the management has developed and substantially implemented a plan of standardisation of accounting software, accounting policies and processes, used by Group entities to keep statutory accounting records and to produce statutory financial statements, which are the basis for the Group's IFRS consolidated financial statements. The Company believes it has remedied the issues it found as regards to revenue and cost recognition. The Group's management is also considering the introduction of certain accounting software, which will allow it to improve and speed up the process of preparation of IFRS consolidated financial information. The Group also intends to continue implementation of an internal control system consistent with international best practices.

The Group believes that its financial reporting functions and internal control systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules that apply to it as a company with GDRs listed on the regulated market of the London Stock Exchange. The Group's management believes that, in particular, despite the difficulties described above, the Group will be able to prepare and produce accurate financial information in a timely manner.

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

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

The key features of the risk management process include:

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

Principal risks and uncertainties

The following narrative is the review of the principal risks facing the Group's business. The Group also faces other risks, which are known or unknown; some of them apply to similar companies operating both in the Russian and international markets.

Global political and economic risks

The Group may be exposed to various political, economic and other risks not only in the countries where it has primary production facilities (Russia, Ukraine, Belarus) but also in jurisdictions where the Group has other interests.

Introduction of new regulations and imposition of trade barriers could disrupt the Group's business activities or impact on the Group's customers, suppliers or other parties with which it does business. In some instances, this could have a material adverse effect on the Group's financial position and prospects.

Sales

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

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

Project execution risks

Since the Group's contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in the EPC segment), which may be reinforced by the Group's concentration on large contracts. These risks are mitigated by the Group's efforts on improving profitability and cost control, with the help of volume growth and a mounting share of high-margin integrated solutions services. Execution process involves coordinating people and resources, as well as integrating and performing the activities of the project in accordance with the project management plan. As a result, there is a risk to timely project execution, which is mitigated by project control system to keep on track, on-time and within budget.

Human Capital

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

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

Acquisitions

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

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

These challenges include, among others:

- risk that internal controls over financial reporting of acquired companies may not be effective. Some issues may represent significant deficiencies or material weaknesses;
- integration of the acquired businesses, including management information and financial control;
- systems, marketing, customer service and product offerings;
- transfer, assignment and re-registration of agreements and permits and consents into the Group's name following an acquisition;
- additional or unexpected capital expenditure requirements;
- retention of customers and suppliers;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

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

Fraud and corruption risks

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

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

The Board and senior management also put a strong emphasis on corporate compliance with applicable regulation, e. g. anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

Corporate Governance

The HMS Group's corporate governance practices are designed to ensure that the interests of all its shareholders are given due consideration. Although the Company is not subject to any mandatory corporate governance code in its home jurisdiction of Cyprus nor required to observe the UK Corporate Governance Code, the Company has implemented various corporate governance measures, including the appointment of 2 independent non-executive directors to its Board of Directors and the establishment of an audit committee and a remuneration committee. Each of these board committees is chaired by an independent, non-executive director. The HMS Group continues to review its corporate governance policies in light of international best practice.

Board of Directors and its performance

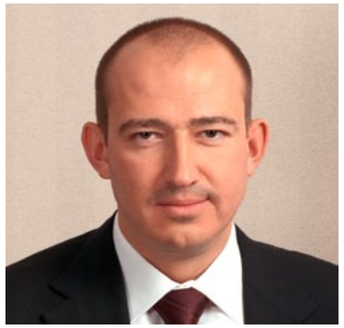
General Overview

Board of Directors consists of nine (9) members, four (4) of whom are executive directors.

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 18 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

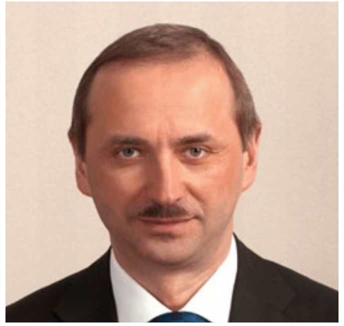


Mr. Artem V. Molchanov,
Member of the Board of Directors, Managing Director (CEO)

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 18 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 18 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.



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 50 scientific publications and 20 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 the current Group entities. Mr. Yamburenko has more than 33 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 Chairman of the 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 and 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 the French Foreign Trade Advisory by the French Government. In December 2011, he was appointed as a non-executive director of The Board of The Eastern European Trust PLC. He also serves as a member of the audit committee, management engagement committee and nominations committee of the Eastern European Trust.

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 the interests of the Government of the Republic of Cyprus. From 1987 until 1990, Mr. Petrou served as the General Secretary of the 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. Prior to this, Mr. Yamamoto enjoyed a 20-year career with Schlumberger Limited and from 2003 until 2008, served as Vice-President of Schlumberger Russia. Mr. Yamamoto has more than 20 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 the Society of Petroleum Engineers, American Chamber of Commerce in Russia and the Independent Directors Association.

Activities of the Board of Directors in 2011

In 2011, the Board of Directors held 5 ordinary meetings «in presentia», 4 (four) of which occurred in Limassol, Cyprus and 1 (one) in Moscow, Russia. During the course of 2011 the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategy, including investments plans, M&A activities, budgeting process and general corporate development.

Throughout the year, the Board of Directors paid close attention to the improvement of the Company's internal control and risk management systems, including its compliance with relevant provisions of the UK Bribery Act 2011.

At its meetings, the Board of Directors reviewed other issues connected with the activities of the Company within its remit, including approval of corporate reports and the long-term incentive programme.

The Board of Directors Committees

The Company has established two committees: the Audit Committee and the Remuneration Committee. A brief description of the Committees main activities during 2011 is below.

Audit Committee

General Overview

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, 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 the work of the Chairman of the Board of Directors.

Performance in 2011

In 2011, five meetings of the Audit Committee were held. The main issues the Audit Committee oversaw in 2011 were the preliminary review of the IFRS financial statement, internal control and risk management, including identification and evaluation of key risks to the activity of the Company.

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

Remuneration Committee

General Overview

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. Vladimir V. Lukyanenko, 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.

Performance in 2011

In 2011, three meetings of the Remuneration Committee were held. The main matters reviewed by the Remuneration Committee were the long-term motivation plan for the key managers of the Company, remuneration package for the Company's CEO and KPI policy implementation.

The Remuneration Committee summarised best international practices in order to adopt relevant decisions and recommendations to the Board of Directors with regards to the Company's mid-term and long-term remuneration and motivation policy.

External Audit of Financial Statements

Every year the Company elects an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company in compliance with the IFRS and who prepares reviews of the consolidated interim abbreviated financial information of the Company in compliance with the requirements of the IFRS. The external auditor of the Company is selected from the "top four" auditing companies after a thorough review of their proposals. Following the review of the auditors' proposals, the Audit Committee gives its recommendations to the Board of Directors regarding the candidature of the auditor and the amount of the auditor's compensation, and advises the Board of Directors on other terms and conditions of the contract with the auditor. In 2011, based on the recommendation of the Audit Committee, the Board of Directors selected PricewaterhouseCoopers Ltd to conduct the audit of the financial statements of the Company for the year 2011.

Directors Compensation

The Compensation consists of annual remuneration paid to independent directors for their services in full positions. Total independent directors compensation represented by short-term employee benefits in the consolidated statement of income was Euro 195 000 for the year ended December 31, 2011.

Key management

CEO
Artem Molchanov

First Deputy CEO
Kirill Molchanov

- Internal Control and Audit
- Corporate Finance
- IT
- Capital markets and IR
- Accounting
- HR

Deputy CEO
Andrey Nasledyshev

- Strategy and business delopment
- Marketing and PR

Senior Legal Counsel
Alexei Meleshkin

- Corporate governance
- Legal affairs

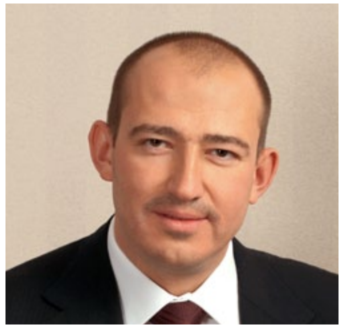
Deputy CEO
Anatoly Nazarov

- Project management

Deputy CEO, Managing Director, "Industrial pumps" Business Unit
Nikolay Yamburenko

Managing Director, "Oil and gas equipment" Business Unit
Andrey Novikov

Managing Director "EPC" Business Unit
Stanislav Shimanski



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 in 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 18 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 18 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 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 12 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 the 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. Alexei Meleshkin
Senior Legal Council

Mr. Meleshkin has been working in HMS Group since April 2008. He is a Partner of “Legal Advisors Group” Law Bureau, which specialises in M&A transactions. Between’ THEN 2003 till 2008, Mr. Meleshkin served as the external legal advisor of HMS Group.

He graduated from Moscow State Academy of Law in 1998 with a degree in jurisprudence.

Mr. Meleshkin has been member of Moscow Bar Association since 2003.

Mr. Anatoly V. Nazarov
Deputy CEO on Major Projects Management

Mr. Nazarov has served as Head of the Modular Equipment Business Unit since 2007. Prior to joining HMS Group in 2006, Mr. Nazarov worked as Vice President of ZAO Yukos Refining and Marketing. Between 2000 and 2005, he served as Vice President of OOO Yukos—Moscow. He has more than 36 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. In 2012, Mr. Nazarov took the position of Deputy CEO on Major Projects Management.

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 32 years of industry and managerial experience. He graduated from the faculty of radio electronics of the Moscow Aviation Institute named after S. Ordzhonikidze where he gained a degree in radio electronics.

Mr. Andrey E. Novikov
Senior Managing Director of Oil and Gas Equipment Business Unit

Mr. Novikov has been working in HMS Group since 2002. He took managing positions in various departments and business units of the Group and since 2012 he has been serving as Senior Managing Director of the Oil and Gas Equipment Business Unit. Mr. Novikov has around 14 years of industry and managerial experience. He graduated from the Moscow Institute of Electrical Engineering with a degree in applied mathematics in 1995.

Mr. Stanislav A. Shimanski
Senior Managing Director of HMS-Engineering Business Unit

Mr. Shimanski has been working in HMS Group since October 2010. His career started as Director for Engineering Projects in Business Unit HMS-Engineering. Now he is Senior Managing HMS-Engineering. Since 2002, he top management positions in construction companies being general contractors for constructing trunk oil and gas pipelines, leading oil and gas companies, and companies specialising in constructing capital facilities in the oil and gas industry (Krasnodarstroystransgas, NK Lukoil, TNK-BP, NK Russneft). In 1981 he graduated from Poltava State Technical University, Faculty of Industrial and Civil Construction (Poltava town, Ukraine).

HMS shares

Despite strong oil prices, a negative scenario for HMS and Russian equities materialised in 2011. However, HMS shares saw a swift rebound in Q1 2012 on the back of risk-appetite and liquidity growth.

Following the strong performance of Russian equities in Q4 2010, the first quarter of 2011 appeared to be very strong. The main drivers continued to be a soft monetary policy, favourable economic and corporate data in the developed world and high oil prices though the overall risk perception became more sensitive and risk-averse amid uprisings in the MENA region. In Q1, HMS was the only issuer with operating business in Russia that managed to place its shares on the LSE in this challenging market environment. Overall performance of small & mid caps in Russia was moderate, with the RTS-2 Index adding only 5.3%, materially lagging the Brent oil price (+24%) despite rouble appreciation against the US dollar by 7%. Following the IPO, HMS Group's shares declined by 3.6% by the end of the first quarter.

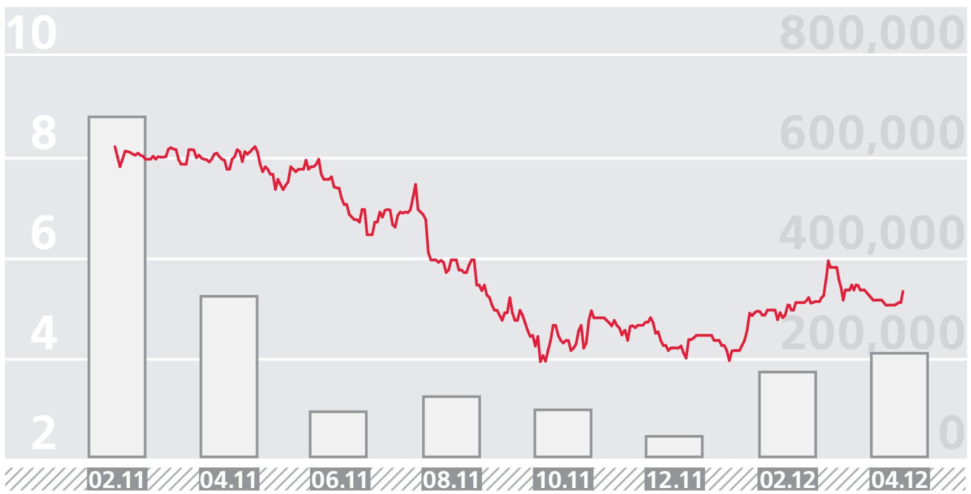
The pattern has dramatically changed during Q2 with the return of a global risk-off trade on the back of the increasing concerns regarding the Eurozone debt crisis with the main focus on Greece. Given its high beta, Russian equities underperformed as global investors started to exit the most risky assets, seeking the alternative and conservative investment opportunities such as gold, US treasuries and hard currencies. Despite strong fundamentals and positive operating momentum, HMS shares lost 11.09% during Q2 exacerbated by backlog contraction.

The pattern in the second half of the year varied from the first six months significantly. In August, international rating agency Standard and Poor's cut the US credit rating, starting a protracted risk-off session. Russian equities followed the global correction. The market nosedived due to the deteriorating risk perception, at first driven by the global factors, mainly sovereign debt woes arising from Europe, but starting from December, also exacerbated by local developments in the Russian political sphere. During the post-August risk-off period, large caps outperformed small caps, showing more resilience to risk aversion. HMS continued its strong performance but a few investors were ready to focus on company driven factors rather than be sensitive to the big picture. HMS shares followed the trend of the market and lost 36.9% during H2.

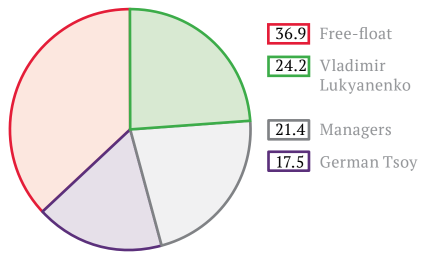
On a positive note, it is worth mentioning that Q1 2012 saw a reversal of investors' of the risk perception. Market performance followed a traditional pattern with large caps outperforming small caps in the first stage of recovery, being the main beneficiaries of capital inflows once risk perception improved. The next to recover are usually small caps and this was proved by HMS Group's strong rebound by 22.4% YTD. The performance of order intake strengthened investor confidence in the story. As a result market capitalisation of HMS increased from USD 517 mn to USD 632 mn, seeing the price at USD 5.1 level.

The HMS's earnings were very good in 2011. Since many investors that trusted HMS business model and acquired a stake during IPO suffered during the sell-off, the Board of Directors recommended to pay dividends with a payout ratio of 44.4%. HMS will be proposing to the Annual General Meeting in May 2012 a payout to ordinary shareholders of RUB 12.8 per ordinary share.

Share price performance and trading volume



Shareholders Structure, %



Source: Bloomberg

Listing information

Ticker	**HMSG**
ISIN	**US40425X2099**
Company website	**www.grouphms.com**
Shares in Free-float	**37%**
Market cap (in millions)	**US 598 mn**
Listing/Admission to trading	**14 Feb 2011**
Trading system	**International Order Book**
Market	**MAINMARKET**

Social responsibility and personnel development

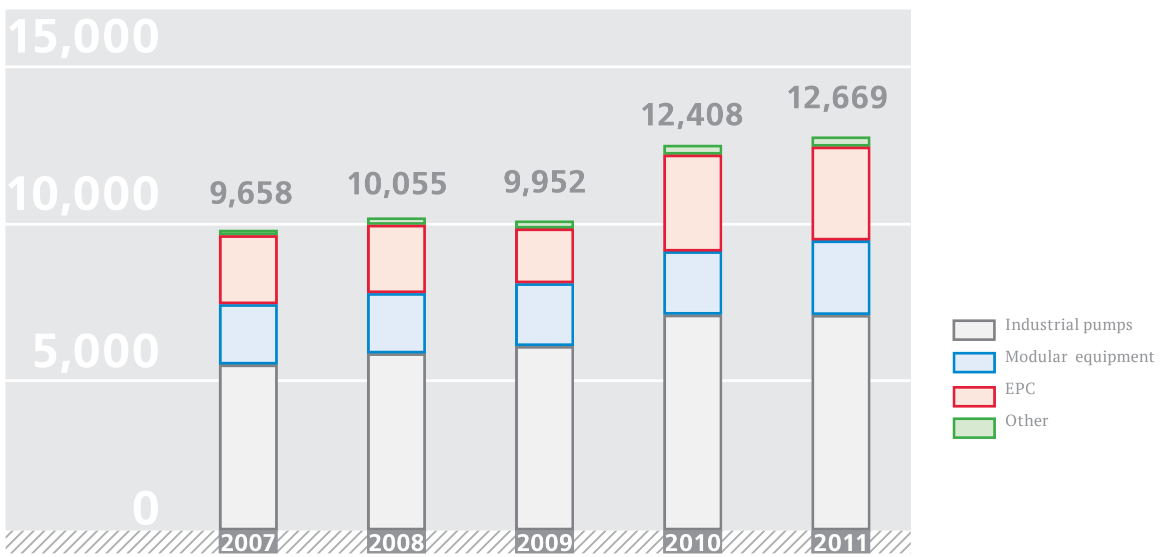
Creating job opportunities

Qualified and motivated personnel are the key to the success of the Company's business. HMS Group is committed to hiring the best employees possessing the skills and competencies necessary to deliver Group`s strategic objectives. The Company strives to provide them with opportunities for professional development and growth.

The Group consistently implements various programmes and techniques to encourage higher employee performance and creates opportunities for skill enhancement, offering career promotions to the best performers and attracting both skilled professionals and young talent. The Group participates in a number of special graduate recruitment programmes based on agreements with leading education institutions. These programmes are aimed at providing the Group with high quality applicants.

The Company invests a lot of effort and financing in the professional and personal training of its staff as well as in a safe and positive working environment. HMS Group offers its employees a wide spectrum of personal development programmes, general seminars and courses, as well as specialised training programmes according to the specific requirements of different businesses. This enables the Group to provide individually tailored, task-based professional development for every employee, which has a direct impact on the development of a corporate culture.

Average staff number



HMS Group offers its employees a broad range of benefits, including access to counselling' services and treatment facilities, participation in cultural and sport activities. The employees along with the member ocounselling' continue to benefit from the services of special sport and recreation centres and holiday camps.

HSE. Energy saving focus of the business

HMS Group should comply with a number of health, safety and environmental laws and regulations. We believe that operations of all the entities are in strict compliance with the applicable health, safety and environmental legislation of the Russian Federation, its regions and the countries of Group's presence. The Company regards its environmental protection policy as an integral part of its business focusing on the environmental efficiency of the Group products as well as on resource-friendly production. In 2011, the continuous modernisation of the HMS Group product line allowed for the saving of over 266 mn. kWh. The energy saving on the number of HMS modernised pumps for the past 3 years totaled 689 mn kWh[1].

Charity

HMS Group, through various activities in the regions of its presence and in partnership with businesses and governments, promotes contributing to social development and supporting charity initiatives. The Group's enterprises are the local major taxpayers and the employers of choice.

Traditionally, the main directions of HMS Group's social activities were support of low income citizens, including orphans, children left without parental care and children from lower income families as well as social rehabilitation of disabled people. The Group gives great consideration to the support of different projects in sports, culture, education and public health services.

On an annual basis, HMS Group develops a Charity Register consisting of information on people and organisations in need. Based upon this register, the Group adopts an annual charity budget. All the activities based on the Charity Register are subject to scrutinised control by the Management Board and are in strict conformity with the requirements of the relevant Russian laws.

In 2011, HMS Group supported the second Paramusical Festival which was held in Moscow to encourage the inclusion of disabled children in arts and crafts. Along with this, the Group assisted the Moscow charity fund "Getting into the heart" which implements projects and carries out different programmes connected with the treatment and rehabilitation of disabled people with serious diseases. In Tyumen region, HMS Group transferred a considerable amount of finance to the project of social partnership "Key to the life" providing targeted help to the disabled and children with life-threatening diseases and to the social organisation "Special child" that supports more than 400 families that take care of disabled children as well as a number of regional organisations for war and labour veterans.

1 Energy saving assuming 6,000 hours per year

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

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 2011. 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

HMS Group's consolidated revenues increased by 19.2% year-on-year to RUB 27,496 million, mainly driven by a gradual execution of the infrastructure projects implemented by the main oil and gas majors. Strong activity in the oilfield development, gas processing and energy markets in 2011 was a core driver of the revenue development. The revenue growth in 2011 was driven by performance in the industrial pumps business segment, largely due to the large scale projects in the oil midstream segment. The industrial pumps business segment accounted for approximately 54.3% of the Group's total consolidated revenue in 2011, while the oil and gas equipment segment and EPC accounted for 22.6% and 21.7%, respectively.

The Group's adjusted EBITDA increased by 56.5% year-on-year from RUB 3,519 million to RUB 5,509 million, primarily due to the impact of large-scale infrastructure contracts with strong profitability and improvements in operational efficiency.

The Group's profit for the year was 2.1 times higher than in the previous year and amounted to RUB 3,377 million in 2011 versus RUB 1,581 million in 2010. Benign market environment, efficiency improvements and strong demand in the core markets are the key contributing factors for the substantial increase in full year profits.

Principal risks and uncertainties

The Group's critical accounting estimates and judgments and financial risk management are disclosed in Notes 4 and 37 to the consolidated financial statements.

The Group's contingencies are disclosed in Note 35 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 10 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.

The Board of Directors recommends a payment of dividend in relation to the financial year ended 31 December 2011 in the amount of RUB 12.8 per ordinary share, amounting to a total dividend of RUB 1,499,692 thousand.

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 (RUB 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 (RUB 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 (RUB 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 RUB 3,517,161 thousand (net of foreign exchange loss of RUB 13,016 thousand) and the Company's transaction costs amounted to RUB 211,685 thousand.

At 31 December 2011 and 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 2011 and at the date of this report are shown on page 1.

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. Kirill V. Molchanov, Yury N. Skrynnik and Andreas S. Petrou shall retire by rotation and will be entitled to run for re-election on the Company's Annual General meeting in May 2012.

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 2011 and at the date of approval of these consolidated financial statements are shown below:

Director	Interest in the share capital of the Company at 31 December 2011	Interest in the share capital of the Company at 19 April 2012
Vladimir V. Lukyanenko	24.2%	24.2%
German A. Tsoy	17.5%	17.5%
Nikolai N. Yamburenko	5.5%	5.5%
Artem V. Molchanov	5.4%	5.4%
Yury N. Skrynnik	2.7%	2.7%
Kirill V. Molchanov	1.6%	1.6%

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 38 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, 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 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 remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2011 amounted to RUB 7,949 thousand (2010: nil). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RUB 103,069 thousand for the year ended 31 December 2011 (2010: RUB 75,802 thousand), including RUB 2,379 thousand in respect of long-term incentive plan (2010: nil). See also Note 34.

Branches

The Company did not operate through any branches during the year ended 31 December 2011.

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 2012, 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
19 April 2012

Directors' responsibility statement

Each of the Directors, whose names and functions are listed in page 1 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; and
- give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board

Artem V. Molchanov
Director
19 April 2012

Kirill V. Molchanov
Director
19 April 2012

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 Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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 about 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year 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 requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 consolidated 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 consolidated 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 consolidated 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 Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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, 19 April 2012

pwc

Consolidated Statement of Financial Position at 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	7	8,225,805	5,948,674
Other intangible assets	8	497,871	310,156
Goodwill	9	2,359,726	1,783,915
Investments in associates	11	129,805	507,141
Deferred income tax assets	26	207,383	130,779
Other long-term receivables	15	62,873	27,123
Total non-current assets		**11,483,463**	**8,707,788**
Current assets:			
Inventories	13	4,677,514	2,840,745
Trade and other receivables and other financial assets	14	10,065,000	10,399,853
Current income tax receivable		33,556	38,086
Prepaid expenses		82,963	39,361
Cash and cash equivalents	12	1,598,463	351,086
Restricted cash	12	25,313	4,978
		16,482,809	**13,674,109**
Non-current assets held for sale	16	49,402	96,095
Total current assets		**16,532,211**	**13,770,204**
TOTAL ASSETS		**28,015,674**	**22,477,992**

Consolidated Statement of Financial Position at 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	48,329	42,510
Share premium	24	3,523,535	210,862
Other reserves		122,852	38,987
Currency translation reserve		(228,760)	(234,785)
Retained earnings		6,116,729	2,897,296
Equity attributable to the shareholders of the Company		**9,582,685**	**2,954,870**
Non-controlling interest		**2,477,177**	**1,508,263**
TOTAL EQUITY		**12,059,862**	**4,463,133**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	17	4,433,984	3,864,176
Finance lease liability	18	-	9
Deferred income tax liability	26	1,091,372	745,762
Pension liability	19	334,267	262,525
Provisions for liabilities and charges	23	31,352	35,691
Other long-term payables		20,971	-
Total non-current liabilities		**5,911,946**	**4,908,163**
Current liabilities:			
Trade and other payables	21	6,646,612	10,799,358
Short-term borrowings	17	1,973,886	775,242
Provisions for liabilities and charges	23	452,649	312,213
Finance lease liability	18	9	8,446
Pension liability	19	32,333	24,736
Current income tax payable		293,640	115,340
Other taxes payable	22	644,737	1,071,361
Total current liabilities		**10,043,866**	**13,106,696**
TOTAL LIABILITIES		**15,955,812**	**18,014,859**
TOTAL EQUITY AND LIABILITIES		**28,015,674**	**22,477,992**

Approved for issue and signed on behalf of the Board of Directors on 19 April 2012.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
Revenue	27	27,495,553	23,070,014
Cost of sales	28	(19,120,851)	(17,496,664)
Gross profit		**8,374,702**	**5,573,350**
Distribution and transportation expenses	29	(1,070,407)	(573,198)
General and administrative expenses	30	(2,513,448)	(1,973,382)
Other operating expenses, net	31	(319,695)	(112,149)
Excess of fair value of net assets acquired over the cost of acquisition	10	21,304	-
Gain on revaluation of investment in associate upon acquisition of controlling share	10,11	54,948	-
Operating profit		**4,547,404**	**2,914,621**
Finance income	32	120,131	57,089
Finance costs	33	(493,909)	(823,391)
Share of results of associates	11	93,341	15,108
Profit before income tax		**4,266,967**	**2,163,427**
Income tax expense	26	(890,434)	(582,299)
Profit for the year		**3,376,533**	**1,581,128**

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
Profit attributable to:			
Shareholders of the Company		3,224,719	1,469,116
Non-controlling interest		151,814	112,012
Profit for the year		**3,376,533**	**1,581,128**
Currency translation differences		(25,251)	(85,899)
Currency translation differences of associates	11	5,092	1,540
Other comprehensive loss for the year		**(20,159)**	**(84,359)**
Total comprehensive income for the year		**3,356,374**	**1,496,769**
Total comprehensive income attributable to:			
Shareholders of the Company		3,230,744	1,402,382
Non-controlling interest		125,630	94,387
Total comprehensive income for the year		**3,356,374**	**1,496,769**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RUB per share)	**24**	**27.88**	**14.32**

Consolidated Statement of Cash Flows for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		4,266,967	2,163,427
Adjustments for:			
Depreciation and amortisation	7,8	614,398	449,776
Loss from disposal of property, plant and equipment and intangible assets	31	8,432	938
Finance income	32	(120,131)	(57,089)
Finance costs	33	493,909	823,391
Pension expenses	19	27,555	33,808
Warranty provision	28	31,855	51,109
Write-off of receivables		2,236	23,931
Interest expense related to construction contracts		-	17,408
Provision for impairment of accounts receivable	30	(23,012)	(13,023)
Impairment of taxes receivable	31	-	10,052
Investments impairment provision	31	-	(1,338)
Provision for obsolete inventories	28	28,354	(107,634)
Provision for VAT receivable	30	(9,185)	(10,887)
Provisions for legal claims	30	(21,852)	34,073
Excess of fair value of net assets acquired over the cost of acquisition	10	(21,304)	-
Foreign exchange loss, net	31	45,291	-
Gain on revaluation of investment in associate upon acquisition of controlling share	10,11	(54,948)	-
Net monetary effect on non-operating items		10,371	-
Share of results of associates	11	(93,341)	(15,108)
Impairment of property, plant and equipment and intangible assets	7,8,28	-	19,288
Loss from disposal of subsidiaries		-	4,360
Other non-cash items		-	(646)
Operating cash flows before working capital changes		**5,185,595**	**3,425,836**
(Increase)/decrease in inventories		(1,330,185)	452,945
Decrease/(increase) in trade and other receivables		1,007,012	(6,921,060)
(Decrease)/increase in taxes payable		(518,016)	674,369
(Decrease)/increase in accounts payable and accrued liabilities		(4,772,053)	7,063,530
Restricted cash		(20,335)	(4,073)
Cash (used in)/generated from operations		**(447,982)**	**4,691,547**

Consolidated Statement of Cash Flows for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
Income tax paid		(653,314)	(277,738)
Interest paid		(493,899)	(838,533)
Net cash (used in)/from operating activities		**(1,595,195)**	**3,575,276**
Cash flows from investing activities			
Repayment of loans advanced		4,174	3,139
Loans advanced		(3,317)	(5,498)
Proceeds from sale of property, plant and equipment and intangible assets		14,473	24,585
Interest received		20,124	56
Dividends received	11	14,670	16,800
Purchase of property, plant and equipment		(1,139,198)	(950,275)
Acquisition of intangible assets		(55,080)	(48,681)
Acquisitions of subsidiaries, net of cash acquired	10	(1,049,184)	(2,339,457)
Proceeds from disposal of subsidiaries, net of cash disposed		-	7,475
Net cash used in investing activities		**(2,193,338)**	**(3,291,856)**
Cash flows from financing activities			
Repayments of borrowings		(10,905,256)	(9,034,047)
Proceeds from borrowings		12,616,367	8,800,148
Payment for finance lease		(8,457)	(12,663)
Acquisition of non-controlling interest in subsidiaries		-	(578,844)
Proceeds from share issue		3,517,161	-
Expenses related to share issue		(153,636)	(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		(16,513)	(320,458)
Net cash from/(used in) financing activities		**5,049,666**	**(689,676)**
Net increase/(decrease) in cash and cash equivalents		**1,261,133**	**(406,256)**
Inflation effect on cash		**(10,770)**	**-**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(2,986)**	**(785)**
Cash and cash equivalents at the beginning of the year		**351,086**	**758,127**
Cash and cash equivalents at the end of the year		**1,598,463**	**351,086**

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

(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 2010		**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)**
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 shareholders of the Group's subsidiaries	24	-	-	-	-	-	-	-	(320,458)	**(320,458)**
Allocation of net assets to non-controlling shareholders of the Group's subsidiaries	24	-	-	-	-	-	(289,262)	(289,262)	289,262	**-**
Total contributions by and distributions to owners of the Company		6,356	-	(6,356)	1,952	-	(289,262)	(287,310)	(31,196)	(318,506)
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)	**-**
Total transactions with owners of the Company, recognised directly in equity		**6,356**	**-**	**(6,356)**	**1,952**	**-**	**(52,532)**	**(50,580)**	**744,245**	**693,665**

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Equity attributable to the shareholders of the Company							Non-controlling interest	Total equity
		Share capital	Share premium	Share capital to be issued	Other reserves	Cumulative currency translation reserve	Retained earnings	Total		
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**
Effect of hyperinflation on opening retained earnings		-	-	-	-	-	(5,286)	(5,286)	(5,188)	**(10,474)**
Balance at 1 January 2011		**42,510**	**210,862**	**-**	**38,987**	**(234,785)**	**2,892,010**	**2,949,584**	**1,503,075**	**4,452,659**
Profit for the year		-	-	-	-	-	3,224,719	3,224,719	151,814	**3,376,533**
Other comprehensive income/(loss)										
Change in cumulative currency translation reserve		-	-	-	-	933	-	933	(26,184)	**(25,251)**
Share of comprehensive income from associates		-	-	-	-	5,092	-	5,092	-	**5,092**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**6,025**	**3,224,719**	**3,230,744**	**125,630**	**3,356,374**
Share issue	24	5,819	3,524,358	-	-	-	-	3,530,177	-	**3,530,177**
Expenses related to share issue, incurred subsequent to 31 December 2010	24	-	(127,820)	-	-	-	-	(127,820)	-	**(127,820)**
Reclassification of expenses related to share issue, incurred prior to 31 December 2010, upon completion of IPO	24	-	(83,865)	-	83,865	-	-	-	-	**-**
Dividends declared by the Group's subsidiaries		-	-	-	-	-	-	-	(16,513)	**(16,513)**
Total contributions by and distributions to owners of the Company		5,819	3,312,673	-	83,865	-	-	3,402,357	(16,513)	**3,385,844**
Business combinations	10	-	-	-	-	-	-	-	864,985	**864,985**
Total transactions with owners of the Company, recognised directly in equity		**5,819**	**3,312,673**	**-**	**83,865**	**-**	**-**	**3,402,357**	**848,472**	**4,250,829**
Balance at 31 December 2011		**48,329**	**3,523,535**	**-**	**122,852**	**(228,760)**	**6,116,729**	**9,582,685**	**2,477,177**	**12,059,862**

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

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 (RUB 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 OJSC (see below), the Company did not have any activities. On 3 January 2011, the Company was renamed HMS Hydraulic Machines & Systems Group plc. In May 2011, the Company changed its registered address to 13 Karaiskaki, 3032, Limassol, Cyprus.

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, Minsk and Bobruisk 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' rights 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. 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.

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.

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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 35).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements for the year ended 31 December 2011 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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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 ("RUB"), 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 (except for Belorussian subsidiaries of the Group, which have a currency of a hyperinflationary economy – Belorussian Rouble) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) 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;

(ii) 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); and

(iii) 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 2011 and 2010, the principal rates of exchange used for translating foreign currency balances were:

	2011	2010
1 USD = RUB	32.1961	30.4769
1 EUR = RUB	41.6714	40.3331
1 UAH = RUB	4.0055	3.8283
1 BYR = RUB	0.00386	0.01016

Accounting for the effect of inflation. Since the fourth quarter of 2011, Belorussian economy has been considered to be hyperinflationary. IAS 29, Financial Reporting in Hyperinflationary Economies, has been applied to restate the financial statements of the Group's subsidiaries based in Belorussia before they are included in these consolidated financial statements. The restatement has been calculated by means of conversion factors derived from the Belorussia Consumer Price Index (CPI) complied by the National Statistical Committee of the Republic of Belarus. The conversion factors used to restate the accompanying financial statements at 31 December 2011 were as follows:

Date	**Conversion factors**
31 December 2008	2.5221
31 December 2009	2.2959
31 December 2010	2.0867
31 December 2011	1.0000

The significant guidelines followed in restating the financial statements of the Belorussian subsidiaries of the Group are:

(i) all amounts are stated in terms of the measuring unit current at 31 December 2011;

(ii) monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2011;

(iii) non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2011), equity components are restated by applying the relevant conversion factors;

(iv) property, plant and equipment are restated by applying the change in the index from the date of the transaction or, if applicable, from the date of the acquisition of subsidiary by the Group to 31 December 2011. Depreciation is based on the restated amounts;

(v) income statement transactions, except for the depreciation charges explained above, are restated by applying the change in the index from the quarter of transaction to the date of the statement of financial position date;

(vi) all items in the cash flow statement are expressed in terms of the measuring unit current at 31 December 2011;

(vii) the effect of inflation on the net monetary position is included in the consolidated statement of comprehensive income as a net monetary gain or loss.

The effect of applying IAS 29 is summarized as follows: revenue increased by RUB 75,682, net monetary loss recognised of RUB 42,522 (Note 31), loss for the period increased by RUB 64,312. Also, the restatement led to the effect on opening retained earnings in amount of RUB 10,474.

The results and financial position of Belorussian entities of the Group are translated into the presentation currency as follows:

(i) assets, liabilities, equity items, income and expenses are translated at the closing rate at the date of the statement of financial position, except that

(ii) comparative amounts are those that were presented as current year amounts in the relevant prior year consolidated financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

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 norm al 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, with the exception of customer relationships and backlog, which are amortised as the economic benefits from these assets are consumed by the Group. Estimated useful lives of the Group's intangible assets are as follows:

	Years
Patents	5-20
Licensed technology	1-18
Software licenses	1-7
Customer relationships and order backlog	2-9
Trademarks	5-16
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.

If a non-current asset (or disposal group) no longer meets the criteria of classification, it ceases to be classified as held for sale. This asset is measured at the lower of its carrying amount before the asset (disposal group) was reclassified, adjusted for any depreciation, amortisation or revaluations that would be have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decisions not to sell the asset. Any required adjustment to the carrying amount is presented in the consolidated statement of comprehensive income in the period when the reclassification criteria are no longer met.

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 leases. 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. Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Share-based compensation. In 2011, the Group's Board of Directors awarded cash-settled share appreciation rights to certain employees (Note 25). The Group applies IFRS 2, Share-based Payments, to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for cash-settled share-based payments to employees based on the fair value of the award, subject to remeasurement at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of share-based payments is calculated by the Group using the Monte-Carlo simulation model.

The fair value of the awards granted, related to the reporting period, is recognised as a general and administration expense with a corresponding increase in other long-term payables over the vesting period.

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. In particular, the Group has reclassified labour costs of RUB 129,261 from general and administrative expenses to cost of sales due to the change in internal managerial structure of certain entities of the Group.

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 2011 exceeds RUB 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 2011, the Group recognised revenue in respect of these contracts of RUB 7,162,101. This amount is included as part of revenue from construction contracts (Note 27). At 31 December 2011, receivables due from customers (Note 14) and payables due to customers (Note 21) include amounts of RUB 236,355 and RUB 40,123 respectively, related to these contracts; advances paid to suppliers and subcontractors (Note 14) include the amount of RUB 22,337 (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 included in construction contract budget additional revenue of RUB 121,532 based on the written confirmation by the customer to sign off the additional agreement to existing construction contract. In 2011, due to decrease in scope of work to be fulfilled by the Group under this contract, additional revenue actually approved and singed by the customer amounted to RUB 56,242, which resulted in additional loss recognised in 2011 in of RUB 65,290. The Group incurred further loss of RUB 62,422 as a result of decrease in revenue due to the decrease in scope of work to be fulfilled by the Group under this contract.

At 31 December 2011, the Group included in construction contract budget additional revenue of RUB 233,464 based on the written confirmation by the customer to sign off the additional agreements to existing construction contract. Total costs related to this additional revenue and included in contract budget at 31 December 2011 amounted to RUB 215,437. Out of these total costs, the amount of RUB 167,443 was incurred prior to 31 December 2011.

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 (c) 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 2011 would be either increase or decrease by RUB 47,333 (2010: RUB 36,115).

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

At 31 December 2011, 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. Based on the results of these calculations the Group concluded that no impairment charge was required at 31 December 2011 and for the year then ended. For more details relating to the key assumptions used as well as sensitivity analysis information refer to Note 9.

(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) Provisions for claims received and legal proceedings

At 31 December 2011, the Group has certain claims received and legal proceedings in relation to the breach of contract terms with customers. The Group issued claims to its suppliers/subcontractors, where the abovementioned breaches were caused by delays of supplies. Under some contracts with customers and suppliers/subcontractors, where contract terms were not adhered to, maximum penalties are contractually limited. In these consolidated financial statements the Group has accounted for probable outflow of resources, associated with claims received, on the basis of the Group's current experience of settlement of similar claims, whether through court or otherwise. In the opinion of management, there are no current claims or legal proceedings, which could have a material effect on the result of operations or financial position of the Group and which have not been accounted for or disclosed in these consolidated financial statements.

(h) Tax legislation

Tax, currency and customs legislation of those jurisdictions, where the Group companies operate, is subject to varying interpretations. Refer to Note 35.

(i) 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 34.

(j) 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 Standards and Interpretations

Certain new standards, amendments and interpretations became effective for the Group from 1 January 2011:

Amendment to IAS 32, Classification of Rights Issues (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 concluded that this amendment does not have any effect 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 did not have an impact on the Group's consolidated financial statements.

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement (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 concluded that this amendment does not have any effect on its consolidated financial statements.

Amendment to IFRS 1, Limited exemption from comparative IFRS 7 disclosures for first-time adopters (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.

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 concluded that these amendments do not have significant 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 (items marked with * have not been endorsed by the EU).

IFRS 10, Consolidated Financial Statements*, IFRS 11, Joint Arrangements*, IFRS 12, Disclosure of Interests in Other Entities*, and IAS 27, Separate Financial Statements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), provide for the following:

- A revised definition of control for the purposes of determining which arrangements should be consolidated, including guidance on participating and protective rights;
- A reduction in the types of joint ventures to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;
- Elimination of the policy choice of proportional consolidation for joint ventures;
- Introduction for new requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly control or significantly influences its interests in other entities.

The Group is considering the implications of these standards, the impact on the Group and the timing of their adoption by the Group.

IAS 28, Investments in Associates and Joint Ventures* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is considering the implication of this standard, the impact on the Group and the timing of their adoption by the Group.

IFRS 13, Fair Value Measurement* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRS. The Group is considering the implications of this standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, 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.

Amendments to IFRS 7, Transfers of Financial Assets Disclosures (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 consolidated financial statements.

Amendments to IAS 12*, Recovery of Underlying Assets (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.

Amendments to IFRS 1*, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (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.

Amendments to IAS 1, Presentation of financial statements* (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group is considering the implications of this standard, the impact on the Group and the timing of its adoption by the Group.

Amended IAS 19, Employee benefits* (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is considering the implications of this standard, the impact on the Group and the timing of its adoption by the Group.

Amendments to IFRS 7*, Offsetting Financial Assets and Financial Liabilities Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group is considering the implications of this standard, the impact on the Group and the timing of its adoption by the Group.

Amendments to IAS 32*, Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of this standard, the impact on the Group and the timing of its adoption by the Group.

IFRIC 20*, Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual period beginning on or after 1 January 2013). IFRIC 20, 'Stripping costs in the production phase of a surface mine', sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The Group does not expect that the adoption of this amendment will have any impact on its consolidated financial statements.

Amendments to IFRS 1 "First –time adoption of International Financial Reporting Standards" on the application of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure on Government Assistance" * (issued in March 2013 and effective for annual periods beginning on or after 1 January 2013). The IASB has amended IFRS 1, 'First-time adoption of International Financial Reporting Standards' to provide relief from the retrospective application of IFRSs in relation to government loans. The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRSs. The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability. The Group does not expect that the adoption of this amendment will have any impact on the consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect these 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							
Balance at 1 January 2010	**137,730**	**2,510,359**	**1,866,313**	**167,577**	**202,145**	**145,831**	**5,029,955**
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)	-
Acquisitions through business combinations (Note 10)	8,293	1,302,442	102,088	10,548	106,982	34,549	1,564,902
Disposals	-	(18,358)	(59,604)	(12,991)	(28,915)	(12,154)	(132,022)
Reclassification of assets as held for sale	-	(99,967)	(2,887)	-	-	-	(102,854)
Translation to presentation currency	505	(1,433)	647	(31)	146	(2,995)	(3,161)
Balance at 31 December 2010	**155,003**	**3,811,800**	**2,137,494**	**206,569**	**334,025**	**666,655**	**7,311,546**

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Additions	1,231	182,508	434,579	45,717	71,017	454,403	1,189,455
Transfers	-	195,581	252,194	-	10,343	(458,118)	-
Acquisitions through business combinations (Note 10)	108,187	607,360	645,464	11,330	33,756	203,087	1,609,184
Effect of hyperinflation on opening retained earnings	-	15,579	9,604	485	296	-	25,964
Effect of hyperinflation on profit or loss	-	45,974	52,674	2,620	5,043	-	106,311
Disposals	(1,240)	(47,871)	(66,744)	(12,354)	(10,567)	(21,163)	(159,939)
Reclassification of assets as held for sale	-	-	(8,709)	-	-	-	(8,709)
Reversal of reclassification of assets as held for sale (Note 16)	-	45,156	-	-	-	-	45,156
Translation to presentation currency	1,345	(71,666)	(92,771)	(2,578)	(8,082)	3,445	(170,307)
Balance at 31 December 2011	**264,526**	**4,784,421**	**3,363,785**	**251,789**	**435,831**	**848,309**	**9,948,661**
Accumulated depreciation and impairment							
Balance at 1 January 2010	**-**	**(227,807)**	**(653,444)**	**(90,850)**	**(102,120)**	**(927)**	**(1,075,148)**
Eliminated on disposals	-	10,153	50,215	10,943	15,129	140	86,580
Eliminated on reclassification as held for sale	-	5,405	1,354	-	-	-	6,759
Depreciation expense	-	(106,230)	(178,524)	(24,524)	(51,868)	-	(361,146)
Impairment charge	-	(19,288)	-	-	-	-	(19,288)
Translation to presentation currency	-	(161)	(312)	(30)	(126)	-	(629)
Balance at 31 December 2010	**-**	**(337,928)**	**(780,711)**	**(104,461)**	**(138,985)**	**(787)**	**(1,362,872)**
Effect of hyperinflation on opening retained earnings	-	(1,246)	(5,522)	(192)	(155)	-	(7,115)
Effect of hyperinflation on profit or loss	-	(2,978)	(13,245)	(535)	(416)	-	(17,174)
Eliminated on disposals	-	37,170	54,361	11,065	8,824	280	111,700
Eliminated on reclassification as held for sale	-	-	8,620	-	-	-	8,620
Depreciation expense	-	(130,351)	(231,202)	(29,221)	(82,551)	-	(473,325)
Translation to presentation currency	-	3,228	13,850	446	(214)	-	17,310
Balance at 31 December 2011	**-**	**(432,105)**	**(953,849)**	**(122,898)**	**(213,497)**	**(507)**	**(1,722,856)**
Carrying amount							
Carrying amount at 1 January 2010	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Carrying amount at 31 December 2010	**155,003**	**3,473,872**	**1,356,783**	**102,108**	**195,040**	**665,868**	**5,948,674**
Carrying amount at 31 December 2011	**264,526**	**4,352,316**	**2,409,936**	**128,891**	**222,334**	**847,802**	**8,225,805**

At 31 December 2011, the Group's property, plant and equipment for a total of RUB 701,377 had been pledged as security for certain borrowings (31 December 2010: RUB 509,378), including RUB 346,422 related to undrawn credit facilities (31 December 2010: RUB 12,448) (Note 17).

Construction-in-progress includes advances for capital expenditures for a total of RUB 276,381 at 31 December 2011 (31 December 2010: RUB 94,222).

At 31 December 2011, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RUB 264,269 (31 December 2010: RUB 105,777).

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 in Note 9. 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 2011 and for the year then ended. At 31 December 2010, 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 RUB 19,288.

8 Other Intangible Assets

	Patents	Licensed technology	Acquired software licenses	Customer relationships and order backlog	Trade-marks	Websites	Total
Cost							
Balance at 1 January 2010	**11,015**	**15,955**	**26,767**	**4,893**	**18,108**	**1,201**	**77,939**
Additions	587	14,807	30,662	-	2,150	44	48,250
Acquisitions through business combinations (Note 10)	13	102	5,014	275,354	33,826	-	314,309
Disposals	(2,047)	(5,826)	(8,267)	(4,892)	(14,366)	(43)	(35,441)
Translation to presentation currency	(104)	26	(65)	-	192	-	49
Balance at 31 December 2010	**9,464**	**25,064**	**54,111**	**275,355**	**39,910**	**1,202**	**405,106**
Additions	2,602	4,899	38,370	-	9,275	-	55,146
Acquisitions through business combinations (Note 10)	-	655	2,325	232,273	41,677	114	277,044
Disposals	(574)	(3,320)	(13,665)	-	-	-	(17,559)
Translation to presentation currency	(2,494)	322	(377)	-	-	(23)	(2,572)
Balance at 31 December 2011	**8,998**	**27,620**	**80,764**	**507,628**	**90,862**	**1,293**	**717,165**

	Patents	Licensed technology	Acquired software licenses	Customer relationships and order backlog	Trade-marks	Websites	Total
Accumulated amortisation and impairment							
Balance at 1 January 2010	**(3,164)**	**(6,886)**	**(13,172)**	**(4,281)**	**(3,238)**	**(89)**	**(30,830)**
Amortisation on disposals	2,047	5,306	6,689	4,892	5,592	44	24,570
Amortisation expense	(2,185)	(5,733)	(11,660)	(61,582)	(7,328)	(142)	(88,630)
Translation to presentation currency	29	(1)	(24)	-	(63)	(1)	(60)
Balance at 31 December 2010	**(3,273)**	**(7,314)**	**(18,167)**	**(60,971)**	**(5,037)**	**(188)**	**(94,950)**
Amortisation on disposals	573	2,951	12,210	-	-	-	15,734
Amortisation expense	(2,294)	(6,989)	(24,739)	(95,951)	(10,954)	(146)	(141,073)
Translation to presentation currency	1,331	(125)	(136)	-	(75)	-	995
Balance at 31 December 2011	**(3,663)**	**(11,477)**	**(30,832)**	**(156,922)**	**(16,066)**	**(334)**	**(219,294)**
Carrying amount							
Carrying amount at 1 January 2010	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Carrying amount at 31 December 2010	**6,191**	**17,750**	**35,944**	**214,384**	**34,873**	**1,014**	**310,156**
Carrying amount at 31 December 2011	**5,335**	**16,143**	**49,932**	**350,706**	**74,796**	**959**	**497,871**

9 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	2011	2010
Gross book value	1,900,913	423,990
Accumulated impairment	(116,998)	(116,998)
Carrying amount at 1 January	**1,783,915**	**306,992**
Acquisitions of subsidiaries (Note 10)	575,811	1,481,442
Disposals of subsidiaries (Note 10)	-	(4,519)
Carrying amount at 31 December	**2,359,726**	**1,783,915**
Gross book value	2,476,724	1,900,913
Accumulated impairment	(116,998)	(116,998)
Carrying amount at 31 December	**2,359,726**	**1,783,915**

Goodwill is allocated to cash generating units, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment for segment reporting purposes as follows:

	31 December 2011	31 December 2010
EPC segment (goodwill acquired in aquisition of Giprotyumenneftegaz OJSC ("GTNG"))	1,481,442	1,481,442
Sibneftemash OJSC (Note 10)	511,784	-
EPF "SIBNA" Inc. OJSC	117,308	117,308
Trest Sibkomplektmontazhnaladka OJSC	95,691	95,691
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Dimitrovgradkhimmash OJSC (Note 10)	64,027	-
Tomskgazstroy OJSC	16,757	16,757
Total carrying amount of goodwill	**2,359,726**	**1,783,915**

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 did not recognise any impairment of goodwill at 31 December 2011 and for the year then ended (at 31 December 2010 and for the year then ended: no impairment of goodwill).

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

	31 December 2011	31 December 2010
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 14% to 17%	From 14% to 19%

The key assumptions to which the calculation of value-in-use is most sensitive also include revenue increase rates and operating margin rates through budgeted five-year period. Management determined budgeted revenue increase rates and budgeted operating margin rates 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.

Discounted cash flow ("DCF") models of certain CGUs are sensitive to such key assumptions as revenue increase rates and budgeted margin rates, in particular:

- DCF model for CGU Institute Rostovskiy Vodokanalproekt OJSC is mostly sensitive to the assumption, that the company will reach 28% operating profit margin in 2016, demonstrated in historical periods prior to the world financial crisis of 2008, from its 12% operating profit margin budgeted and supported by strong backlog for 2012. If this condition is not met and the company's operating profit margin stands at the level of 2012, the impairment loss, related to the goodwill, would be RUB 14,722.

- DCF model for CGU Trest Sibkomplektmontazhnaladka OJSC is mostly sensitive to the assumption that in 2013-2016 the company will annually increase its revenue by 10% from the revenue level budgeted and supported by strong backlog for 2012 and to the assumption that the company will reach 6% operating profit margin in 2016 from its budgeted margin 2% for 2012. If both these condition are not met and the company's revenue and operating profit margin stand at the level of 2012, with all other variables being the same, the impairment loss, related to the goodwill, would be RUB 63,533.

10 Business Combinations

Acquisition of Sibneftemash OJSC

At the end of June 2011, the Group acquired 98.88% of ordinary shares in Sibneftemash OJSC for RUB 1,292,100 paid in cash. Based on the acquired entity's share capital structure, 98.88% of ordinary shares represented the effective interest of 98.59% of total equity of Sibneftemash OJSC.

The acquired entity, located in the Tyumen Region of the Russian Federation, designs, manufactures and supplies a diverse range of equipment and appliances used in the drilling, production of oil and gas and well servicing. This acquisition strengthened the market position of the Group and diversified the HMS Group's product offering to oil companies and oilfield services providers.

The acquired company contributed revenue of RUB 604,082 and profit after income tax of RUB 70,715 to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition occurred on 1 January 2011, the revenue from the acquired business would have been RUB 1,094,245 and profit after income tax would have been RUB 98,658 for the year ended 31 December 2011.

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. The purchase price allocation was finalised at 31 December 2011 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:

	Provisional value at the date of acquisition	Final value at the date of acquisition
Property, plant and equipment	410,056	467,381
Intangible assets	120,931	122,554
Other long-term receivables	24,439	24,439
Inventories	137,133	141,206
Trade and other receivables	215,733	222,094
Cash and cash equivalents	12,100	12,100
Long-term borrowings	(8,347)	(8,347)
Deferred tax liability	(68,280)	(81,607)
Pension liability – non-current portion	-	(2,449)
Trade and other payables	(66,835)	(58,588)
Short-term provisions for liabilities and charges	-	(10,814)
Pension liability – current portion	(2,449)	(179)
Other taxes payable	(36,288)	(36,288)
Fair value of net assets	**738,193**	**791,502**
Less: Non-controlling interest	(10,433)	(11,186)
Fair value of acquired interest in net assets	**727,760**	**780,316**
Goodwill	564,340	511,784
Total purchase consideration	**1,292,100**	**1,292,100**
Less: cash and cash equivalents acquired in a business combination	(12,100)	(12,100)
Outflow of cash and cash equivalents on acquisition	**1,280,000**	**1,280,000**

The goodwill is primarily attributable to the 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 Bobruisk Machine Building Plant OJSC

At the end of August 2011, the Group completed an acquisition of Bobruisk Machine Building Plant OJSC ("BMBP"), located in Bobruisk, Belorussia. BMBP is one of the largest manufacturers of specialist centrifugal pumps in the CIS. The Group paid total cash of USD 9.7 million (RUB 271,920) for 100% of newly issued shares equal to 57% of the increased share capital of BMBP.

The acquired company contributed revenue of RUB 148,583 and profit after income tax of RUB 72,148 to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition occurred on 1 January 2011, the revenue from the acquired business would have been RUB 428,127 and profit after income tax would have been RUB 16,261 for the year ended 31 December 2011.

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.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Purchase price allocation for the acquisition is as follows:

	Fair value at the date of acquisition
Property, plant and equipment	346,867
Intangible assets	1,925
Deferred tax assets	2,000
Inventories	69,211
Trade and other receivables	25,888
Cash and cash equivalents	315,401
Long-term borrowings	(23,383)
Pension liability – non-current portion	(2,957)
Trade and other payables	(98,842)
Short-term borrowings	(104,447)
Short-term provisions for liabilities and charges	(3,231)
Pension liability – current portion	(354)
Other taxes payable	(13,212)
Fair value of net assets	**514,866**
Less: Non-controlling interest	(221,642)

	Fair value at the date of acquisition
Fair value of acquired interest in net assets	**293,224**
Excess of fair value of net assets acquired over the cost of acquisition	(21,304)
Total purchase consideration	**271,920**
Less: cash and cash equivalents acquired in a business combination	(315,401)
Inflow of cash and cash equivalents on acquisition	**(43,481)**

Acquisition of Dimitrovgradkhimmash OJSC

At the end of December 2011, the Group acquired an additional 11% share in Dimitrovgradkhimmash OJSC, an associate of the Group, for purchase consideration of RUB 205,940. Following this acquisition, the Group obtained control over Dimitrovgradkhimmash OJSC by increasing its share from 40% to 51%. The acquired entity’s activity is manufacturer of equipment for oil refineries, chemical, petrochemical and gas processing plants.

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. As part of the step acquisition accounting under IFRS 3(R), the Group recognised a revaluation gain resulting from remeasurement of previously held interest. The gain of RUB 54,948 has been recorded in the consolidated statement of comprehensive income as revaluation of investment in associate upon acquisition of controlling share.

Had the acquisition occurred on 1 January 2011, the revenue from the acquired business would have been RUB 1,630,836 and profit after income tax would have been RUB 236,905 for the year ended 31 December 2011.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Purchase price allocation for the acquisition is as follows:

	Fair value at the date of acquisition
Property, plant and equipment	794,936
Intangible assets	152,565
Inventories	319,904
Trade and other receivables	390,903
Cash and cash equivalents	187,335

	Fair value at the date of acquisition
Deferred tax liability	(118,783)
Pension liability – non-current portion	(79,171)
Long-term provisions for liabilities and charges	(162)
Trade and other payables	(249,025)
Short-term provisions for liabilities and charges	(40,650)
Pension liability – current portion	(4,618)
Other taxes payable	(63,117)
Fair value of net assets	**1,290,117**
Less: Non-controlling interest	(632,157)
Fair value of acquired interest in net assets	**657,960**
Goodwill	64,027
Total purchase consideration	**721,987**
including:	
Fair value of previously held interest	516,047
Fair value of consideration payable for controlling interest	205,940
Less: cash and cash equivalents acquired in a business combination	(187,335)
Purchase consideration payable at 31 December 2011 (Note 38)	(205,940)
Inflow of cash and cash equivalents on acquisition	**(187,335)**

The goodwill is primarily attributable to the 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 Giprotyumenneftegaz OJSC

In June 2010, the Group acquired 51% of ordinary shares in Giprotyumenneftegaz OJSC ("GTNG") for RUB 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 RUB 1,380,664 and profit after income tax of RUB 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 RUB 2,203,945 and profit after income tax would have been RUB 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. The purchase price allocation was finalised at 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 acquired in a business combination	-	(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.

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 RUB 7,475. Loss on disposal of this investment, amounting to RUB 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 RUB 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 RUB 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 RUB 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 RUB 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 RUB 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 RUB 2,600, the Group's interest in Institute Rostovskiy Vodokanalproekt OJSC, SKMN's subsidiary, decreased from 72.03% to 67.43% increasing the non-controlling interest by RUB 9,134.

In June 2010, the Group acquired an additional 2.40% interest in HMS Pumps OJSC (formerly Livhydromash OJSC) for RUB 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 RUB 16,546.

In August 2010, the Group acquired an additional 1.61% interest in HMS Neftemash OJSC for RUB 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 RUB 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 RUB 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 RUB 3,348 and in Livnynasos OJSC from 80.36% to 82.04% decreasing the non-controlling interest by RUB 9,525.

In September 2010, the Group acquired an additional 7.62% interest in GTNG for RUB 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 RUB 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 RUB 9,483.

In November 2010, the Group acquired an additional 39.78% interest in HMS Household Pumps OJSC for RUB 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 RUB 10,145.

In November 2010, the Group acquired an additional 1.77% interest in HMS Pumps OJSC for RUB 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 RUB 9,595.

In December 2010, the Group acquired an additional 17.95% interest in HMS Neftemash OJSC for RUB 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 RUB 41,166. As a result of the acquisition of an additional interest in HMS Neftemash OJSC, the Group increased its effective ownership interest in Nizhnevartovsk-remservis CJSC from 82.05% to 100% decreasing the non-controlling interest by RUB 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 RUB 5,276 and in Livnynasos OJSC from 82.04% to 100.00% decreasing the non-controlling interest by RUB 70,936.

In December 2010, the Group acquired an additional 20.62% interest in HYDROMASHINPROM CJSC for RUB 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 RUB 59,410.

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

11 Investments in Associates

The Group's investments in associates are as follows:

	2011	2010
Carrying amount at 1 January	**507,141**	**507,293**
Dividends	(14,670)	(16,800)
Share of after tax results of associates	93,341	15,108
Reclassification due to acquisition of controlling interest (Note 10)	(461,099)	-
Translation to presentation currency	5,092	1,540
Carrying amount at 31 December	**129,805**	**507,141**

In December 2011, the Group acquired additional 11% share in Dimitrovgradkhimmash OJSC, an associate of the Group, for total cash consideration of RUB 205,940. Following this acquisition, the Group obtained control over Dimitrovgradkhimmash OJSC. This acquisition was accounted for using the acquisition method (Note 10). At the date of this additional acquisition the carrying value of previously held interest was RUB 461,099.

At 31 December 2011, 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*	-	-	1,630,836	236,331	-	Russian Federation
VNIIAEN OJSC	212,307	30,626	57,905	(2,342)	47.18%	Ukraine

* The entity has become a subsidiary as of 31 December 2011 (Note 10).

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

Investments in associates at 31 December 2011 include goodwill of RUB 44,088 (31 December 2010: RUB 113,195).

12 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2011	31 December 2010
Cash on hand	1,340	1,322
RUB denominated balances with banks	1,106,410	234,549
Foreign currency denominated balances with banks	64,254	26,817
RUB denominated bank deposits	423,469	87,220
Other cash equivalents	2,990	1,178
Total cash and cash equivalents	**1,598,463**	**351,086**

At 31 December 2011, the closing balance of short-term bank deposits comprised short-term bank deposits in four banks with 2.5-42.0% interest rate (31 December 2010: 1.6-14.0% – three banks).

Restricted cash. Restricted cash of RUB 25,313 (31 December 2010: RUB 4,978) represents minimum balances for settlement, corporate plastic cards accounts and letters of credit.

13 Inventories

	31 December 2011	31 December 2010
Raw materials and supplies	2,179,567	1,261,946
Inventory for implementation of construction contracts	281,416	482,978
Work in progress	1,135,147	726,119
Finished goods and goods for resale	1,229,599	490,605
Provision for obsolete inventories	(148,215)	(120,903)
Total inventories	**4,677,514**	**2,840,745**

At 31 December 2011, inventories of RUB 93,428 were pledged as collateral for certain borrowings (31 December 2010: RUB 525,648), including RUB 36,049 for undrawn credit facilities (31 December 2010: 58,751) (Note 17).
The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 28.

14 Trade and Other Receivables and Other Financial Assets

	31 December 2011	31 December 2010
Trade receivables	5,234,156	3,096,779
Less: provision for impairment of trade receivables	(96,481)	(91,980)
Short-term loans issued	2,111	3,011
Bank promissory notes receivable	34,880	5,389
Bank deposits	429,230	47,534
Other receivables	131,373	68,847
Less: provision for impairment of other receivables	(13,205)	(932)
Receivable due from customers for construction work (Note 20)	1,006,889	388,442
Less: provision for receivable due from customers for construction work	(95,560)	(95,560)
Financial assets within trade and other receivables, net	**6,633,393**	**3,421,530**
Advances to suppliers and subcontractors	1,705,287	4,705,203
Less: provision for impairment of advances to suppliers	(36,548)	(80,284)
VAT receivable	1,756,353	2,350,783
Less: provision for VAT receivable	(12,604)	(21,915)
Other taxes receivable	19,119	24,536
Non-financial assets within other receivables, net	**3,431,607**	**6,978,323**
Total trade and other receivables	**10,065,000**	**10,399,853**

Included in VAT receivable at 31 December 2011 is VAT related to advances received from customers in amount of RUB 1,322,394 (31 December 2010: RUB 1,874,742). 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.

At 31 December 2011, trade receivables of RUB 96,481 (31 December 2010: RUB 91,980) and other financial receivables of RUB 108,765 (31 December 2010: RUB 96,492) 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 RUB 95,560 at 31 December 2011 and 2010 relates to the customer of the Group – Gazpromstroy LLC (subsequently renamed Germes 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 within trade and other receivables is presented below:

	2011		2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision for impairment of financial assets at 1 January	**91,980**	**96,492**	**111,184**	**118,749**
Provision for receivables impairment	6,567	12,352	-	-
Unused amounts reversed	-	-	(19,095)	(22,142)
Effect of translation to presentation currency	(2,066)	(79)	(109)	(115)
Provision for impairment of financial assets at 31 December	**96,481**	**108,765**	**91,980**	**96,492**

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

	2011	2010
Provision for impairment of non-financial assets at 1 January	**102,199**	**84,872**
Provision for receivables impairment	-	28,214
Unused amounts reversed	(51,116)	(10,887)
Effect of translation to presentation currency	(1,931)	-
Provision for impairment of non-financial assets at 31 December	**49,152**	**102,199**

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

	31 December 2011	31 December 2010
RUB	6,232,755	3,288,172
USD	375,944	115,087
EURO	10,599	946
BYR	9,912	10,049
UAH	4,183	7,276
Total financial assets within trade and other receivables	**6,633,393**	**3,421,530**

15 Other Long-term Receivables

	31 December 2011	31 December 2010
Long-term loans issued	21,623	21,267
Long-term bank deposits	34,684	-
Financial assets within other long-term receivables	**56,307**	**21,267**
Other non-current assets	6,566	5,856
Total other long-term receivables	**62,873**	**27,123**

16 Non-current Assets Held for Sale

At 31 December 2011, the assets classified as held for sale in the amount of RUB 49,402 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 (31 December 2010: RUB 96,095). 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.

During 2011, certain assets with carrying amount of RUB 46,712 ceased to be classified as held for sale due to the Group's decision to continue using those assets in its operating activities. As a result, the Group charged RUB 1,556 to other expenses in cost of sales as depreciation for the period of held-for-sale classification and reclassified the assets into property, plant and equipment at their net book value of RUB 45,156 (Note 7).

17 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2011	31 December 2010
Long-term unsecured bank loans:					
Unsecured loan 1	9.50%	RUB	May 2015	1,257,535	1,455,337
Unsecured loan 2	8.50%	RUB	June 2014	1,292,100	-
Unsecured loan 3	8.55%	RUB	August 2014	721,691	-
Unsecured loan 4	12.00%	USD	December 2014	8,371	-
				3,279,697	**1,455,337**
Long-term secured bank loans:					
Secured loan 5	8.50%	RUB	December 2013	1,057,902	-
Secured loan 6	8.50%	RUB	April 2012	547,961	254,808
Secured loan 7	12.00%	USD	December 2013	69,020	-
Secured loan 8	EURIBOR+5.00%	EUR	February 2014	56,958	66,607
Secured loan 9	EURIBOR+6.00%	EUR	March 2016	32,412	-
Secured loan 10	13.00%	RUB	January 2013	8,856	-

	Interest rate	Denominated in	Maturity	31 December 2011	31 December 2010
Secured loan 11	13.00%	RUB	April 2013	8,371	-
Secured loan 12	11.00%	USD	April 2013	5,134	-
Secured loan 13	11.00%	USD	March 2013	5,110	-
Secured loan 14	16.00%	RUB	May 2014	4,831	-
Secured loan 15	13.00%	RUB	August 2013	1,962	-
Secured loan 16	14.00%	RUB	November 2013	1,510	-
Secured loan 17	55.00%	BYR	March 2013	1,350	-
Secured loan 18	9.55%	RUB	August 2012	-	800,000
Secured loan 19	9.55%	RUB	December 2012	-	500,000
Secured loan 20	10.50%	RUB	April 2014	-	994,065
Secured loan 21	9.55%	RUB	May 2014	-	110,000
				1,801,377	**2,725,480**
Less: current portion of long-term borrowings				(647,090)	(316,641)
Total long-term borrowings				**4,433,984**	**3,864,176**

	Interest rate	Denominated in	31 December 2011	31 December 2010
Short-term unsecured loans:				
Unsecured bank loan 1	8.25%	RUB	500,000	-
Unsecured bank loan 2	8.25%	RUB	200,000	-
Unsecured bank loan 3	10.90%	RUB	334,000	12,500
Unsecured bank loan 4	7.50%	RUB	156,000	-
Unsecured bank loan 5	8.25%	RUB	50,000	-
Unsecured bank loan 6	7.00%	RUB	41,500	-
Unsecured bank loan 7	8.25 %	RUB	25,000	-
Unsecured bank loan 8	10.13%	RUB	2,192	-
Unsecured bank loan 9	MosPrime+5.35%	RUB	-	335,463
Unsecured bank loan 10	8.44%	RUB	-	100,000

	Interest rate	Denominated in	31 December 2011	31 December 2010
Unsecured loan 11	5.00%	RUB	1,660	1,660
Unsecured loan 12	0.00%	RUB	94	75
Unsecured loan 13	0.00%	UAH	-	2,680
			1,310,446	**452,378**
Short-term secured bank loans:				
Secured loan 14	55.00%	BYR	11,585	-
Secured loan 15	53.50%	BYR	355	1,446
Secured loan 16	16.00%	RUB	-	929
			11,940	**2,375**
Current portion of long-term borrowings			647,090	316,641
Interest payable			4,410	3,848
Total short-term borrowings			**1,973,886**	**775,242**

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

	31 December 2011	31 December 2010
RUB	6,217,491	4,568,653
EUR	89,370	66,607
USD	87,635	-
BYR	13,374	1,478
UAH	-	2,680
Total borrowings	**6,407,870**	**4,639,418**

At 31 December 2011, the Group pledged property, plant and equipment and inventories in total amount of RUB 354,955 and RUB 57,379 (31 December 2010: RUB 496,930 and RUB 466,897), respectively. At 31 December 2011 and 31 December 2010, the Group also pledged its rights under some sales contracts with customers as a security for certain borrowings.

At 31 December 2010, the Group pledged 25% plus one share of HMS Neftemash OJSC as a security for certain borrowings, which were fully repaid by 31 December 2011. Also, at 31 December 2010, the Group pledged 51% of ordinary shares in GTNG as a security for the long-term loan 1. This pledge agreement was cancelled by 31 December 2011.

The interest rates for certain bank loans are subject to annual revision by banks at their discretion (see also Note 38), while for other borrowings interest rates can be revised only in proportion to the change in statutory bank rate, determined by the Central Bank of the Russian Federation.

During 2011, interest rates on certain long-term borrowings denominated in RUB, EUR, USD decreased for 0.4-5.0% per annum on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates.

At 31 December 2011 and 31 December 2010, 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 20.01% at 31 December 2011 (31 December 2010: 19.6%) 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	
	2011	2010	2011	2010
Finance lease payable:				
Not later than 1 year	9	9,192	9	8,446
Later than 1 year and not later than 5 years	-	9	-	9
Total	**9**	**9,201**	**9**	**8,455**
Future finance charges on finance lease	-	(746)	-	-
Present value of liabilities	**9**	**8,455**	**9**	**8,455**
Short-term finance lease liabilities	**-**	**-**	**9**	**8,446**
Long-term finance lease liabilities	**-**	**-**	**-**	**9**

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 2011 and 2010:

	31 December 2011	**31 December 2010**
Discount rate	8.3%	7.5%
Inflation	5.6%	6.4%
Expected annual increase in salaries	6.7%	7.5%
Mortality	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognised in profit or loss:

	2011	**2010**
Current service cost	19,160	12,813
Interest cost	23,560	19,500
Past service cost	1,542	(6,295)
Curtailment of plans	-	(43,756)
Net monetary loss	2,690	-
Net actuarial (gain)/loss recognised during the year	(19,397)	51,546
Net periodic benefit expense	**27,555**	**33,808**

The amounts recognised in the consolidated statement of financial position were as follows:

	31 December 2011	31 December 2010
Present value of defined benefit obligations	367,098	286,974
Unrecognised past service cost	(498)	287
Liability in the statement of financial position	**366,600**	**287,261**

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

	31 December 2011	31 December 2010
Present value of defined benefit obligations at the beginning of the year	**286,974**	**145,319**
Current service cost	19,160	12,813
Interest expense	23,560	19,500
Actuarial (gain)/loss	(19,397)	51,546
Curtailment of plans	-	(43,756)
Benefits paid	(32,186)	(14,017)
Exchange adjustments	(4,973)	931
Net monetary loss	2,690	-
Liabilities acquired in a business combination	89,728	120,212
Past service cost	1,542	(5,574)
Present value of defined benefit obligations at the end of the year	**367,098**	**286,974**

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 2011	31 December 2010
Short-term	32,333	24,736
Long-term	334,267	262,525
Discounted value of defined benefit obligations at the end of the year	**366,600**	**287,261**

The expected contributions under voluntary pension programs in 2012 are expected in the amount close to RUB 40,765.

20 Construction Contracts

During 2011 and 2010, 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:

	2011	**2010**
Construction contracts revenue	13,056,309	9,886,840
Contract cost expensed	(9,613,585)	(8,464,697)
Gross margin	**3,442,724**	**1,422,143**

	31 December 2011	31 December 2010
Advances from customers, related to construction contracts	23,588	286,273
Retentions	56,383	103,197

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

Contracts with net amount owing to the Group	**31 December 2011**	**31 December 2010**
Aggregate amount of contract cost incurred	6,937,518	6,438,210
Aggregate amount of recognised profits	2,030,944	471,972
Aggregate amount of recognised losses	(92,281)	(16,066)
Less: Progress billings	(7,869,292)	(6,505,674)
Gross amount due from customers for contract work	**1,006,889**	**388,442**

Contracts with net amount owed by the Group	**31 December 2011**	**31 December 2010**
Aggregate amount of contract cost incurred	9,415,937	5,689,468
Aggregate amount of recognised profits	2,791,137	1,647,779
Aggregate amount of recognised losses	(237,179)	(68,270)
Less: Progress billings	(12,418,066)	(13,061,396)
Gross amount due to customers for contract work	**(448,171)**	**(5,792,419)**

21 Trade and Other Payables

	31 December 2011	31 December 2010
Trade payables	2,430,476	1,287,523
Other payables	274,550	106,936
Financial trade and other payables	**2,705,026**	**1,394,459**
Advances from customers	2,126,122	1,682,829
VAT on advances from customers included in receivables due from/payables due to customers for construction work	924,374	1,636,698
Payables due to customers for construction work (Note 20)	448,171	5,792,419
Wages and salaries payable	442,919	292,953
Other non-financial payables	**3,941,586**	**9,404,899**
Total trade and other payables	**6,646,612**	**10,799,358**

22 Other Taxes Payable

	31 December 2011	31 December 2010
VAT	465,593	983,560
Social funds contribution	110,051	43,422
Personal income tax	43,050	27,598
Property tax	12,920	11,016
Land tax	3,133	1,976
Transport tax	1,999	2,970
Other taxes	7,991	819
Total other taxes payable	**644,737**	**1,071,361**

Included in VAT payable at 31 December 2011 is VAT related to advances paid to suppliers and subcontractors in amount of RUB 82,504 (31 December 2010: RUB 622,761).

23 Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Provision for tax risks	Unused vacation allowance
At 1 January 2010	**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
Business combinations	-	-	-	-	23,864
At 31 December 2010	**58,401**	**35,691**	**69,426**	**-**	**184,386**
Additional provisions	36,356	-	-	-	72,422
Unused amounts reversed	-	(4,501)	(21,852)	-	-
Effect of translation to presentation currency	(382)	-	171	-	(974)
Business combinations	279	162	-	19,125	35,291
At 31 December 2011	**94,654**	**31,352**	**47,745**	**19,125**	**291,125**

Warranty. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RUB 126,006 has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns (2010: RUB 94,092).

Legal claims. The balance at 31 December 2011 is expected to be utilised by the end of 2012. 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.

Provision for uncertain tax positions. Management has assessed, 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. Accordingly, the Group recognized provisions for the associated undeclared taxes and the related penalties and interest. The balance at 31 December 2011 is expected to be either fully utilised or released in 2012 when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

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 (RUB 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.

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 1 January 2010 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. 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.

In February 2011, the Company successfully completed the initial public offering ("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 Group, amounted to RUB 3,517,161 (net of foreign exchange loss of RUB 13,016) and the Group's transaction costs amounted to RUB 211,685. These transaction costs included fees of RUB 2,171 and RUB 3,066 for the years ended 31 December 2011 and 2010, respectively, for other assurance services charged by the Company's statutory auditor.

Below are the details of share issues:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RUB thousand	Share premium, RUB thousand
27 April 2010	26,000	1.00	1,010	-
7 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 at 31 December 2010	**102,600,000**		**42,510**	**210,862**
10 February 2011	14,563,427	0.01	5,819	3,312,673
Total at 31 December 2011	**117,163,427**		**48,329**	**3,523,535**

At 31 December 2011, the Company's authorised share capital consisted of 120,705,882 ordinary shares with par value of EUR 0.01 each.

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

At 31 December 2010, included in other reserves were expenses in amount of RUB 83,865, incurred by the Group in relation to its preparation for an IPO of the Company's shares on the London Stock Exchange, which was successfully completed in February 2011. Upon completion of the IPO transaction, all accumulated issue costs were 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 RUB 320,458, 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 these consolidated financial statements.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2011.

At the Annual General meeting which will take place in May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 12.8 Russian Roubles per ordinary share amounting to a total dividend of RUB 1,499,692 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders’ equity as an appropriation of retained earnings in the year ending 31 December 2012.

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 was calculated as if the Company existed at 1 January 2009 and through 2009 and 2010 with 102,600,000 issued ordinary shares.

Profit for the year ended 31 December 2011 and 2010 from continuing operations attributable to ordinary shareholders is calculated as follows:

	2011	2010
Profit for the year attributable to ordinary shareholders	3,224,719	1,469,116
Weighted average number of ordinary shares in issue (thousands)	115,647	102,600
Basic and diluted earnings per ordinary share (expressed in RUB per share)	**27.88**	**14.32**

25 Share-based Compensation

In 2011, the Group established an incentive plan (the “Plan”) for executive directors and senior employees of the Group in which the grant of share appreciation rights up to 2,577,595 shares (the “Bonus Fund”) was approved.

In accordance with the Plan terms, the distribution of the Bonus Fund to qualifying participants is made in four tranches for 25% portion of the Bonus Fund to be distributed in each tranche. The number of awards to which a qualifying participant is entitled to, in relation to the first 25% portion of the Bonus Fund, was determined by the Board of Directors in December 2011. The next three steps of distribution of the Bonus Fund are scheduled for May 2012, March 2013, January 2015 (“Program Reserve”), respectively. The management of the Group believes that such awards better align the interests of its employees with those of its shareholders.

Share appreciation rights granted have an exercise price of USD 9.25 (297.81 Russian Roubles) less dividends per share, which are expected to be paid by the Company for the period from January 2012 to April 2015. Share appreciation rights granted vest at the end of a 3-year service period, starting from 31 December 2011, and are exercisable in form of cash payments to the Program participants in April 2015.

The vesting of share appreciation rights is contingent on the market capitalisation of the Company, calculated on the basis of average quoted price of the Company’s GDRs at London Stock Exchange during the period from 15 November 2014 to 31 December 2014. The share appreciation rights will be vested if the capitalisation of the Company during the period above will be more or equal USD 2 billion.

In accordance with the Plan terms, cash payment to the Plan participants will be done out of proceeds obtained from sale of the Company’s GDRs on open market. The GDRs will be received by the Group from HMST, the parent company of the Group, in exchange for the new Company’s shares to be issued to HMST. The number of GDRs to be sold to cover the total cash payment and, consequently, the number of shares to be issued to HMST, will be determined at the beginning of 2015 and will depend on the excess of the weighted average price of the Company’s shares during the period between 15 November and 31 December 2014 over an exercise price.

The fair value of the awards granted during the year ended 31 December 2011, was estimated using a Monte-Carlo model. The fair value is then amortised on appropriate basis over the requisite service periods of the awards, which is the period from the service commencement date to the vesting date of the relevant tranche. Use of Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs.

The following assumptions were used to determine the reporting date fair value:

- Expected forfeitures. In accordance with the Plan terms, the awards, distributed to the participant, who leaves the Group in a status of “bad leaver” with no retention of right for any awards distributed to him, are attached to the Program Reserve and are subject to allocation between existing participants in January 2015. As such, it was concluded that the total amount of liability under the Plan will not be changed due to retirement of any Plan participants.
- Expected volatility. Expected volatility has been estimated based on an analysis of the historical share price volatility of the Company’s GDRs from February 2011, when the Group’s GDRs became publicly traded.
- Expected life. The average expected life was based on the contractual term of the option of 3.0 years from the reporting date.
- Fair value of ordinary share is equal to the market price of underlying GDR’s at the reporting date.
- Risk-free interest rate. The risk-free rate is based on Russian government bonds with a remaining term equal to the expected life assumed at the reporting date.

The assumptions used to determine fair value at the reporting date are presented below:

Risk-free interest rate	8%
Expected volatility	42.5%
Expected life, years	3.0

Fair value per share calculated using Monte-Carlo model at 31 December 2011 amounted to 10.55 Russian Roubles (USD 0.3276) with a total value of the Plan of RUB 27,187 (USD 844,420).

(*) "d" represents dividends per share, which are expected to be paid by the Company for the period from January 2012 to April 2015.

A summary of option activity under the Plan for the year ended 31 December 2011 is presented below:

	Awards	Weighted average exercise price (per share), RUB (*)	Weighted average fair value of awards (per share), RUB	Weighted average remaining contractual term
At 1 January 2011	-	-	-	-
Awards granted	2,577,595	297.81 – d	10.55	3.0
Non-vested awards at 31 December 2011	2,577,595	297.81 – d	10.55	3.0

None of the share awards outstanding at 31 December 2011 were exercisable as they are not fully vested. For the year ended 31 December 2011, share-based compensation in the amount of RUB 6,797 was recognised in general and administrative expenses in the consolidated statement of comprehensive income.

26 Income Taxes

Income tax expense for the year ended 31 December 2011 and 2010 included:

	2011	2010
Current tax	816,918	395,556
Deferred tax	73,516	186,743
Total income tax expense	**890,434**	**582,299**

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

	31 December 2011	31 December 2010
Income before tax	**4,266,967**	**2,163,427**
Estimated tax charge at applicable tax rates of 20.4% (2010: 20.6%)	(872,427)	(446,353)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of revaluation of assets for taxation purposes	25,867	-
Derecognition of deferred tax on investment in associate upon acquisition of majority ownership	24,196	-
Effect of gain on revaluation of investment in associate upon acquisition of majority ownership	10,990	-
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	4,261	-
Effect of adjustment resulting from intra-group sales of subsidiaries	-	(60,757)
Non-temporary impact of monetary gains and losses	(35,447)	-
Dividend withholding tax provision	(78,947)	-
Other non-deductible income/(expenses)	31,073	(75,189)
Income tax charge	**(890,434)**	**(582,299)**

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), 16-23% (Ukrainian tax legislation), 24% (Belorussia tax legislation) and 10% (Cypriot tax legislation), accordingly. With effect from 1 January 2012 a new Tax code is applied in the Ukraine, which provides for the gradual decrease of profit tax rate from 23% to 16% during 2012-2014. Consequently, at 31 December 2011, 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.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

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 2011	Credited/ (charged) to profit or loss	Business combinations (Note 10)	Translation differences recognised in equity	Inflation effect on deferred tax balance at beginning of the year	Inflation effect on deferred tax balance for the year	31 December 2011
Deferred tax liabilities							
Property, plant and equipment	(549,624)	78,757	(171,981)	10,504	(1,716)	(12,604)	(646,664)
Intangible assets	(57,976)	18,625	(54,074)	(150)	-	-	(93,575)
Non-current assets held for sale	(19,221)	9,341	-	-	-	-	(9,880)
Short-term trade and other receivables	-	(383,325)	3,353	(19,106)	-	-	(399,078)
Cash and cash equivalents	(718)	718	-	-	-	-	-
Other non-current assets	(2,184)	2,184	-	-	-	-	-
Finance lease liability	(854)	854	-	-	-	-	-
Trade and other payables	(353,233)	(221,376)	(2,157)	(2,202)	-	-	(578,968)
Short-term borrowings	(179)	179	-	-	-	-	-
Long-term borrowings	(1,933)	(456)	-	-	-	-	(2,389)
Share of results of associates	(2,972)	2,972	-	-	-	-	-
Withholding tax provision	-	(78,947)	-	-	-	-	(78,947)
	(988,894)	**(570,474)**	**(224,859)**	**(10,954)**	**(1,716)**	**(12,604)**	**(1,809,501)**

	1 January 2011	Credited/ (charged) to profit or loss	Business combinations (Note 10)	Translation differences recognised in equity	Inflation effect on deferred tax balance at beginning of the year	Inflation effect on deferred tax balance for the year	31 December 2011
Deferred tax assets							
Inventories	67,481	640,772	15,458	15,280	(294)	(14,177)	724,520
Short-term trade and other receivables	143,675	(143,675)	-	-	-	-	-
Long-term trade and other receivables	1,616	(1,616)	-	-	-	-	-
Share of results of associates	-	5,058	-	-	-	-	5,058
Other non-current assets	-	520	-	10	-	-	530
Long-term provisions	28,948	(18,003)	32	380	-	-	11,357
Loss carried forward	86,875	42,599	-	-	-	-	129,474
Other taxes payable	-	2,899	-	-	-	-	2,899
Finance lease liability	-	2	-	-	-	-	2
Short-term borrowings	-	26	-	2	-	-	28
Short-term provisions	45,316	(4,843)	10,979	192	-	-	51,644
	373,911	**523,739**	**26,469**	**15,864**	**(294)**	**(14,177)**	**925,512**
Total net deferred tax liability	**(614,983)**	**(46,735)**	**(198,390)**	**4,910**	**(2,010)**	**(26,781)**	**(883,989)**

	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)
Non-current assets held for sale	-	(19,221)	-	-	-	-	(19,221)
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)
Long-term borrowings	-	(1,933)	-	-	-	-	(1,933)
Share of results of associates	(1,562)	(1,410)	-	-	-	-	(2,972)
Other taxes payable	(1,065)	1,065	-	-	-	-	-
	(329,933)	**(383,197)**	**(278,985)**	**1,506**	**(2,309)**	**4,024**	**(988,894)**
Deferred tax assets							
Inventories	32,354	(443)	36,214	(2,739)	2,095	-	67,481
Short-term trade receivables	26,248	162,273	(50,847)	(55)	6,056	-	143,675
Long-term trade receivables	-	1,590	26	-	-	-	1,616
Other non-current assets	643	(643)	-	-	-	-	-
Long-term provisions	18,325	15,229	-	839	(5,445)	-	28,948
Loss carried forward	18,769	68,106	-	-	-	-	86,875
Trade and other payables	68,525	(68,525)	-	-	-	-	-
Short-term provisions	21,754	18,899	4,753	339	(429)	-	45,316
	186,618	**196,486**	**(9,854)**	**(1,616)**	**2,277**	**-**	**373,911**
Total net deferred tax liability	**(143,315)**	**(186,711)**	**(288,839)**	**(110)**	**(32)**	**4,024**	**(614,983)**

At 31 December 2011, the Group has not recognised a deferred tax liability in respect of temporary differences of RUB 6,071,370 (31 December 2010: RUB 4,209,970) 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.

27 Revenue

	2011	2010
Revenue from construction contracts	13,056,309	9,886,840
Sales of pumps and spare parts	7,450,909	6,781,633
Sales of oil and gas equipment	5,341,219	4,711,176
Sales of repair services for oil and gas equipment	666,934	553,355
Sales of electric motors	110,471	198,934
Sales of products, work and services of auxiliary units	44,171	69,901
Sales of other services and goods	825,540	868,175
Total revenue	**27,495,553**	**23,070,014**

28 Cost of Sales

	2011	2010
Supplies and raw materials	9,602,942	10,361,499
Labour costs	4,044,588	2,823,134
Cost of goods sold	2,713,902	2,289,364
Construction and installation works of subcontractors	1,161,946	571,287
Depreciation and amortisation	459,186	340,133
Utilities	283,314	217,545
Warranty provision	31,855	51,109
Provision for obsolete inventories	28,354	(107,634)
Defined benefits scheme expense	21,796	31,169
Impairment of property, plant and equipment	-	19,288
Change in work in progress and finished goods	(451,975)	(25,618)
Other expenses	1,224,943	925,388
Total cost of sales	**19,120,851**	**17,496,664**

29 Distribution and Transportation Expenses

	2011	2010
Transportation expenses	469,345	153,714
Labour costs	334,778	217,077
Insurance	35,240	17,397
Packaging and storage expenses	26,858	32,300
Entertaining costs and business trip expenses	24,794	15,807
Customs duties	23,846	19,340
Advertising	21,344	23,519
Agency services	18,129	33,573
Depreciation and amortisation	11,086	8,644
Property, plant and equipment repair and maintenance	5,672	3,919
Products certification	3,780	4,058
Lease expense	2,438	1,108
Defined benefits scheme expense	59	547
Other expenses	93,038	42,195
Total distribution and transportation expenses	**1,070,407**	**573,198**

30General and Administrative Expenses

	2011	2010
Labour costs	1,616,459	1,178,433
Depreciation and amortisation	141,658	99,540
Audit and consultancy services	133,189	86,686
Taxes and duties	91,978	110,524
Entertaining costs and business trip expenses	73,461	51,152
Property, plant and equipment repair and maintenance	71,598	26,713
Bank services	69,627	77,876
Stationary and office maintenance	49,641	56,679
Security	44,203	35,003
Telecommunications services	38,056	30,069
Insurance	36,779	27,610
Training and recruitment	23,150	14,966
Lease expense	22,219	9,983
Defined benefits scheme expense	5,700	2,092
Provision for impairment of accounts receivable	(23,012)	(13,023)
Provision for legal claims	(21,852)	34,073
Provision for VAT receivable	(9,185)	(10,887)
Other expenses	149,779	155,893
Total general and administrative expenses	**2,513,448**	**1,973,382**

During the year ended 31 December 2011, the Group incurred fees of RUB 1,725 for statutory audit services (2010: RUB 1,850). In addition, audit and consultancy services stated above include fees of RUB 98 (2010: nil) for tax consultancy services and RUB 885 (2010: nil) for other assurance services charged by the Company’s statutory auditor.

31 Other Operating Expenses, Net

	2011	2010
Charity, social expenditures	76,739	60,553
Fines and late payment interest under contracts	74,063	26,951
Foreign exchange loss, net	45,291	546
Net monetary loss	42,522	-
Loss on purchase/sale of foreign currency	25,936	-
Loss from disposal of property, plant and equipment and intangible assets	8,432	938
Depreciation of social assets	2,468	1,459
Loss/(gain) on transactions with securities	900	(5,272)
Impairment of taxes receivable	-	10,052
Investments impairment provision	-	(1,338)
Other expenses, net	43,344	18,260
Total other operating expenses, net	**319,695**	**112,149**

32 Finance Income

	2011	2010
Foreign exchange gain, net	96,391	-
Interest income	23,740	57,089
Total finance income	**120,131**	**57,089**

For the year ended 31 December 2011, net foreign exchange gain of RUB 96,391 represented exchange difference on USD-denominated bank deposit, placed by the Belorussian entity of the Group.

33 Finance Costs

	2011	2010
Interest expenses	486,159	815,810
Foreign exchange loss, net	7,004	4,618
Finance lease expenses	746	2,963
Total finance costs	**493,909**	**823,391**

34 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 other immaterial associates of the Group, individuals who are the ultimate owners of shares in the Company, who are also key management of the Group, and other key managers as well as the companies controlled by those individuals.

	31 December 2011		31 December 2010	
Balances with related parties	**Associates**	**Other**	**Associates**	**Other**
Accounts receivable	1,135	14,834	2,934	948
Accounts payable	1,998	102,844	784	74,560

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

	2011	
Transactions with related parties	**Associates**	**Other**
Sales of goods and finished products	1,868	16,240
Dividends received	14,670	273
Rent income	1,400	18
Sales of services	319	-
Sales of property, plant and equipment	-	5,000
Other income	-	11
Purchase of goods	(114,480)	-
Purchase of services	(38,826)	(4,915)
Purchase of raw materials	(1,376)	(26,086)
Purchase of property, plant and equipment	(8,434)	-
Rent expense	(8,957)	-

	2011	
Transactions with related parties	**Associates**	**Other**
Sales of goods and finished products	1,818	8,698
Dividends received	16,800	576
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	(27,354)	(30,004)
Rent expense	(10,133)	-

Key management compensation

Key management compensation amounted to RUB 249,283 for the year ended 31 December 2011 (2010: RUB 170,969) and included fees and other short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually of RUB 243,981 (2010: 170,969) as well as share-based compensation of RUB 5,302 (2010: nil). Included in these amounts are emoluments paid to the Company's Directors by the Company totalling RUB 7,949 (2010: nil) and emoluments paid to the Company's Directors by subsidiaries in their executive capacity totalling RUB 103,069 for the year ended 31 December 2011 (2010: RUB 75,802), including share-based compensation of RUB 2,379 (2010: nil).

For the year ended 31 December 2010, preference dividends of RUB 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.

35 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. Also refer to Note 4.

(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.

(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 2011, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RUB 264,269 (31 December 2010: RUB 105,777) and for the purchase of other intangible assets from the Group's associate for RUB 478,014 (31 December 2010: RUB 602,780).

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 2011, the Group was in compliance with all its loan covenants.

36 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 are 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;
- Organisational 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 2011	31 December 2010
1	HMS Pumps OJSC	HMS Pumps OJSC
2	LFCS LLC (closed in 2011)	LFCS LLC (LPKC LLC)
3	HMS Household Pumps OJSC	HMS Household Pumps OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC	Trade house HYDROMASHSERVICE Ukraine LLC
8	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
9	Plant Promburvod OJSC	Plant Promburvod OJSC
10	HMS-Promburvod CJSC	-
11	Bobruisk Machine Building Plant OJSC	-
12	Dimitrovgradkhimmash OJSC	-
13	-	SPA Gydromash CJSC
14	-	Nizhnevartovskremservis CJSC

The second operating segment "Oil and gas equipment" includes:

1	HMS Neftemash OJSC	HMS Neftemash OJSC
2	Sibneftemash OJSC	
3	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
5	EPF "SIBNA" Inc. OJSC	EPF "SIBNA" Inc. OJSC
6	Trade House Sibneftemash LLC	-
7	-	SPA Gydromash CJSC

The third operating segment "Engineering, procurement and construction" ("EPC") includes:

1	Trest Sibkomplektmontazhnaladka OJSC	Trest Sibkomplektmontazhnaladka OJSC
2	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
3	Tomskgazstroy OJSC	Tomskgazstroy OJSC
4	Giprotyumenneftegaz OJSC	Giprotyumenneftegaz OJSC
5	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC

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

1	HMS Group Management LLC	HMS Group Management LLC
2	HMS Group OJSC	HMS Group OJSC
3	Sibservice LLC (no business)	Sibservice LLC (no business)
4	Hydromashkomplekt LLC	Hydromashkomplekt LLC
5	Business Centre Hydromash LLC	Business Centre Hydromash LLC
6	HMS-Holding LLC	HMS-Holding LLC
7	HMS Hydraulic Machines & Systems Group plc	HMS Hydraulic Machines & Systems Group plc
8	H.M.S. FINANCE LIMITED	-
9	H.M.S. CAPITAL LIMITED	-
10	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
11	-	HMS-Promburvod CJSC
12	-	Hydroindusriya LLC
13	-	Hydromashinvest LLC
14	-	Promhydroservice LLC

Associates. The first operating segment "Industrial pumps" also includes VNIIAEN OJSC. In December 2011, the Group obtained control over Dimitrovgradkhimmash OJSC, its former associate. In accordance with internal management reports, which form the basis for the Group's segment reporting, this entity was included to Industrial Pumps segment. The Group's share in the results of Dimitrovgradkhimmash OJSC for the year ended 31 December 2010 of RUB 17,727 has been reclassified to comply with current period presentation.

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 management report.

For this purpose, EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortisation, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expense, warranty provision, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects of non-recurring income and expenses on the results of the operating segments.

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 2011 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	EPC	All other segments	**Total**
Revenue External	14,937,809	6,202,629	5,952,886	402,229	**27,495,553**
Revenue Internal	148,803	1,963	4,621	599,209	**754,596**
EBITDA, management report*	4,288,934	740,859	569,754	(42,611)	**5,509,721**
Depreciation and amortisation	(166,679)	(111,159)	(307,013)	(29,547)	**(614,398)**
Finance income	184,609	24,886	40,108	161,998	**411,601**
Finance cost	(423,471)	(277,658)	(127,645)	(45,997)	**(874,771)**
Income tax expense	(716,325)	(101,088)	(39,339)	(51,157)	**(907,909)**
Share of results of associates	93,341	-	-	-	**93,341**

* The sum of EBITDA by segment is more than total by RUB 47,215 due to elimination of transaction between operating segments

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	Oil and gas equipment	EPC	All other segments	Total
Revenue External	10,712,374	5,804,694	6,134,904	418,042	**23,070,014**
Revenue Internal	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	15,108	-	-	-	**15,108**

* EBITDA derived from management report is equal to EBITDA adjusted.

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

			2011		
	Industrial pumps	**Oil and gas equipment**	**EPC**	**All other segments**	**Total**
Revenue, management report	15,086,612	6,204,592	5,957,507	1,001,438	**28,250,149**
Less intersegment revenue	(148,803)	(1,963)	(4,621)	(599,209)	**(754,596)**
Other adjustments	-	-	-	-	**-**
Revenue, IFRS	**14,937,809**	**6,202,629**	**5,952,886**	**402,229**	**27,495,553**

	2011					
	Industrial pumps	Oil and gas equipment	EPC	All other segments	Inter-segment tran-sactions	**Total**
EBITDA, management report	**4,288,934**	**740,859**	**569,754**	**(42,611)**	**(47,215)**	**5,509,721**
Other adjustments	-	-	-	(797)	-	**(797)**
EBITDA, adjusted	**4,288,934**	**740,859**	**569,754**	**(43,408)**	**(47,215)**	**5,508,924**
Depreciation and amort isation						**(614,398)**
Non-monetary items*						**(106,147)**
Excess of fair value of net assets acquired over the cost of acquisition						**21,304**
Revaluation of investment in associate upon acquisition of controlling share						**54,948**
Other operating expenses, net						**(317,227)**
Operating profit						**4,547,404**
Finance income						**120,131**
Finance costs						**(493,909)**
Share of results of associates						**93,341**
Profit before income tax, IFRS						**4,266,967**

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

	2010				
	Industrial pumps	**Oil and gas 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	Oil and gas equipment	EPC	All other segments	Inter-segment tran-sactions	Total
EBITDA, management report*	**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**

*EBITDA derived from management report is equal to EBITDA adjusted.

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

	2011	2010
Depreciation and amortisation, management report	(614,398)	(444,993)
Adjustments on additional depreciation	-	(4,783)
Depreciation and amortisation, IFRS	**(614,398)**	**(449,776)**
Finance income, management report	411,601	258,442
Intercompany eliminations	(284,466)	(201,353)
Adjustments on reclassifications of foreign exchange differences	(7,004)	-
Finance income, IFRS	**120,131**	**57,089**
Finance cost, management report	(874,771)	(1,007,464)
Intercompany eliminations	284,466	184,073
Adjustments on reclassifications of foreign exchange differences	96,396	-
Finance cost, IFRS	**(493,909)**	**(823,391)**

	2011	2010
Income tax expense, management report	(907,909)	(584,140)
Other adjustments	17,475	1,841
Income tax expense, IFRS	**(890,434)**	**(582,299)**
Share of result of associates, management report	93,341	15,108
Other adjustments	-	-
Share of results of associates, IFRS	**93,341**	**15,108**

	2011				
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment**	**EPC**	**All other segments**	**Total**
Total revenue,	14,937,809	6,202,629	5,952,886	402,229	27,495,553
Including					
TSUP VSTO LLC	4,308,134	-	-	-	4,308,134
Other (each<10% of total revenue)	10,629,675	6,202,629	5,952,886	402,229	23,187,419

	2010				
Revenue by major customers	**Industrial pumps**	**Oil and gas equipment**	**EPC**	**All other segments**	**Total**
Total revenue,	10,712,374	5,804,694	6,134,904	418,042	23,070,014
Including					
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

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 2011	Consolidated revenue for 2010	Non-current assets at 31 December 2011	Non-current assets at 31 December 2010
Revenue by customers' location	27,495,553	23,070,014	11,083,402	8,042,745
Including				
Russia	26,080,575	20,742,893	9,409,421	7,093,008
Kazakhstan	366,730	632,350	-	-
Ukraine	247,038	232,947	1,286,081	849,997
Belorussia	246,516	223,084	387,900	99,740
Iraq	130,459	546,305	-	-
Turkmenistan	43,853	427,651	-	-
Other	380,382	264,784	-	-

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

37 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 table below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2011 and 2010:

	31 December 2011			31 December 2010		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	421,446	(92,245)	329,201	136,833	(83,740)	53,093
EUR	15,022	(410,940)	(395,918)	2,740	(708,446)	(705,706)
Total	**436,468**	**(503,185)**	**(66,717)**	**139,573**	**(792,186)**	**(652,613)**

At 31 December 2011, if RUB had strengthened/weakened by 20% against US dollar with all other variables held constant, profit for the year would have been RUB 52,672 (2010: RUB 8,495) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated bank deposits and trade receivables.

At 31 December 2011, if RUB had strengthened/weakened by 20% against Euro with all other variables held constant, profit for the year would have been RUB 63,347 (2010: RUB 112,913) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro 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 since 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 borrowings (Note 17). The Group does not have significant interest-bearing assets.

At 31 December 2011, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been RUB 64,060 (2010: RUB 46,393) lower/higher, mainly as a result of higher/lower interest expense on variable interest liabilities.

(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 and presented in the table below:

	31 December 2011	31 December 2010
Trade and other receivables (Note 14, 15)		
- Trade receivables	5,137,675	3,004,799
- Other financial receivables	1,552,025	437,998
Cash and cash equivalents (Note 12)		
- Bank balances (incl. restricted cash)	1,622,436	354,742
- Cash on hand	1,340	1,322
Total on-balance sheet exposure	**8,313,476**	**3,798,861**
Total maximum exposure to credit risk	**8,313,476**	**3,798,861**

Cash and cash equivalents. Cash and cash equivalents 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 are neither past due nor impaired.

Analysis by credit quality of cash and cash equivalents placed in the banks is as follows:

Agency	Rating	31 December 2011	31 December 2010
Fitch***	BBB	813,573	-
Fitch***	BB	295,045	-
Moody's*	E+	182,043	-
National rating agency	A	124,820	14,427
Fitch***	BB+	117,197	-
Moody's*	E	16,852	-
Fitch***	B	15,264	47,718
S&P's**	B	13,925	228
S&P's**	BBB-	12,237	13,254
S&P's**	B-	10,042	475
Moody's*	Aaa	-	144,166
National rating agency	UaBBB+	-	54,170
Moody's*	Aa3	-	28,292
Moody's*	-	-	4,007
Other	-	21,438	48,005
Total		**1,622,436**	**354,742**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

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.

Analysis of credit quality of trade and other accounts receivable is as follows:

	31 December 2011		31 December 2010	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total not overdue and not impaired, including:	**4,310,416**	**1,510,620**	**2,933,418**	**432,037**
- large enterprises	3,507,673	894,132	1,640,516	293,118
- middle and small size companies	679,218	23,526	1,229,134	18,233
- government organizations and agencies	53,472	27,887	4,891	3,257
- scientific research institutes	48,849	-	-	-
- individuals	15,794	18,326	13,173	48,294
- banks*	-	495,433	-	49,562
- other	5,410	51,316	45,704	19,573
Total past due but not impaired, including:	**827,259**	**41,405**	**71,381**	**5,961**
- less than 60 days overdue	536,716	29,437	16,851	100
- 61 to 180 days overdue	116,172	1,379	11,790	2
- 181 to 365 days overdue	139,362	5,083	25,986	1,010
- over 365 days overdue**	35,009	5,506	16,754	4,849
Individually impaired (gross), including:	96,481	108,765	91,980	96,492
- not overdue	1,350	4,303	26,538	-
- less than 60 days overdue	6,012	1,586	5,568	138
- 61 to 180 days overdue	3,165	10	25,842	784
- 181 to 365 days overdue	35,300	485	3,681	708
- over 365 days overdue	50,654	102,381	30,351	94,862
Less provision for impairment	**(96,481)**	**(108,765)**	**(91,980)**	**(96,492)**
Total	**5,137,675**	**1,552,025**	**3,004,799**	**437,998**

* Analysis of credit ratings of banks is provided below.

** At 31 December 2011 amounts include interests on bank promissory notes receivable in amount RUB 3,361 (31 December 2010: RUB 3,361)

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

Agency	Rating	31 December 2011	31 December 2010
S&P's**	B-	271,677	5,407
National rating agency	A	90,000	-
S&P's**	B	71,891	-
Fitch***	BBB	31,384	-
National rating agency	C	30,185	-
Moody's*	E+	3,657	-
Moody's*	Ba3	-	20,000
Moody's*	Baa1	-	14,439
National rating agency	AAA	-	8,563
National rating agency	UaBBB+	-	2,565
Moody's*	Aaa	-	1,949
Total		**498,794**	**52,923**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

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 2011 is RUB 6,689,700 (2010: RUB 3,442,797).

Credit risks concentration

Date	Number of counterparties with aggregated receivables balances above RUB 50,000	Aggregate amount of receivables balances	% of the gross amount of trade and other receivables
At 31 December 2011	17	4,379,295	63%
At 31 December 2010	12	1,714,536	47%

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

The Group's bank deposits are held only with 5 banks (2010: 6 banks) thus exposing the Group to a concentration of credit risk.

(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 the 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 tables below give information on the contractual repayment dates of the Group's financial liabilities with regard to expected cash flows at 31 December 2011 and 2010:

Statement of financial position item	**Carrying amount at 31 December 2011**	**Cash flows under the contract**			
		Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank loans*	6,406,100	2,446,196	1,519,595	3,502,675	-
Other loans*	1,770	1,810	-	-	-
Finance lease liabilities*	9	9	-	-	-
Trade accounts payable	2,430,476	2,430,476	-	-	-
Other financial payables	274,550	274,550	-	-	-

Statement of financial position item	**Carrying amount at 31 December 2010**	**Cash flows under the contract**			
		Less than 1 year	Between 1 and 2years	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 financial payables	106,936	106,936	-	-	-

* 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 2011 and 2010:

	31 December 2011	31 December 2010
Credit lines	9,292,439	8,597,261
Undrawn credit facilities	2,878,789	4,016,153

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 2011	31 December 2010
Liquidity ratio	1.65	1.05
Current assets	16,532,211	13,770,204
Current liabilities	10,043,866	13,106,696

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 2011, 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 2011	31 December 2010
Long-term loans	4,433,984	3,864,176
Short-term loans	1,973,886	775,242
Total borrowings received	**6,407,870**	**4,639,418**
Cash and cash equivalents	(1,598,463)	(351,086)
Restricted cash	(25,313)	(4,978)
Net borrowing	**4,784,094**	**4,283,354**
Equity attributable to the shareholders of the Company	9,582,685	2,954,870
Non-controlling interest	2,477,177	1,508,263
Total capital	**12,059,862**	**4,463,133**
Gearing ratio	**40%**	**96%**

The decrease in gearing ratio at 31 December 2011 compared to 31 December 2010 was primarily caused by the issue of shares in February 2011 (Note 24) and strong financial results for the year.

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.

38 Subsequent Events

Payment for share in Dimitrovgradkhimmash OJSC. In January 2012, the Group paid cash of RUB 205,940 for 11% share in Dimitrovgradkhimmash OJSC, acquired at the end of December 2011 (Note 10).

Bonds. In February 2012, HYDROMASHSERVICE CJSC, the Group's subsidiary, issued RUB 3.0 billion of bonds through RTS-MICEX, bearing semi-annual coupon at 10.75% per annum, repayable in February 2015. HMS Hydraulic Machines & Systems Group plc and HMS Pumps OJSC issued guarantees in respect of these bonds.

Borrowings. On the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the interest rate for short term-loan 2 was increased from 8.25% per annum to 12.00% per annum starting March 2012 and the interest rate for short-term loan 3 was increased from 10.90% per annum to 11.55% per annum starting February 2012 (Note 17). For short-term loan 1, the interest rate will be increased from 8.25% per annum to 12.00% per annum starting 20 April 2012 (Note 17).

HMS Hydraulic Machines & Systems Group plc

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

Board of Directors and Other Officers

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

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

Mr. Andreas S. Petrou
Non-executive Director

Mr. Kirill V. Molchanov
Executive Director

Mr. Nikolai N. Yamburenko
Executive Director

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

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
13 Georgiou Karaiskakis Street
Limassol 3032, Cyprus
Phone +35725800000
chrussesd@demetriades.com
www.demetriades.com

Registered office

13 Karaiskaki Street
Limassol 3032
Cyprus

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2011. 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 2011 was RUB 4,408 thousand (2010: RUB 3,903 thousand). At 31 December 2011, the total assets of the Company were RUB 3,613,416 thousand (31 December 2010: RUB 255,013 thousand) and net assets were RUB 3,603,442 thousand (31 December 2010: RUB 202,793 thousand). 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 14 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 10 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.

The Board of Directors recommends the payment of dividend out of consolidated profits of the Group in relation to the financial year ended 31 December 2011 in the amount of RUB 12.8 per ordinary share, amounting to a total dividend of RUB 1,499,692 thousand.

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 (RUB 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 (RUB 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 (RUB 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 RUB 3,517,161 thousand (net of foreign exchange loss of RUB 13,016 thousand) and the Company's transaction costs amounted to RUB 171,796 thousand.

At 31 December 2011 and 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 2011 and at the date of this report are shown on page 1.

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. Kirill V. Molchanov, Yury N. Skrynnik and Andreas S. Petrou shall retire by rotation and will be entitled to run for re-election on the Company's Annual General meeting in May 2012.

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 2011 and the date of approval of these parent company financial statements are shown below:

Director	Interest in the share capital of the Company at 31 December 2011	Interest in the share capital of the Company at 19 April 2012
Vladimir V. Lukyanenko	24.2%	24.2%
German A. Tsoy	17.5%	17.5%
Nikolai N. Yamburenko	5.5%	5.5%
Artem V. Molchanov	5.4%	5.4%
Yury N. Skrynnik	2.7%	2.7%
Kirill V. Molchanov	1.6%	1.6%

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 15 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 A. 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 remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2011 amounted to RUB 7,949 thousand (2010: nil). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RUB 103,069 thousand for the year ended 31 December 2011 (2010: RUB 75,802 thousand), including RUB 2,379 thousand in respect of long-term incentive plan (2010: nil).

Branches

The Company did not operate through any branches during the year ended 31 December 2011.

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 2012, 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
19 April 2012

Directors' responsibility statement

Each of the Directors, whose names and functions are listed in page 1 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; and
- 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
19 April 2012

Kirill V. Molchanov
Director
19 April 2012

Independent Auditor's Report

To the Members of HMS Hydraulic Machines & Systems Group Plc

Report on the financial statements

We have audited the accompanying financial statements of parent company HMS Hydraulic Machines & Systems Group Plc (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the 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 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 about 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of parent company HMS Hydraulic Machines & Systems Group Plc as at 31 December 2011, and of its financial performance and its cash flows for the year 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.

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Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The opinion in that report is not qualified.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 19 April 2012

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Statement of Financial Position at 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets:			
Investments in subsidiaries	8	3,548,111	252,362
Total non-current assets		**3,548,111**	**252,362**
Current assets:			
Other receivables		1,991	-
Cash and cash equivalents	7	62,992	2,651
Restricted cash	7	322	-
Total current assets		**65,305**	**2,651**
TOTAL ASSETS		**3,613,416**	**255,013**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	48,329	42,510
Share premium	9	3,563,424	210,862
Other reserves	9	-	(46,676)
Retained earnings		(8,311)	(3,903)
TOTAL EQUITY		**3,603,442**	**202,793**
LIABILITIES			
Non-current liabilities:			
Other payables	10	6,797	-
Total non-current liabilities		**6,797**	**-**
Current liabilities:			
Short-term borrowings	13	-	34,257
Other taxes payable		15	-
Other payables		3,162	17,963
Total current liabilities		**3,177**	**52,220**
TOTAL LIABILITIES		**9,974**	**52,220**
TOTAL EQUITY AND LIABILITIES		**3,613,416**	**255,013**

Approved for issue and signed on behalf of the Board of Directors on 19 April 2012.

Statement of Comprehensive Income for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
General and administrative expenses	12	(43,235)	(3,357)
Other operating expenses, net		(9,097)	(326)
Operating loss		**(52,332)**	**(3,683)**
Finance income	13	48,479	-
Finance costs	13	(555)	(220)
Loss before income tax		**(4,408)**	**(3,903)**
Income tax expense	11	-	-
Loss for the year/period and total comprehensive loss for the year/period		**(4,408)**	**(3,903)**

Statement of Cash Flows for the year ended 31 December 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2011	2010
Cash flows from operating activities			
Loss before income tax		**(4,408)**	**(3,903)**
Adjustments for:			
Finance income	13	(48,479)	-
Finance costs	13	555	220
Foreign exchange translation differences		9,859	-
Operating cash flows before working capital changes		**(42,473)**	**(3,683)**
Increase in other receivables		(1,991)	-
Increase in other taxes payable		15	-
Increase in other payables		1,307	1,855
Restricted cash		(322)	-
Cash used in operations		**(43,464)**	**(1,828)**
Interest paid	13	(772)	-
Net cash used in operating activities		**(44,236)**	**(1,828)**
Cash flows from investing activities			
Capital contribution to subsidiaries	8	(3,288,952)	-
Repayment of loans advanced to related parties	13	3,414,664	-
Loans advanced to related parties	13	(3,414,664)	-
Interest received	13	48,479	-
Net cash used in investing activities		(3,240,473)	-

	Note	2011	2010
Cash flows from financing activities			
Repayment of loans received from related party	13	(41,844)	-
Loans received from related party	13	7,807	34,037
Cash contribution to share capital	9	-	1,010
Proceeds from share issue		3,517,161	-
Expenses related to share issue		(141,228)	(30,568)
Net cash generated from financing activities		**3,341,896**	**4,479**
Net increase in cash and cash equivalents		**57,187**	**2,651**
Effect of exchange rate changes on cash and cash equivalents		**3,154**	**-**
Cash and cash equivalents at the beginning of the year/period		**2,651**	**-**
Cash and cash equivalents at the end of the year/period		**62,992**	**2,651**

Statement of Changes in Equity for the year ended 31 December 2011

(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	9	42,510	210,862	-	-	253,372
Expenses related to share issue	9	-	-	(46,676)	-	(46,676)
Total contributions by and distributions to owners of the Company and total transactions with owners of the Company, recognised directly in equity		**42,510**	**210,862**	**(46,676)**	**-**	**206,696**
Balance at 31 December 2010		**42,510**	**210,862**	**(46,676)**	**(3,903)**	**202,793**
Loss for the year and total comprehensive loss for the year		-	-	-	(4,408)	(4,408)
Share issue	9	5,819	3,524,358	-	-	3,530,177
Expenses related to share issue, incurred subsequent to 1 December 2010	9	-	(125,120)	-	-	(125,120)
Reclassification of expenses related to share issue, incurred prior to 31 December 2010, upon completion of IPO	9	-	(46,676)	46,676	-	-
Total contributions by and distributions to owners of the Company and total transactions with owners of the Company, recognised directly in equity		**5,819**	**3,352,562**	**46,676**	**-**	**3,405,057**
Balance at 31 December 2011		**48,329**	**3,563,424**	**-**	**(8,311)**	**3,603,442**

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, by the end of 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 for deemed dividend distribution purposes 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. Special contribution for defence rate increased to 17% in respect of profits of year of assessment 2009 and to 20% in respect of profits of years of assessment 2010 and 2011. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year by the end of the period of two years from the end of the year of assessment to which the profits refer. This special contribution for defence is paid by the Company for the account of the shareholders.

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 (RUB 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. In May 2011, the Company changed its registered address to 13 Karaiskaki, 3032, Limassol, Cyprus.

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, Minsk and Bobruisk 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. 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.

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.

Approval of the financial statements. These financial statements were authorised for issue by the Board of Directors of the Company on 19 April 2012.

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 9).

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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

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 2011 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 2011 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and of the Group.

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 ("RUB").

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 2011 and 2010, the principal rates of exchange used for translating foreign currency balances were:

	2011	2010
1 USD = RUB	32.1961	30.4769
1 EUR = RUB	41.6714	40.3331

Financial assets. All financial assets of the Company 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 Company's loans and receivables comprise loans receivable, other 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. 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 other receivables is established when there is objective evidence that the Company 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 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 receivable is uncollectible, it is written off against the allowance account. 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 and deposits held at call with banks.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company 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.

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, acquired as a result of restructuring procedures occurred in 2010 (Note 1, 8, 9), 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. Dividend distribution to the Company’s shareholders is recognised as a liability in the Company’s financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company’s shareholders.

Share-based compensation. In 2011, the Company’s Board of Directors awarded cash-settled share appreciation rights to certain employees (Note 10). The Company applies IFRS 2, Share-based Payments, to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for cash-settled share-based payments to employees based on the fair value of the award, subject to remeasurement at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of share-based payments is calculated by the Company using the Monte-Carlo simulation model.

As the awards are granted to employees of the operating subsidiaries of the Group, the Company recognises compensation costs for share-based payments as an investment in respective entities in its standalone financial statements with a corresponding increase in the other payables over the vesting period.

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 2011 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 Adoption of New or Revised Standards and Interpretations

Certain new standards, amendments and interpretations became effective for the Company from 1 January 2011:

Amendment to IAS 32, Classification of Rights Issues (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 concluded that this amendment does not have any effect 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 did not have an impact on the Company's financial statements.

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement (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 concluded that this amendment does not have any effect on its financial statements.

Amendment to IFRS 1, Limited exemption from comparative IFRS 7 disclosures for first-time adopters (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.

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 concluded that these amendments do not have significant effect on its 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 Company has not early adopted (items marked with * have not been endorsed by the EU).

IFRS 10, Consolidated Financial Statements*, IFRS 11, Joint Arrangements*, IFRS 12, Disclosure of Interests in Other Entities*, and IAS 27, Separate Financial Statements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), provide for the following:

- A revised definition of control for the purposes of determining which arrangements should be consolidated, including guidance on participating and protective rights;
- A reduction in the types of joint ventures to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;
- Elimination of the policy choice of proportional consolidation for joint ventures;
- Introduction for new requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly control or significantly influences its interests in other entities.

The Company is considering the implications of these standards, the impact on the Company and the timing of their adoption by the Company.

IAS 28, Investments in Associates and Joint Ventures* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company is considering the implication of this standard, the impact on the Company and the timing of their adoption by the Company.

IFRS 13, Fair Value Measurement* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRS. The Company is considering the implications of this standard, the impact on the Company and the timing of its adoption by the Company.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, 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.

Amendments to IFRS 7, Transfers of Financial Assets Disclosures (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.

Amendments to IAS 12*, Recovery of Underlying Assets (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.

Amendments to IFRS 1*, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (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.

Amendments to IAS 1, Presentation of financial statements* (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company is considering the implications of this standard, the impact on the Company and the timing of its adoption by the Company.

Amended IAS 19, Employee benefits* (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company is considering the implications of this standard, the impact on the Company and the timing of its adoption by the Company.

Amendments to IFRS 7*, Offsetting Financial Assets and Financial Liabilities Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Company is considering the implications of this standard, the impact on the Company and the timing of its adoption by the Company.

Amendments to IAS 32*, Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company is considering the implications of this standard, the impact on the Company and the timing of its adoption by the Company.

IFRIC 20*, Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual period beginning on or after 1 January 2013). IFRIC 20, Stripping costs in the production phase of a surface mine, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The Company does not expect that the adoption of this amendment will have any impact on the financial statements.

Amendments to IFRS 1 "First –time adoption of International Financial Reporting Standards" on the application of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure on Government Assistance" * (issued in March 2013 and effective for annual periods beginning on or after 1 January 2013). The IASB has amended IFRS 1, First-time adoption of International Financial Reporting Standards' to provide relief from the retrospective application of IFRSs in relation to government loans. The new exception requires first-time adopters to apply the requirements in IFRS 9, Financial instruments, and IAS 20, Accounting for government grants and disclosure of government assistance, prospectively to government loans that exist at the date of transition to IFRSs. The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, Financial instruments: Presentation, to determine whether government loans are classified as equity or as a financial liability. The Company does not expect that the adoption of this amendment will have any impact on the financial statements.

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

7 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	31 December 2011	31 December 2010
Cash at bank in RUB	47,956	-
Cash at bank in USD	14,793	2,421
Cash at bank in EUR	243	230
Total cash and cash equivalents	**62,992**	**2,651**

Restricted cash. Restricted cash of RUB 322 (31 December 2010: nil) represents minimum balance for corporate plastic card account.

8 Investments in Subsidiaries

Movement in investments in subsidiaries was as follows:

	2011	2010
At 1 January/ At the date of incorporation	252,362	-
Capital contribution to share capital	3,288,952	252,362
Share-based compensation (Note 10)	6,797	-
At 31 December	**3,548,111**	**252,362**

Details of the investments in the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	%, interest held at 31 December 2011	%, interest held at 31 December 2010
Hydroindustry LLC	Russia	Holding company	-	100.00
Hydromashinvest LLC	Russia	Holding company	-	100.00
Promhydroservice LLC	Russia	Holding company	-	100.00
Promhydroinvest LLC	Russia	Holding company	-	100.00
HMS-Holding LLC	Russia	Holding company	100.00	-
H.M.S. Capital Limited	Cyprus	Holding company	100.00	-
H.M.S. Finance Limited	Cyprus	Financing company	100.00	-
Hydromashservice CJSC	Russia	Operating company	96.67	-
HMS Group OJSC	Russia	Holding company	50.00	-
HMS Neftemash OJSC	Russia	Operating company	1.96	-

At 31 December 2010, Hydroindustry LLC, Hydromashinvest LLC, Promhydroservice LLC and Promhydroinvest LLC collectively owned 100% of HMS-Holding LLC which is the immediate parent of HMS Group OJSC.

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 and ceased to exist as separate legal entities. This procedure resulted in no gain or loss for the Company.

During 2011, the Company organised two subsidiaries – H.M.S. Finance Limited and H.M.S. Capital Limited, and contributed, respectively, RUB 1,663,932 and RUB 202 into share capital of these entities.

In April 2011, the Company made a capital contribution to HMS Group OJSC, a subsidiary of the Group, by acquiring 1,182,360,602 of newly issued shares of HMS Group OJSC, representing 50.00% of its increased share capital, for a cash consideration of RUB 591,180.

In August 2011, the Company acquired 68,000 preference shares in HMS Neftemash OJSC, a subsidiary of the Group, representing 1.96% of its share capital, from HMS Neftemash OJSC, which held these shares in treasury since 2010, for a cash consideration of RUB 119,645.

In October 2011, the Company made a capital contribution to Hydromashservice CJSC, a subsidiary of the Group, by acquiring 2,900 newly issued ordinary shares of Hydromashservice CJSC, representing 96.67% of its increased share capital, for a cash consideration of RUB 913,993.

Share-based compensation. In 2011, the Company charged RUB 6,797 as an investment in operating entities of the Group, being the employers of participants in the cash-settled compensation plan, approved by the Company's Board of Directors at the end of 2011.

9 Share Capital and Other Equity Items

Share capital and share premium. The Company was incorporated with a share capital of EUR 26 thousand (RUB 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 8), registered in the Russian Federation, which directly and indirectly held 100% interest in HMS Group OJSC.

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 RUB 3,517,161 (net of foreign exchange loss of RUB 13,016) and the Company's transaction costs amounted to RUB 171,796. These transaction costs included fees of RUB 2,171 and RUB 3,066 for the year ended 31 December 2011 and 2010, respectively, for other assurance services charged by the Company's statutory auditor.

Below are the details of share issues:

Date of transaction	Quantity of shares issued	Par value, EUR	Share capital, RUB thousand	Share premium, RUB thousand
27 April 2010	26,000	1.00	1,010	-
7 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 at 31 December 2010	**102,600,000**		**42,510**	**210,862**
10 February 2011	14,563,427	0.01	5,819	3,352,562
Total at 31 December 2011	**117,163,427**		**48,329**	**3,563,424**

At 31 December 2011, 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.

Other reserves. At 31 December 2010, included in other reserves were expenses in amount of RUB 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. Upon completion of the IPO transaction, all accumulated issue costs were reclassified as a deduction to share premium.

10 Share-based Compensation

In 2011, the Group established an incentive plan (the "Plan") for executive directors and senior employees of the Group in which the grant of share appreciation rights up to 2,577,595 shares (the "Bonus Fund") was approved.

In accordance with the Plan terms, the distribution of the Bonus Fund to qualifying participants is made in four tranches for 25% portion of the Bonus Fund to be distributed in each tranche. The number of awards to which a qualifying participant is entitled to, in relation to the first 25% portion of the Bonus Fund, was determined by the Board of Directors in December 2011. The next three steps of distribution of the Bonus Fund are scheduled for May 2012, March 2013, January 2015 ("Program Reserve"), respectively. The management of the Group believes that such awards better align the interests of its employees with those of its shareholders.

Share appreciation rights granted have an exercise price of USD 9.25 (297.81 Russian Roubles) less dividends per share, which are expected to be paid by the Company for the period from January 2012 to April 2015. Share appreciation rights granted vest at the end of a 3-year service period, starting from 31 December 2011, and are exercisable in form of cash payments to the Program participants in April 2015.

The vesting of share appreciation rights is contingent on the market capitalisation of the Company, calculated on the basis of average quoted price of the Company's GDRs at London Stock Exchange during the period from 15 November 2014 to 31 December 2014. The share appreciation rights will be vested if the capitalisation of the Company during the period above will be more or equal USD 2 billion.

In accordance with the Plan terms, cash payment to the Plan participants will be done out of proceeds obtained from sale of the Company's GDRs on open market. The GDRs will be received by the Company from HMST, the parent company of the Group, in exchange for the new Company's shares to be issued to HMST. The number of GDRs to be sold to cover the total cash payment and, consequently, the number of shares to be issued to HMST, will be determined at the beginning of 2015 and will depend on the excess of the weighted average price of the Company's shares during the period between 15 November and 31 December 2014 over an exercise price.

The fair value of the awards granted during the year ended 31 December 2011, was estimated using a Monte-Carlo model. The fair value is then amortised on appropriate basis over the requisite service periods of the awards, which is the period from the service commencement date to the vesting date of the relevant tranche. Use of Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs.

The following assumptions were used to determine the reporting date fair value:

- *Expected forfeitures*. In accordance with the Plan terms, the awards, distributed to the participant, who leaves the Group in a status of "bad leaver" with no retention of right for any awards distributed to him, are attached to the Program Reserve and are subject to allocation between existing participants in January 2015. As such, it was concluded that the total amount of liability under the Plan will not be changed due to retirement of any Plan participants.
- *Expected volatility*. Expected volatility has been estimated based on an analysis of the historical share price volatility of the Company's GDRs from February 2011, when the Group's GDRs became publicly traded.
- *Expected life*. The average expected life was based on the contractual term of the option of 3.0 years from the reporting date.
- *Fair value of ordinary share* is equal to the market price of underlying GDR's at the reporting date.
- *Risk-free interest rate*. The risk-free rate is based on Russian government bonds with a remaining term equal to the expected life assumed at the reporting date.

The assumptions used to determine the fair value at the reporting date are presented below:

Risk-free interest rate	8%
Expected volatility	42.5%
Expected life, years	3.0

Fair value per share calculated using Monte-Carlo model at 31 December 2011 amounted to 10.55 Russian Roubles (USD 0.3276) with a total value of the Plan of RUB 27,187 (USD 844,420).

A summary of option activity under the Plan for the year ended 31 December 2011 is presented below:

	Awards	**Weighted average exercise price (per share), RUB (*)**	**Weighted average fair value of awards (per share), RUB**	**Weighted average remaining contractual term**
At 1 January 2011	-	-	-	-
Awards granted	2,577,595	297.81 – d	10.55	3.0
Non-vested awards at 31 December 2011	2,577,595	297.81 – d	10.55	3.0

(*) "d" represents dividends per share, which are expected to be paid by the Company for the period from January 2012 to April 2015.

None of the share awards outstanding at 31 December 2011 were exercisable as they are not fully vested. For the year ended 31 December 2011, share-based compensation in the amount of RUB 6,797 was recognised as an investment in operating companies of the Group being the employers of the Plan participants in the standalone statement of financial position.

11 Income Taxes

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

	2011	2010
Loss before tax	**(4,408)**	**(3,903)**
Estimated tax charge at statutory rate of 10%	(441)	(390)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax effect of expenses not deductible for tax purposes	831	-
Utilisation of tax losses brought forward for which no deferred tax asset was previously recognised	(390)	-
Unrecognised loss carry forward	-	390
Income tax charge	**-**	**-**

The Company is subject to corporation tax on taxable profits at the rate of 10%.

12 General and Administrative Expenses

	2011	2010
Legal, consulting and other professional services	24,303	1,446
Directors’ remuneration	7,949	-
Entertaining costs and business trip expenses	3,972	-
Insurance	3,494	-
Auditors’ remuneration – statutory auditor	1,725	1,850
Telecommunication services	679	-
Bank services	425	61
Taxes and duties	410	-
Auditors’ remuneration – statutory auditor – under provision of prior year	276	-
Other expenses	2	-
Total general and administrative expenses	**43,235**	**3,357**

Legal, consulting and other professional services stated above include fees of RUB 98 (2010: nil) for tax consultancy services and RUB 885 (2010: nil) for other assurance services charged by the Company’s statutory auditor.

13 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 2011**	**31 December 2010**
Accounts receivable		
H.M.S. Finance Limited	1,269	-
Accounts payable		
H.M.S. Capital Limited	(208)	-

Transactions with Related Parties	**2011**	**2010**
Short-term borrowings from subsidiary		
Hydromashservice CJSC (unsecured loan at 10.0% interest rate):		
Beginning of year/ Date of incorporation	34,257	-
Loans received	7,807	34,037
Repayment of loans received	(41,844)	-
Interest charged	552	220
Interest repaid	(772)	-
End of year	**-**	**34,257**

Short-term loans provided to subsidiaries

Hydromashservice CJSC (unsecured loan at 4.5%-6.2% interest rate):		
Beginning of year/ Date of incorporation	-	-
Loans advanced	(3,294,664)	-
Repayment of loans advanced	3,294,664	-
Interest charged	(46,881)	-
Interest received	46,881	-
End of year	**-**	**-**

H.M.S. Finance Limited (unsecured loan at 4.5% interest rate):		
Beginning of year/ Date of incorporation	-	-
Loans advanced	(120,000)	-
Repayment of loans advanced	120,000	-
Interest charged	(1,598)	-
Interest received	1,598	-
End of year	**-**	**-**

Key management compensation. The remuneration received by the Company's Directors directly from the Company during the year ended 31 December 2011 amounted to RUB 7,949 (2010: nil). The remuneration received by the Company's Directors from subsidiaries in their executive capacity amounted to RUB 103,069 for the year ended 31 December 2011 (2010: RUB 75,802), including RUB 2,379 in respect of long-term incentive plan (2010: nil).

14 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. 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 2011 and 2010:

	31 December 2011			31 December 2010		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
USD	15,115	(676)	14,439	2,421	(13,042)	(10,621)
EUR	243	(2,485)	(2,242)	230	(3,066)	(2,836)
Total	**15,358**	**(3,161)**	**12,197**	**2,651**	**(16,108)**	**(13,457)**

At 31 December 2011, if RUB had strengthened/weakened by 20% against US dollar with all other variables held constant, loss for the year would have been RUB 2,888 (31 December 2010: RUB 2,124) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated cash balances.

At 31 December 2011, if RUB had strengthened/weakened by 20% against Euro with all other variables held constant, loss for the year would have been RUB 448 (31 December 2010: RUB 567) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro denominated other payables.

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 2011, the Company had RUB 63,314 (31 Deceber 2010: RUB 2,651) of cash placed in one bank with Fitch rating of BB+.

(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 2011 and 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.

15 Subsequent Events

Bonds. In February 2012, Hydromashservice CJSC, the Company's subsidiary, issued RUB 3.0 billion of bonds through RTS-MICEX, bearing semi-annual coupon at 10.75% per annum, repayable in February 2015. The Company and HMS Pumps OJSC, a subsidiary of the Group, issued guarantees in respect of these bonds.

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