



HMS GROUP ANNUAL REPORT 2012

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## Overview

### REVENUE BY INDUSTRIES



Oil & Gas

We operate in the industries with attractive fundamentals. Revenues from oil&gas sector comprised 80% of total, while Russian oil and gas majors are incentivized to keep investing in development of the oil and gas infrastructure in coming years. This allows us to benefit from the long-term growth drivers in the industry.

## 20<sup>TH</sup> ANNIVERSARY

In 2012, we celebrate our 20<sup>th</sup> anniversary. This year we entered to the new promising market of gas projects with an acquisition of the leading Russian industrial compressor producer OJSC “Kazankompressormash”. Also, pursuing enhancement of the pumps product portfolio, the Group completed an acquisition of German manufacturer of high-end specialized pumps Apollo Goessnitz GmbH (Goessnitz, Germany).

**33,656**  
RUB MN

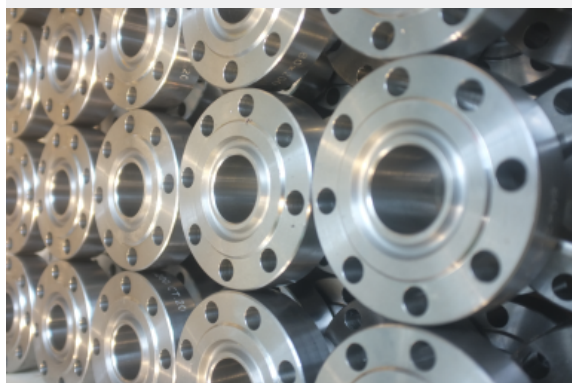
REVENUE UP  
**22.4%** YoY

HMS Group's consolidated revenues increased by 22.4% year-on-year for the full year 2012, mainly driven by a gradual execution of the infrastructure projects implemented by main oil and gas majors.



**17<sup>400</sup>**  
EMPLOYEES

We develop advanced flow-control technology and bring it to our customers through four divisions, which employ around 17,400 people in Russia, Ukraine, Belorussia and overseas.



## The investment case



### 1 ATTRACTIVE MARKET FUNDAMENTALS WITH DEVELOPED OIL AND GAS SECTOR, PLAYING CRUCIAL ROLE IN EMERGING RUSSIAN ECONOMY

As western economies stagnate, Russia becomes especially attractive emerging, fast-growing market with oil and gas sector playing a crucial role for the whole economy. Russian oil and gas majors are incentivized to invest in development of the oil and gas infrastructure and secured a large Capex for coming years. This allows us to benefit from the long-term growth drivers in their industries.

### 2 LEADING MARKET POSITIONS ALMOST IN ALL THE SEGMENTS, WHERE WE ARE REPRESENTED

The largest installed base in Russia supports a stable and resilient flow of orders for replacement, upgrade, modernisation and maintenance of the operating equipment, while advanced R&D capabilities allow us to offer customers high value-added integrated solutions, which associated with higher margin, large contracts size and offer aftermarket opportunities.

### 3 UNIQUE R&D BASE GIVES ABILITY TO PROVIDE HIGH-MARGIN INTEGRATED SOLUTIONS

Strong focus on R&D is our core advantage, which allows us to provide complex integrated solutions. HMS Group combines leading pump R&D centers, including design centers and research institutes at the production facilities, independent research and development centers in HQ and in the production regions in Russia and CIS, as well as a center of innovative technologies complying with API standards in Germany.

### 4 WELL-ESTABLISHED CUSTOMER BASE AND STRONG RELATIONS WITH RUSSIAN OIL & GAS MAJORS AND POWER COMPANIES

Well-diversified "blue-chip" client base of more than 3,000 customers, including numerous subsidiaries of Russian largest oil & gas and energy companies.

### 5 HISTORY OF RESILIENT FINANCIAL GROWTH

Founded from scratch in 1993 as a pump trading and servicing company, HMS has grown organically and pursuing active M&A policy completed 20 acquisitions aimed at either adding products to the portfolio or expanding into the adjacent business areas. Thus, since 2003 HMS Group consolidated a number of leading pumps and equipment manufacturers in former Soviet Union and formed leading industrial group with 2012 annual revenue of Rub 33.7 bn. In 2012, we added compressor business arm and acquired a German manufacturer of specialized pumps for oil refineries, power and off-shore applications.

### 6 DEDICATED MANAGEMENT TEAM COMPRISED OF FOUNDERS AND SHAREHOLDERS

HMS Group has been running by the strong management team with sound track record that proved its ability to deliver organic growth and make value-accretive acquisitions. Management team includes founders of the Group, with HMS being a core business for the largest shareholders.

### 7 ATTRACTIVE DIVIDEND POLICY

According to our policy, not less than 25% of profit for the year in accordance with IFRS is distributed for dividends among our shareholders.



## At a Glance

HMS Group is the leading pump and compressor 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.


Our team is a leading industrial group with a strong research and design base, which can offer full integrated solutions from design and manufacturing to engineering, construction works, repairs and maintenance.

We develop advanced flow-control technology and bring it to our customers, focusing on our core values:

- Long-term partnership with clients and suppliers;
- Constant development and growth to keep leadership in strategic markets;
- Ongoing improvement and perfection of produced equipment and offered solutions;
- Strict compliance with an ethic code in respect to all stakeholders;
- Lowering the environmental impact;

We do this through four divisions, which employ around 17,400 people employed in Russia, Ukraine, Belorussia and overseas.


### INDUSTRIAL PUMPS

	<b>ACTIVITIES</b>
	Design, manufacture, install and service industrial pumps for
<b>CORE PRODUCTS AND SERVICES</b>	<b>REVENUE</b>
<ul style="list-style-type: none"><li>▪ Water injection</li><li>▪ Trunk pipelines</li><li>▪ Oil refineries</li><li>▪ Nuclear and Thermal power,</li><li>▪ Water utilities</li><li>▪ General industrial pumps</li></ul>	Rub <b>17,066</b> mln
<b>EBITDA MARGIN</b>	<b>EMPLOYEES</b>
<b>25.1%</b>	<b>8,422</b>

**Industrial pumps:** The industrial pumps unit's principal products include ready-made pumps based on standard specifications, customized 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 on bespoke, integrated pump systems built on a turn-key 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


	<b>ACTIVITIES</b>
	Manufactures and installs ready-made units for oil and gas industry
<b>CORE PRODUCTS AND SERVICES</b>	<b>REVENUE</b>
<ul style="list-style-type: none"><li>▪ Oil pumping stations and pump stations for water injection</li><li>▪ Oil &amp; gas and water processing units</li><li>▪ Nuclear and Thermal power,</li><li>▪ Tanks, reservoirs and vessels</li><li>▪ Oil development equipment</li></ul>	Rub <b>7,828</b> mln
<b>EBITDA MARGIN</b>	<b>EMPLOYEES</b>

17.8%

2,510

Oil and gas equipment: 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;


## COMPRESSORS

	<b>ACTIVITIES</b>
	Design, manufacture, install and service compressors
<b>CORE PRODUCTS AND SERVICES</b>	<b>REVENUE</b>
<ul style="list-style-type: none"><li>▪ Oil and gas production</li><li>▪ Oil and gas transportation</li><li>▪ Refrigeration applied across different industries</li></ul>	Rub 1,426 mln
<b>EBITDA MARGIN</b>	<b>EMPLOYEES</b>
6.0%	2,400

**Compressors:** The segment was established after acquisition of a leading Russian compressor producer Kazankompressormash in July 2012. The compressors unit's principal products include ready-made customized and special project-tailored compressors and compressor based solutions including compressor units and compressor stations.

The compressors business segment also provides aftermarket services, maintenance, repair and other support for its products;

## ENGINEERING, PROCUREMENT AND CONSTRUCTION (EPC)

	<b>ACTIVITIES</b>
	Design, project planning and management, procurement and implementation
<b>CORE PRODUCTS AND SERVICES</b>	<b>REVENUE</b>
<ul style="list-style-type: none"><li>▪ Oil and gas projects focused on design and planning</li><li>▪ Oilfield infrastructure and pipelines construction</li><li>▪ Supplying of equipment</li></ul>	Rub 7,336 mln
<b>EBITDA MARGIN</b>	<b>EMPLOYEES</b>
6.5%	3,541

**EPC:** The segment designs, engineers, manages and provides construction works, including on a turn-key basis, for customers in the upstream oil and gas, oil transportation and water utility sectors.

## Chairmen's Statement



"We made good progress in 2012, successfully meeting both our financial and strategic targets across all business segments. Thanks to great opportunities that emerged on our target markets and efficient company management, we participated in the most meaningful and material projects in the oil and gas industry, thermal and nuclear energy, and water utility sectors."

**German Tsoy**  
Chairman of the Board  
of Directors

### Dear Stakeholders

In 2013, we celebrate our 20<sup>th</sup> anniversary. During these 20 years we have experienced various periods of Russian economy development, working our way through all the challenges we faced and taking advantage of the most amazing opportunities that presented in the emerging market. Having transformed the Group from a trading company focused on pump-based solutions into one of the largest manufacturing holdings in Russia, providing services for the oil and gas industry, energy and water utility sectors, we look forward with confidence to the years ahead.

In 2012, sluggish growth in the U.S. economy as well as Europe balancing on the edge of recession and slowing growth in China definitely affected growth in Russia. This was especially visible in the second half of 2012 when we observed GDP growth deceleration to 3.4% year-on-year. Nevertheless, we managed not only to demonstrate a solid double-digit revenue growth of 22%, but also broke the barrier of US\$1bn for the first time, with EBITDA hitting a record high of Rub 6,231 million. This again justified the strategy chosen by our team, which focuses on close cooperation and integration of research and design resources and production facilities. Now I can say with confidence that we have emerged from the crisis period as an even stronger and better company than we were before, and a company with a leading position in the Russian market.

We made good progress in 2012, successfully meeting both our financial and strategic targets across all business segments. Thanks to great opportunities that emerged on our target markets and efficient company management, we participated in the most meaningful and material projects in the oil and gas industry, thermal and nuclear energy, and water utility sectors. Our focus on customers' needs and the quality of our services allowed us to secure new contracts and participate in the follow-on stages of such important projects as the Vankor oilfield development and expansion of the first part of the East-Siberia Pacific Ocean pipeline. On top of this, we added into our order backlog a number of interesting new projects in the engineering, nuclear energy and water industries, both in Russia and overseas.

Among important events of the last year I would like to mention new M&As. Having added Kazankompressormash (KKM) into the Group's portfolio, we strengthened the range of solutions we can offer to our existing customers and tapped into the promising new market of gas projects. We need time and effort to transform KKM into a fully-fledged member of the HMS Group but even now we clearly see tremendous potential for the enterprise and strong prospects in the compressor market. This gave us confidence to accept this responsibility and to set ambitious targets and goals for KKM's development. Given the expertise we have accumulated through 21 successfully completed acquisitions, both in Russia and abroad, I believe we'll manage to complete the transformational period within a very tight deadline.

The acquisition of Apollo Goessnitz (Apollo), another production facility acquired in 2012, has at least equal importance, though the size of Apollo's business is relatively small compared to the Group's scale of business. Apollo helps us to gain a very strong level of engineering expertise and a product portfolio of specialized pumps for those target markets in Russia where we had a limited presence — oil refineries and petrochemicals, as well as offshore oil production. In addition, we're going to deploy the distribution network of Apollo to offer HMS pumps to international engineering projects.

We achieved solid results in 2012, but I don't expect 2013 will be an easy year for us. The main factor we should take into consideration is the schedule of customer tenders for new large infrastructure projects, which we consider as priorities for our development. According to our forecasts, most of these will be held in the second half of 2013. That means we'll be facing the need to increase our revenue in 2013 mainly through the delivery of standard equipment and flow control solutions.

Given the current circumstances and our expectations on customers' project cycles, we have set clear and transparent goals for 2013: to demonstrate growth outstripping the inflation rate and to build up a backlog of large complex orders for 2014 in every business segment of the Group.

The expertise of our team of employees will be the main factor in our future success. This is a particular reason why we intensively invest in human resources and also why, in 2012, we've been nominated again as "Attractive Employer of the Year". I believe we have created an "entrepreneurial" atmosphere in our business that is based on trust and respect among our sales team, while the young engineers we recruit from leading Russian technical universities not only enjoy comfortable work conditions but also the scope for personal development and training opportunities.

We are strongly committed to the principles of corporate governance, declared during the Initial Public Offering of the Group on the London Stock Exchange in 2011. Out of 9 Directors on the Board, we have 4 non-executive and 2 independent Directors. This creates a balanced decision-making system for strategic aspects of the business, aligned to a target of sustainable growth. I would like to thank all Board Members for the job they have done in 2012.

Certainly, we would not be able to achieve such great results without the well-organized and professional work of our management team, production and engineering employees, sales and marketing people and IT specialists, both within the management company and at the production facilities of the Group. Our 20th anniversary is a great chance to say "thank you" for their motivation, ingenuity and dedication to our values, and I would like to take this opportunity to express my gratitude to all of them.

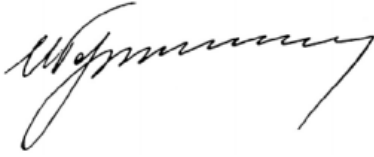
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## Revenue up 22%

We managed not only to demonstrate a solid double-digit revenue growth of 22%, but also broke the barrier of US\$1bn for the first time, with EBITDA hitting a record high of Rub 6,231 million

Almost one-third of the HMS Group share capital belongs to international institutional investors. We are fortunate to meet and hear from them regularly, and to gain expertise from our minority shareholders. I think last year many of them saw evidence that their support and feedback are both appreciated and continue to shape our thinking. Unfortunately, the share price performance doesn't accurately reflect, in our view, the fundamentals of the business development and prospects. However, we'd like to thank our investors for their commitment to the Group's investment case and partially return their investments through dividends. I'm pleased to inform you that taking into consideration our strong positive cash-flow in 2012, we made a decision to pay out dividends of Rub 800 mn.

Your faithfully,  
German Tsoy

A handwritten signature in black ink, appearing to read 'German Tsoy', with a stylized, flowing script.

## CEO Statement



"Our human resources potential is a basis for sustainable growth and, in support of this, we have invested strongly in HR development over the years. I would like to thank all HMS Group employees for enabling our achievements of the last year and for their commitment to our values. It's a particular pleasure for me to recognize our progress and achievements as we approach the important milestone of our 20th anniversary."

**Artem Molchanov**  
Chief Executive Officer

### Dear Stakeholders and Partners of HMS Group

We are all looking back on a very successful year. It was successful from both financial and strategic standpoints. We have given a good account of ourselves, particularly in executing sophisticated and complex projects; last year we successfully completed deliveries and commissioning of pumping stations under construction for the second part of the East-Siberia — Pacific Ocean pipeline (ESPO), which was launched in December, 2012. Owing to the good job we've done and strong references under the ESPO project, we were successful in winning a tender and signed a new follow-up contract valued at Rub 4.6 bn in April 2012 for the delivery of three unique pumping stations under the ESPO — 1 capacity extension project.

In addition to this, we managed to sign and successfully execute complex equipment deliveries under a series of contracts, valued at more than Rub 3 bln, for integrated solutions under the second stage of development of the Vankor oilfield. This is also the result of a previous job well-done — in 2010 we participated in the first stage of the oilfield development.

However, our target markets are not limited to just the oil and gas sector. For example, in 2012, our contract in Turkmenistan for deliveries of three customized water pumping stations for irrigation serves as good evidence of our strategy of focusing on technologically demanding and complex solutions. We also signed this contract largely thanks to our previous execution of a similar pilot project in the region in 2011. This year was also memorable for a win in the international competitive bid for deliveries of pump equipment to the Tianwan Nuclear Power Plant in China. Positive references on our pumps, installed in already operating power units of the plant, were among the key criteria for our contract success. On top of this, we managed to sign a series of contracts with nuclear power plants under construction and expansion in Russia — Beloyarskaya NPP, Rostov NPP and the Baltic NPP.

Thanks in large part to these material projects and a constant flow of small and mid-size orders from our customers, we managed to reach a record high order intake in 2012, which totaled Rub 36.1 bn. Additionally, in the beginning of 2013 we had a well-diversified backlog of orders of Rub 21.5 bn, 22% higher than in 2011.

Last year was also successful from a financial standpoint. Group revenue reached Rub 33.7 bn and we observed growth across all business segments. In the "Industrial pumps" business segment we managed to achieve Rub 17.1 bn of revenue, in the "Oil and Gas equipment" business segment — Rub 7.8 bn, while in the "EPC" business segment — Rub 7.3 bn. In our newly-established "Compressors" business segment, revenue since consolidation amounted to Rub 1.4 bn.

We established a new business following the acquisition of "Kazankompressormash", a leading industrial compressors producer in Russia. I believe this acquisition will help us to redefine our business and achieve a new level of development, given the compressor market potential and prospects. Already in 2012 we managed to materially increase order intake, having secured new orders for delivery of complex technological solutions for compressor stations. Going forward, we will leverage all of our expertise and intend to expand the compressor business dramatically, as we have demonstrated already with other assets acquired by the Group.

We also acquired a German pumps manufacturer, Apollo Goessnitz GmbH (Apollo), which focuses on specialized pumps for oil refineries, on-shore and offshore production, thermal power generation and the water utilities sectors. Apollo's production complies with API (American Petroleum Institute) and DIN (German Industrial Standards) and enables us to significantly strengthen our portfolio of pumps for these industries. I see particular value in the research and development potential of Apollo, which we'll be applying as part of other Group projects. I believe the acquisitions completed in 2012 will strengthen the Group's position and enable HMS Group to open up strong opportunities in new markets.

Due to the acquisitions of these new assets, the Group's total debt grew to Rub 13.4 bln, while net debt to EBITDA ratio was 1.94. Despite this debt level growth, we managed to keep the ratio within an internal limit of 2.5.

Owing to our participation in large technologically demanding infrastructure projects, we managed to demonstrate solid business profitability for the companies operating in the flow-control market. EBITDA of the Group amounted to Rub 6.2 bn, up 13% in comparison with the previous year, while net profit was Rub 2.3 bn.

All these results wouldn't be possible without the excellent and well-organized work of the management team, our production employees and research & development team. Our human resources potential is a basis for sustainable growth and, in support of this, we have invested strongly in HR development over the years. I would like to thank all HMS Group employees for enabling our achievements of the last year and for their commitment to our values. It's a particular pleasure for me to recognize our progress and achievements as we approach the important milestone of our 20<sup>th</sup> anniversary.

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### Record high order intake

# Rub 36.1 bn

Thanks to a number of material projects and a constant flow of small and mid-size orders from our customers, we managed to reach a record high order intake in 2012, which totaled Rub 36.1 bn.

Over 20 years we've always needed to work hard to achieve the best results, as we have set more and more ambitious goals for the company. Competition for business in our market niche is especially fierce in the challenging economic environment, and 2013 is not expected to be an easy year. We have set a clear and understandable goal for this year: to maintain the revenue growth, outpacing the inflation rate. The current share of material projects in our order book will allow us to expect moderate single-digit growth of EBITDA in 2013, while the main task for the year is to build up a backlog of orders for complex integrated solutions to be implemented in 2014. I wish good luck to all of us.

Your faithfully,  
Artem Molchanov

A handwritten signature in black ink, consisting of a stylized 'A' followed by a series of loops and a wavy line.



## 20th Anniversary: Our history

### Celebrating 20<sup>th</sup> anniversary — our history

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 the HMS Group's history, as well as the Company's participation in a number of high profile projects.



**1993**

Pump trading and servicing company was founded by German Tsoy, Artem Molchanov and Kirill Molchanov. The Company expanded its operations and client base to become a leading distributor of pumps and pumping equipment in Russia and the CIS. Its main activity comprised supplies of pumping and joint equipment to Russia from CIS countries (Ukraine, Belarus, Moldova, Kyrgyzstan) where traditional suppliers of specific types of pumps for the Russian market were located.



**1995**

HMS Group launched a pump skid assembly business in Russia and CIS countries where Hydromashservice became one of the leading enterprises specializing in complete deliveries of pumping equipment for oil and gas complex, power and water industry and housing utilities.



**2003**

HMS Group began to manufacture pumps after an acquisition of Livgidromash (since 26 Aug, 2010 — HMS Pumps), one of the largest manufacturers of industrial pumps in the CIS. The Group made its first steps to become a largest industry consolidator.



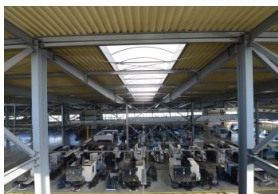
**2004**

HMS Group enhanced its product offering with oil and gas equipment through the acquisition of Neftemash (Tyumen), one of the largest Russian producers of modular flow control equipment for surface oil field sites. The Company also acquired Elektrovigatel plant (Bavleni), a manufacturer of submersible electric water pumps for households.



**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 also acquired operational control over TGS (Tomsgazstroy), a provider of construction services for oil and gas pipelines. The Company expanded its maintenance and repair business through the acquisition of NRS (Nizhnevartovskremervice).



**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 oil field infrastructure. The Company also acquired a minority stake in DGKhM, a manufacturer of pumps and vessel equipment, with an option to purchase a controlling stake in 2012 and increased its R&D capabilities through the acquisition of a 49% stake in VNIAEN, 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 and IRVKP, a leading project and design facility for the water utility sector.





#### 2009

HMS Group continued to enhance 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 flagship project of Vankor oil field development and the Baltic Pipeline System construction 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 Group participated in the ESPO-1 pipeline expansion project and the construction of the ESPO-2 pipeline. The Company commenced a large-scale production of pumps for use in nuclear power generation.



#### 2011

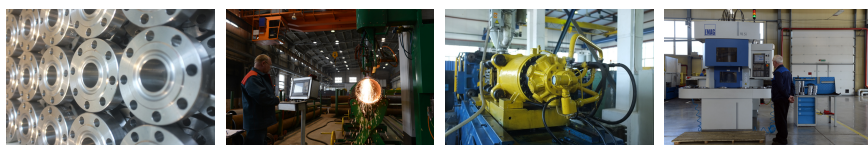
HMS Group went public in February 2011, placing 37.2% of its stock via GDRs on the London Stock Exchange. Being a consolidator in the domestic pumping industry HMS completed 3 acquisitions (Sibneftemash, Bobruisk Machine Building Plant and exercised the option to acquire next stake in Dimitrovgradkhinmash) seeking opportunities to increase its presence on existing and adjacent markets.



#### 2012

HMS Group enters to the new promising market of gas projects with an acquisition of the leading Russian industrial compressor producer OJSC "Kazankompressormash". Pursuing enhancement of its pumps product portfolio, the Group completed an acquisition of German manufacturer of high-end specialized pumps Apollo Goessnitz GmbH (Goessnitz, Germany), which allowed strengthening its market positions in the basic industries with focus on technologically demanding integrated solutions.

## Full Year Highlights



(Figures in brackets are for the twelve months ended December 31, 2011)

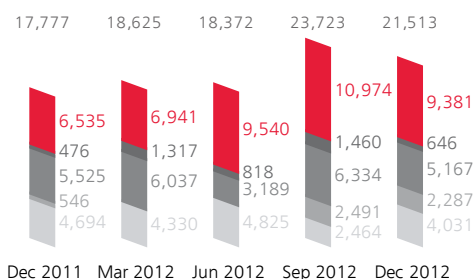
- Order backlog grew by 21% year-on-year to RUB 21.5 billion and was driven by continued steady demand for pumps, equipment and EPC services for infrastructure projects
- Revenues up 22.4% year-on-year to RUB 33.7 billion (RUB 27.5 billion)
- Adjusted **EBITDA** up 13.1% year-on-year to RUB 6.2 billion (RUB 5.5 billion), with an adjusted EBITDA margin of 18.5% versus 20% in the previous year
- Profit for the year contracted by 31.8% to RUB 2.3 billion from RUB 3.4 billion
- Total debt grew by 109.3% from RUB 6.4 billion to RUB 13.4 billion
- Net debt grew by 150.8% to RUB 12.1 billion as of December 31, 2012 (RUB 4.8 billion)

## Key Developments in 2012

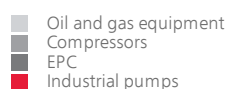
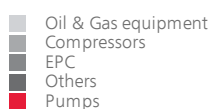
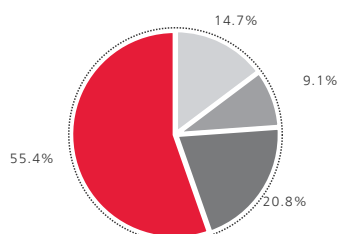


- Several landmark projects in Russia have been successfully completed. Among them was the delivery of trunk line pump systems to the East Siberia — Pacific Ocean (ESPO) pipeline by Transneft. The project has strategic importance for the country's oil industry infrastructure and features a total pipeline length of more than 4,100 km.
- Another flagship project completed in 2012 was the second stage of the Vankor oilfield development, where HMS provided an integrated solution on delivery of a broad range of equipment and commissioning of water processing units as part of a produced water treatment system which was previously designed by HMS. The Vankor oilfield was launched in 2009 and is now one of the largest high-quality oil suppliers to the ESPO pipeline.
- The Group secured several large infrastructure contracts across all business segments for different economic sectors, including:
  - the follow-up contract for ESPO — production and delivery of 12 trunk pipeline pump units for 3 pump stations,
  - projects for the production and delivery of specialist pumps for the nuclear industry in Russia and China,
  - construction of 3 main water pumping stations located in Turkmenistan,
  - the turn-key project for delivery and installation of a compressor station.
- Two acquisitions completed during 2012:
  - Kazankompressormash (KKM), one of the leading manufacturers of centrifugal and screw compressors in Russia, located in Kazan, Tatarstan. HMS acquired 77.8% of voting shares (74.35% of share capital) for a total cash consideration of RUB 5.5 billion
  - Apollo Goessnitz (Apollo), a worldwide operating manufacturer of centrifugal pumps and system equipment, located in Goessnitz (Thuringia), Germany. HMS Group paid total cash of EUR 25 million for 75% of share capital of Apollo Goessnitz GmbH. The stake was acquired proportionally from the management, which remained the part of the integrated team.

## Quarterly backlog performance 2012, Rub bn



## Backlog structure as of 31.12.2012



## R&D activities

- HMS Group was included in the short list of finalists of Pump Industry Awards, established by the British Pump Manufacturers' Association. The Group was recognized finalist in the "Technical innovation of the year - Projects" nomination for its turnkey project of a pump station construction in Turkmenistan
- Automated multifunctional measuring and computing complex ACIS-6 was purchased for subsurface laboratory for analysis of subsoils
- Continued cooperation with Transneft under the project of ESPO 1 extension. A number of brand new large-capacity pumps of NM type for oil transfer were developed and successfully tested;
- Carried out a number of successful testing of oil trunk pumps based on double suction centrifugal pumps for another Transneft's project — Purple Samotlor oil pipeline construction;
- Developed technological modules based on improved injection pumps of ZNS type for Vankor oilfield by Rosneft, a principally new type of equipment that hasn't been produced in Russia before;
- Continued expansion of research and development works for the oil and gas processing equipment, compressor and power generating units under a new design center based on HMS Neftemash facilities;

## Operational improvements

- Ongoing implementation of unified IT infrastructure for accounting and reporting purposes, development of IT security system for the head office
- Ongoing development of a ERP project based on a software by Infor-LN integrated with PDM systems focused on capturing and maintaining information on products and services through its useful life, engineering and technological database, planning and coordinating all transactional operations for R&D support

\* EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, 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.

## Operating Review

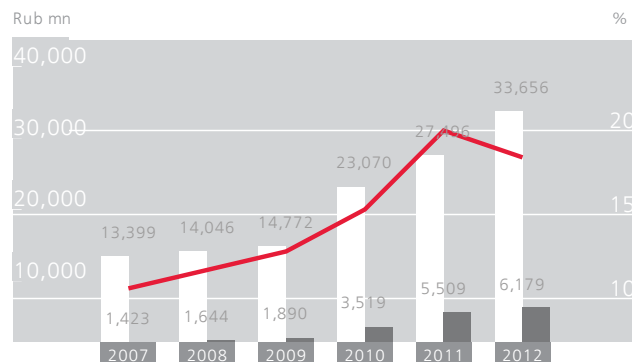
### Financial Summary

(Rub million)	FY 2012	FY 2011	Year-on-Year Change
Order intake	36,110	23,221	55.5%
Backlog	21,513	17,777	21.0%
Revenue	33,656	27,496	22.4%
Adjusted EBITDA	6,231	5,509	13.1%
Operating profit	4,237	4,547	-46.8%
Profit for the period	2,301	3,377	-31.8%
Basic and diluted earnings per share (Rub per share)	17.89	27.88	n/a
ROCE (LTM)	18.7%	36.2%	n/a

### Group

HMS Group's consolidated revenues increased by 22.4% year-on-year for the full year in 2012, mainly driven by a gradual execution of the infrastructure projects implemented by main oil and gas majors. Strong activity in the oilfields development, oil transportation and water and energy markets in 2012 was a core driver of the revenue growth. During 2012 HMS executed the projects for the main oil and gas majors, including providing pump-based integrated solutions for Transneft in the midstream, delivery of oil and gas equipment and providing EPC works for Rosneft, TNK-BP, Surgutneftegaz, Lukoil and Gazpromneft, Taas-Yuriakh Neftegazodobychna, in the up- and downstream as well as in the gas processing for Gazprom and Novatek. The revenue growth in 2012 was mainly driven by strong performance in the oil and gas equipment and EPC business units, largely due to the large-scale projects with Rosneft and several large projects for engineering and construction services. The industrial pumps business unit accounted for approximately 50.7% of total Group's consolidated revenue in 2012 versus 56.9% in 2011, oil and gas equipment business unit accounted for 23.2% compared to 21.5%, while EPC business unit share in revenue was flat and accounted for 21.7% in 2012 versus 21.6% in the previous year. Newly established in July 2012 business segment Compressors accounted for 4.2%.

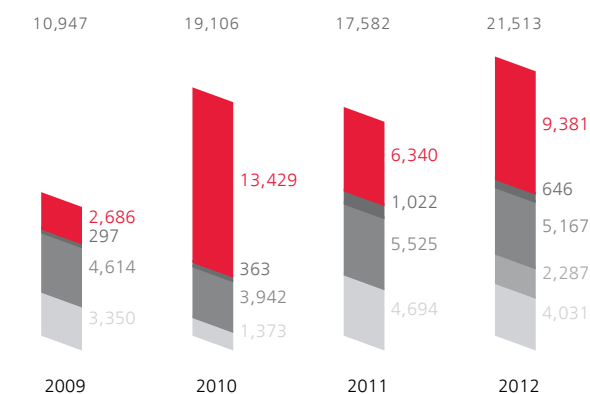
#### Revenue



Revenue, Rub mn  
 EBITDA, Rub mn  
 EBITDA margin, %

Total order backlog reached Rub 21.5 billion driven by several large contracts secured during the first three quarters 2012. As a result the total backlog came 21.0% higher than RUB 17.8 billion in 2011, with stronger backlog diversification.

Backlog performance, YoY, Rub bn

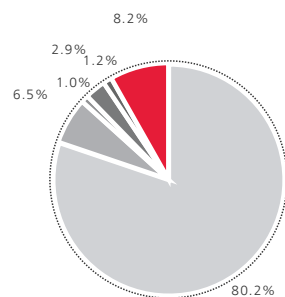


- Oil and gas equipment
- Compressors
- EPC
- Other
- Industrial pumps

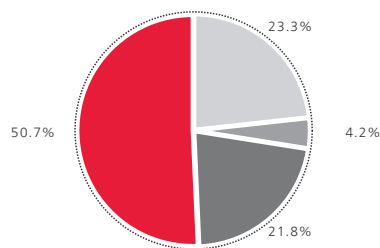
HMS Group's cost of sales grew in line with the revenue and increased by 23.6% year-on-year to RUB 23,645 million in 2012 compared to RUB 19,131 million in 2011, mainly due costs growth driven by consolidation of the acquired companies.

Sales, general and administrative expenses increased by 45.1% year-on-year to RUB 5,217 million for the full year 2012 while its share in the total revenue accounted for 15.5%, up from 13.1% in the previous year.

Revenue by industries



Revenue by segments, %

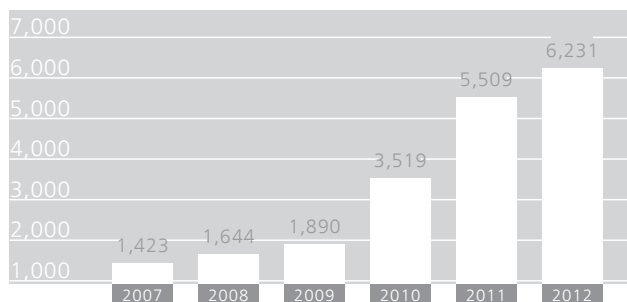


Oil & Gas  
Water  
Nuclear  
Thermal Power  
Metall & Mining  
Other

Oil and Gas Equipment Business Unit  
Compressors  
EPC  
Industrial Pumps

The Group's adjusted EBITDA increased by 13.1% year-on-year from RUB 5,509 million to RUB 6,231 million, driven by execution of several large-scale infrastructure contracts in oil upstream and oil transportation segments. The Group's adjusted EBITDA margin was 18.5% in 2012, compared to 20.0% in 2011.

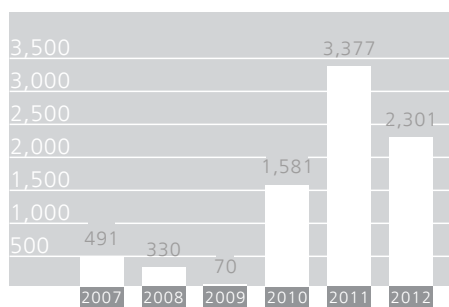
EBITDA, Rub mln



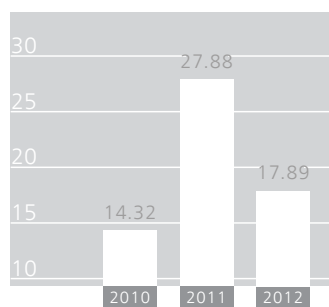
Due to the growth of other operating expenses largely driven by fines under contracts, social expenditures, provision for legal claims and expenses related to acquisitions, the Group's EBIT contracted by 6.8% year-on-year in 2012. The EBIT margin stood at 12.6% in the reporting period from 16.5% in 2011.

Due to debt growth driven by acquisitions completed in 2012, interest expenses grew to Rub 1,220 mln, compared to Rub 486 mln, and comprised 3.6% of revenue versus 1.8% in the previous year. As a result, the Group's profit for the year declined by 31.8% year-on-year and amounted to RUB 2,301 million in 2012 versus 3,377 million in 2011. Lower operating profit compared to the last year and higher interest expenses were among the key factors contributing to the full year profit performance.

Profit for the year, Rub mln



EPS, Rub



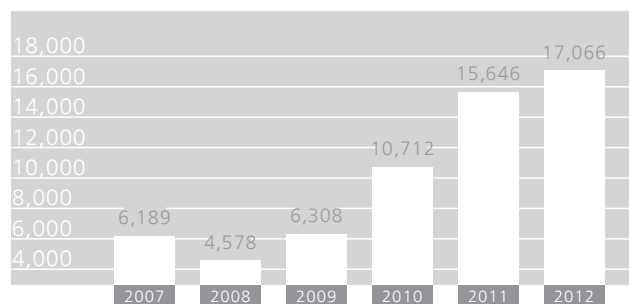
### Industrial Pumps Business Unit



The industrial pumps business unit 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, customized 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 9.1% year-on-year external revenue growth in the reporting period, generating RUB 17,066 million. This revenue growth largely stemmed from an ongoing flow of small and medium orders and a number of large-scale projects with major customers mainly in oil transportation, oil refineries and upstream segments.

Industrial Pumps Revenue, Rub mln



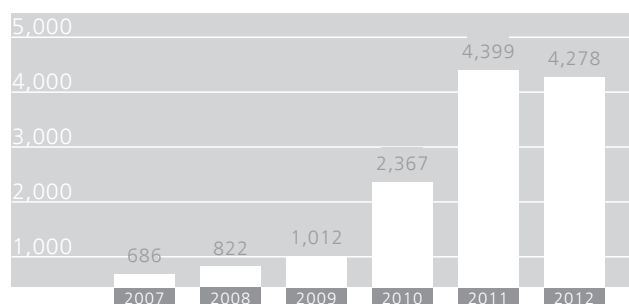
Generally, sales of pumps for oil industry was flattish in 2012 with 32% year-on-year growth in oil upstream pumps and 16% growth in pumps for oil refineries on the back of 5% year-on-year contraction of revenue from oil transportation industry. HMS also focused on strengthening its market positions on the core pump markets and managed to outperform the average market growth in pumps for oil upstream, while was on par with the market in pumps for oil refineries.

Sales of pumps for power generation applications grew by 43% year-on-year. The growth was driven by modernization and construction of nuclear power plants in Russia. Sales of pumps for nuclear applications surged by 180% driven by the contracts signed in 2010-2011 with a long-term cycle of nuclear pumps production. At the same time, sales of pumps for thermal power generation also grew by 16% year-on-year.

Sales in the water utilities segment declined by 18% year-on-year, mainly due to revenue contraction both in submersible water-well pumps and pumps for water treatment systems. Sales of household pumps continued to decline on the back of high competition and purchasing power of end consumers.

The industrial pumps business unit's adjusted EBITDA declined by 2.7% year-on-year to RUB 4,278 million in 2012, compared to RUB 4,399 million in 2011, due to changes in the project mix and lower share of high-margin contracts in revenue. The adjusted EBITDA margin stood at 25.1% in 2012 versus 28.1% in 2011.

Industrial Pumps EBITDA, Rub mln



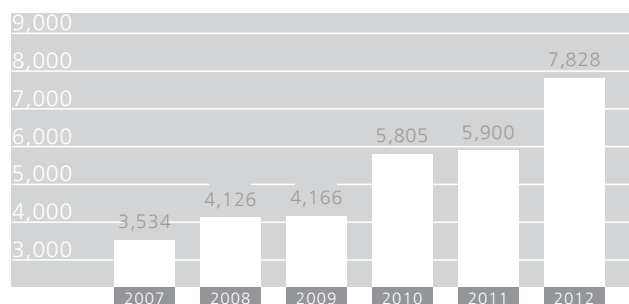
### Oil and Gas Equipment Business Unit



The oil and gas equipment business unit 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.

External revenues of the segment were up 32.7% year-on-year and totalled RUB 7,828 in 2012, compared to RUB 5,900 in 2011. The increase was primarily driven by the large scale project on Vankor oilfield under which the Group equipped oilfield facilities over the second stage of the project development and consolidation of oil and gas equipment producers acquired in 2011.

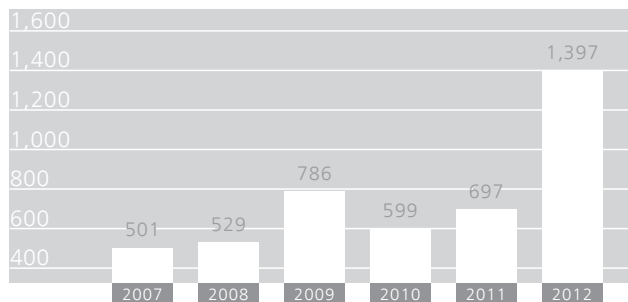
Oil and Gas Equipment Business Unit Revenue, Rub mln



Sales of water injection pumping stations and other large technological units increased by 8.3%, as a result of increased sales to large-scale projects, including Rosneft's Vankor oil field. Sales of automated group metering units (AGMU) and other modular equipment for gas transportation surged by 88% mainly due to government regulations effected last year, requiring oil companies to install metering devices to measure volumes of gas flared.

The unit's adjusted EBITDA doubled year-on-year to RUB 1,397 million in 2012, compared to RUB 697 million in 2011. The adjusted EBITDA margin was at 17.8% in the reporting period, up from 11.8% in 2011.

## Oil and Gas Equipment Business Unit EBITDA, Rub mln



## Compressors Business Units



Employees	2.4 ths
Contribution to 2012 Group sales	4%
Contribution to 2012 Group EBITDA	1.4%

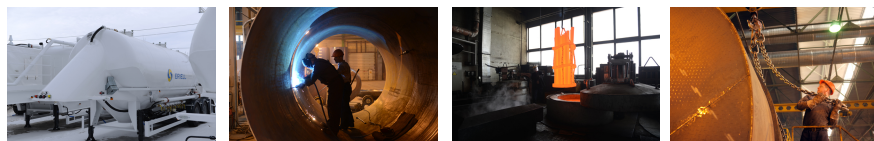
The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, compressor-based integrated solutions.

In July 2012, HMS acquired KazanKompressorMash (KKM), one of the leading compressor producers in Russia, which was consolidated into the IFRS reporting of the Group starting from July 01, 2012. Previously, KKM didn't apply IFRS accounting principles for its financial reporting that makes it irrelevant to provide year-on-year comparison of the key financial indicators.

HMS applied IFRS accounting principles for KKM reporting starting from the third quarter of 2012 and reports the results under the Compressors business segment.

In the second half of 2012, revenue of the business segment was Rub 1,426 million, EBITDA was Rub 85.6 million. As a result, EBITDA margin stood at 6%.

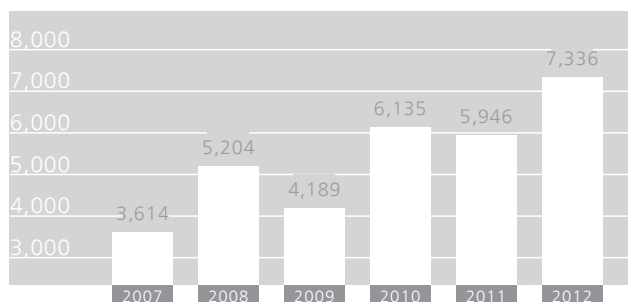
## Engineering, Procurement and Construction (EPC) Business Unit



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

The EPC's external revenues grew by 23.4% year-on-year to RUB 7,336 million in 2012, compared to RUB 5,946 million in 2011, mainly driven by contracts for oilfields infrastructure construction.

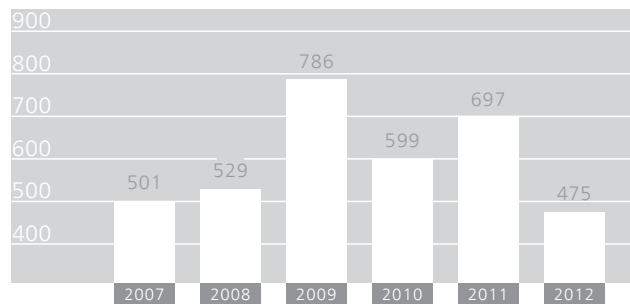
## EPC Revenue, Rub mln



EBITDA in the EPC business segment contracted by 15.6% year-on-year to Rub 475 million in 2012 with EBITDA margin of 6.5% versus 9.5% in the corresponding period of the previous year. The segment's margin contraction resulted from the challenges appeared during implementation of the one of the two EPC contracts at Srednebotuobinskoye oilfield. Due to insufficient quality of design documentation under one of the contract, containing a number of uncertainties, the project required additional investments. Over the course of the negotiations with customer, HMS continued to incur expenses related to the project implementation that damaged expected profitability of the project. However, HMS didn't break off relations with the customer and keeps on successful works under second contract in line with the budgeted performance.



EPC EBITDA, Rub mln



Lower than expected margin in the project and design area has also contributed to the segment's performance since the Group continued to execute several innovative projects as well as temporarily applied aggressive pricing policy to penetrate new promising market segments. However, the average margin for these projects is expected to be recovered as a result of synergies between the different business segments, as the Group intends to participate in the later stages of these projects.

## Financial Review

Cash flow generated from operations before changes in working capital increased to RUB 5,725 million, compared to RUB 5,186 million. Despite material growth of interest expenses, net operating cash flow was positive and amounted to RUB 3,184 million versus net cash outflow from operating activities of RUB (1,595) million in 2011.

Net cash used for investing activities totaled RUB 8,303 in 2012, compared to 2,193 million in 2011. The Group spent RUB 1,623 million in 2012 for capital expenditures, compared to RUB 1,194 million in 2011. Payments for acquisitions of KKM and Apollo Goessnitz, completed in 2012 and final payment for DGHM, acquired in 2011, net of cash acquired totaled RUB 6,690 million.

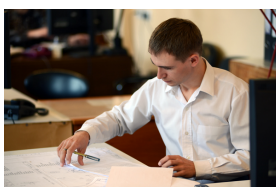
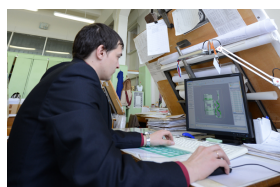
Dividend payment for the FY 2011 results, effected in the second quarter of 2012, amounted to Rub 1,500 million. Subject to reviewing its capital position against its current and expected future capital requirements, the Group intends to pay dividends in the future with a payout ratio not less than 25% of profit for the year.

Thus, the Group's free cash flow (before acquisitions of subsidiaries, net of cash acquired) amounted to RUB 1,561 million.

Total debt grew by 109% year-on-year to RUB 13,410 million in the reporting period, compared to RUB 6,408 million in 2011 mainly driven by M&A activities of the Group. Apart of the acquisitions, the debt expansion was used for working capital needs under the execution of the current projects. By the end of the year 84% of total debt was represented by long-term credit facilities with maturity of more than 1 year.

The net debt to EBITDA (taken for the last 12 months) ratio amounted to 1.94, much lower than banks' and internal covenants. As a result, the Group created a room for possible additional fund raising for business development and expansion. The Group's cash balances stood at RUB 1,346 million by the end of 2012, compared to RUB 1,598 million by the end of the last year. Ability of the Group to meet its debt obligation remained comfortable with the interest coverage ratio of 3.5.

As of 31.12.2012, the Group's net working capital was within the targeted range of 20-25% and amounted to 20.1% of total revenue taken for the last 12 months, compared to 21.9% in 2011.



### M&A Activity

In the third quarter of 2012 the Group successfully completed two acquisitions. In July 2012, HMS acquired 74.35% of a share capital of Kazankompressormash, a leading compressor producer in Russia, for Rub 5,525 million funded from available debt facilities of the Group. Later in August 2012, HMS completed the acquisition of 75% of a share capital of Apollo Goessnitz, German manufacturer of specialized pumps for power, oil refineries and off-shore application, for EUR 25 million.



We regard as the essential part of our business the contribution to the society development, economic growth and improvement of the quality of life in regions of the presence.

## RISK MANAGEMENT

WE USE A FORMAL RISK MANAGEMENT PROGRAM ACROSS OUR COMPANIES, I.E. THERE IS AN ONGOING PROCESS FOR IDENTIFYING, EVALUATING AND MANAGING THE SIGNIFICANT RISKS FACED BY THE COMPANY.

**14** PRODUCTION ASSETS AND

**6** LEADING R&D INSTITUTES AND CENTERS OUTFITTED WITH CUTTING EDGE EQUIPMENT AND SOFTWARE

Recognizing our achievements, in 2012 HMS Group was included on the shortlist of finalists in the Pump Industry Awards, established by the British Pump Manufacturers' Association. The Group was recognized as a finalist in the "Technical Innovation of the Year - Projects" category for its turnkey project involving the construction of a pump station in Turkmenistan.



**MORE THAN**

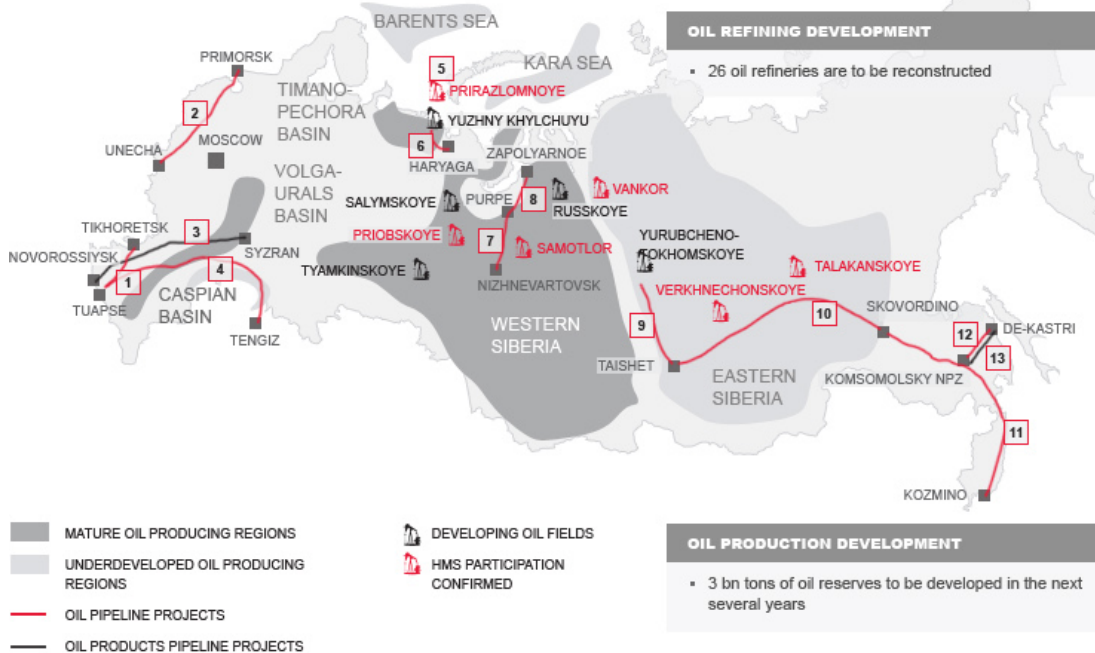
**138 000**

**OF ACTIVELY PRODUCING WELL-STOCK**

The well stock reached 162.8 thousand versus 161.2 thousand in 2011, while more than 138.8 thousand (~85%) of them are actively producing. Russia aims to maintain annual oil production at the current level, or just over 10mn bpd, over the next 10 years.

## Macro and Market Trends

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



- |  |   |   |  |  |
|--|---|---|--|--|
| 1 Tikhoretsk-Tuapse 2<br>(12 MMt, 295 km)                          | 2 Baltic Pipeline<br>System-II<br>(50 MMt, 1,000 km)    | 3 "Yug" (South)<br>(9 MMt, 1,465 km)                    | 4 Caspian Pipeline<br>Consortium expansion<br>(35 MMt, 1,510 km) | 5 Haryaga-Yuzhny<br>Khylchuyu<br>(8 MMt, 160 km)                 |
| 6 Trebs & Titov<br>(140 MMt, 2,151 km)                             | 7 Purpe-Samotlor<br>(25 MMt, 430 km)                    | 8 Zapolyaroye-Purpe<br>(45 MMt, 536 km)                 | 9 Yurubcheno-<br>Tokhorskoe-Taishet<br>(25 MMt, 430 km)          | 10 ESPO-I and ESPO-I<br>capacity expansion<br>(50 MMt, 2,694 km) |
| 11 ESPO-II and ESPO-II<br>capacity expansion<br>(47 MMt, 2,346 km) | 12 Komsomolsky<br>NPZ-port De-Kastri<br>(n. d., 300 km) | 13 Komsomolsky<br>NPZ-port De-Kastri<br>(9 MMt, 313 km) |  |  |

## Macroeconomic Development

According to Rosstat, the Russian economy grew by 3.4% in 2012, lower than the 4.3% GDP growth of the previous year but still a solid performance which ranked higher than many international peers with similar income per capita. Given the significant challenges faced by global economy over the last year, including U.S. debt issues, Euro area balancing on the edge of recession and softening of growth in China, Russian performance looks respectable.

However, 2012 was a year of two halves. With GDP growth coming at 4.9% year-on-year in 1Q12 (in line with performance of 2H 2011) there was a hope that Russia, supported by high oil prices, would be able to decouple from the rest of the world (both Emerging and Developed markets), where growth was rapidly decelerating. Early 2012 performance was propelled by strong private consumption as lower inflation enhanced real purchasing power via raising real wages and real disposable incomes, and very strong retail borrowing supported spending. In contrast, in 2H12 higher inflation related mainly to poor harvest started to eat away at real purchasing power, leading to a more moderate expansion of real retail sales and to a softening GDP growth.

The growth rate was mainly driven by domestic consumption that increased by 6.6%, while a year earlier the growth was 6.4%. Fixed investment came lower than it was expected by Ministry of Economy and grew by 6.7% mainly due to softening of consumer demand and real disposable income in the second half of the year. Investments constituted 25.7% versus 26.6% of total GDP last year. Investments were mainly driven by infrastructure projects development largely executed by state-owned companies, large private companies and federal budget, primarily in energy sector.

Industrial output expanded 2.6% in 2012. Over the year, raw material extraction and the supply and redistribution of electricity, gas and water demonstrated relatively sluggish performance (growth of 1.1% and 1.2% respectively). On the contrary, manufacturing sector remained a white spot and grew 4.1%. Raw material extraction is facing serious constraints from the production side, as capacity utilization is close to maximum.

The weak growth in the supply and redistribution of electricity, gas and water can be treated as a positive, as it reflects a decline in the energy intensity of GDP production. Electricity output edged up just 1.1%, which caused the electricity intensity of Russian GDP to decline around 2.7%, implying an improvement in the Russian economy's efficiency.

In 2012, real wage growth came in at 7.8% in 2012, while real disposable incomes climbed 4.2%. Russia's unemployment rate resisted the traditional year-end rise and hit a new historical record low of 5.3% versus 6.3% last year, which is lower than during the pre-crisis peak of economic activity in 2007.

Among important macroeconomic events in 2012, Russia's accession to the World Trade Organization (WTO) and approval of the budget rule should be mentioned.

On November 10, 2011 the Working Party on the Accession of Russia to the WTO approved a package of accession documents which outlined the terms and conditions of Russia's membership. The negotiation process has lasted 19 years, which made it the longest of any country acceding to WTO membership. Following the approval of the protocol of Russia's accession, Russia became a full member of the WTO on 22 August, 2012. The accession package is extremely broad, comprising a set of agreements that commit Russia either over time or immediately upon accession to reduce tariffs on goods, provide more open market access for the foreign service sector, and reduce or remove subsidies in the agricultural and industrial sectors.

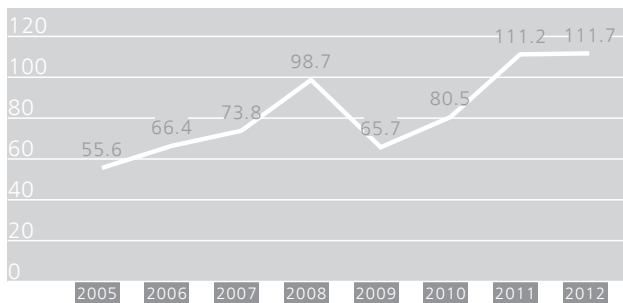
The benefits of WTO accession to Russia are significant in the medium term. The World Bank has estimated that Russia should gain about \$53bn annually in the medium term (and \$177bn of GDP in the long run) via accession, with gains coming mainly from increased foreign direct investment and reform of the service and manufacturing sectors.

Prior to the crisis there had been pressure on the Ministry of Finance to increase levels of government borrowing and curb its efforts to build up financial reserves. However, in 2012 Russian Government adopted a budget rule, which came into effect from January 2013.

The budget rule determines the mechanism for the use of oil and gas revenues and the formation and disposal of Reserve Fund and National Welfare Fund Resources. The budget rule is based on a benchmark oil price to determine the ceiling for budget spending. Spending cannot exceed anticipated revenue at the base oil price, plus a budget deficit of 1 percent of GDP. The base oil price for the next financial year and planning period is the average oil price in the previous five year period for 2013, and the previous six- and seven-year periods for 2014 and 2015, with the period increasing by one year each year until it reaches 10 years.

Therefore, with the introduction of the budget rule as of January 1, 2013, the base oil price will be calculated as the average in 2007-2011 for 2013, 2007-2012 for 2014 and 2007-2013 for 2015. Starting in 2018, the base oil will be calculated as the average in the preceding 10-year period.

Brent Crude Oil, US Dollars per barrel



## Market Trends

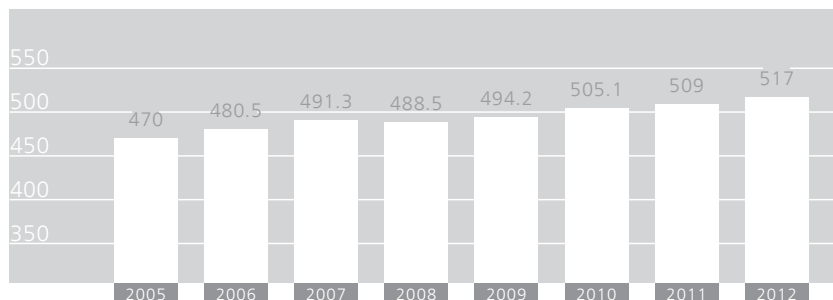
### Oil Industry

#### Upstream

Russia is the largest holder of oil and gas reserves in the world and the second largest oil producer with 12% of total global oil output. The oil upstream industry is a backbone of the economy with an impact on the country's international balance of payments, exchange rate and formation of investment resources of the economy.

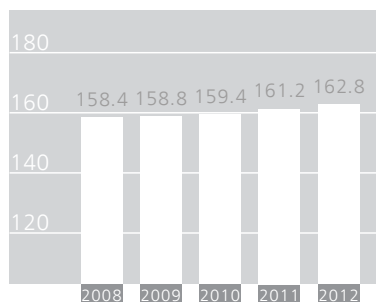
Following its post-Soviet collapse, Russian oil production has been growing and rebounded from its low of 5.8 million barrels per day to the level of 10.4 million barrels per day in 2012, with around 7.2 million tons exported as either crude or oil product. According to the Russian Energy Ministry, oil output in Russia grew by 1.6% to 517m tonnes, supported by tax legislation incentives and the launch of new pipelines and oil exploration projects.

Oil production in Russia, mln tonnes

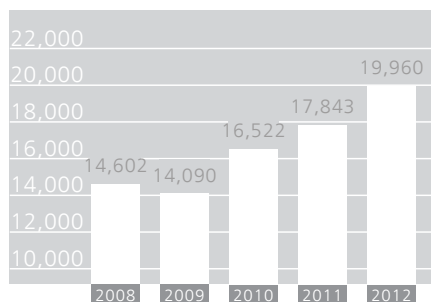


The well stock reached 162.8 thousand versus 159 thousand in 2010 while more than 138.8 thousand (~85%) of them are actively producing. Russia aims to maintain annual oil production at the current level, or just over 10mn bpd, over the next 10 years.

Russian Well Stock, ths itms



Production drilling rate, km



Capital expenditures of the oil upstream sector grew from RUB 596 bln in 2011 to approximately RUB 700 bln in 2012. Oil prices continued to support favorable conditions in the industry. Following strong performance in 2011 driven by unstable political situations in key oil producing regions as well as the monetary policy of the developed countries, average oil price continued to demonstrate moderated growth supported by ongoing monetary expansion of the key Central Banks and prolonged instability in some producing countries. Average oil price reached 111.7 USD in 2012 versus 111.2 in 2011.

#### Midstream

Having more than 50 th. km of oil pipelines and more than 400 installed pump stations, Russia has the largest oil pipeline system in the world. More than 90% 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 and transports around 460 ml tonnes of oil annually. 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.

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

**East-Siberia — Pacific Ocean (ESPO).** The second stage of the project of the East Siberia — Pacific Ocean pipeline system which implied construction of a main trunk pipeline at the section named Skovorodino — Kozmino SMNP (ESPO-2) was successfully completed and launched in December 2012. The subsequent increase of the existing capacity of the Taishet GNPS — Skovorodino NPS (ESPO-1) line up to 50 million tons of oil per year (extension of ESPO-1) is currently under way with HMS continuing to work on the installation of 3 pumping stations.

The construction of the Zapolyarye-Purpe oil pipeline with its 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 overall length of the pipeline is estimated to be 500km. In 2012, Transneft conducted most of the surveying, design and planning for the project.

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 247km 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.

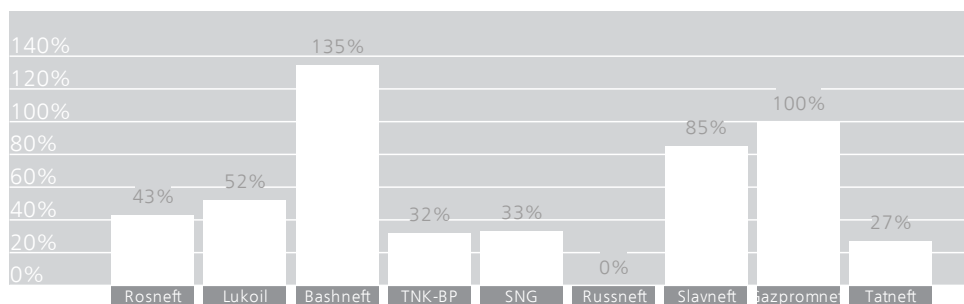
The South construction project is the oil product pipeline linking Syzran-Saratov-Volgograd- Novorossiysk.

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 2012 was RUB 167 bln.

## Downstream

Refinery capacity to oil production, 2012, %



The Russian refining system is the third largest in the world, ranked only behind the U.S. and China, with approximately 275 mnt of total capacity. In 2012, the volume of primary processing hit a record level of 270 mnt, up 4.9% year-on-year. Production growth has been driven by the transition to the European emission standards Euro-3 effected in 2013, an increase in internal demand and expansion of gasoline exports.

The majority of refineries still require upgrading, with a current Nelson complexity index of just over 5 compared to the European level of 6.5 and 9.6 for the U.S. The strategic goal set by the government is to reach processing depth of 83% by 2015.

According to investment plans announced by oil companies, capital expenditures of the sector exceeded RUB 300 bn in 2012.

Industry growth could be driven by new projects in 2013:

- The second 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.
- Gazpromneft has several large projects on the agenda; construction of the Nakhodka refinery plant (20 million t.) and modernization of the Omsk and Moscow refineries.
- Rosneft has 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 has started to implement the project on the designed capacity of deep oil refining at Kirishinefteorgsintez. This will allow the company to increase production of light oil products by 3.5 million tons.
- Lukoil is to launch the hydrocracker complex under the program of the Volgograd refinery modernization.

## Gas pipeline projects

The Unified Gas Supply System of Russia operated by Gazprom is the world's largest gas transmission system and represents a unique engineering complex encompassing gas production, processing, transmission, storage and distribution facilities. It assures continuous gas supply from the wellhead to the ultimate consumer. The system includes 161.7 thousand kilometers of gas trunklines and laterals, 215 line compressor stations with gas compressor units totaling 42 thousand MW in capacity, 6 gas and gas condensate treatment facilities and 25 underground gas storages locations.

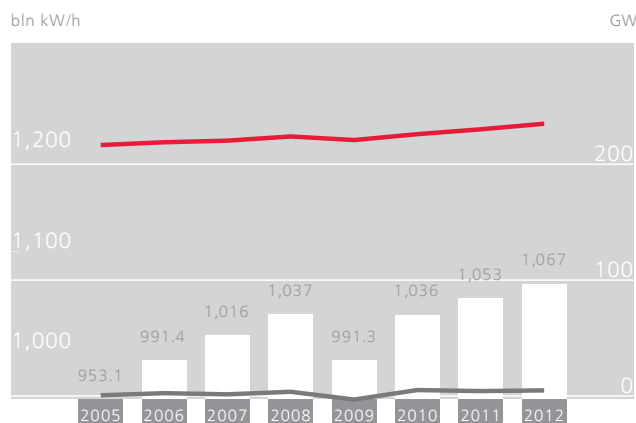
Among the important projects on gas transmission, South Stream (estimated CAPEX of 510 bn RUB), Yakutiya-Khabarovsk-Vladivostok (Power of Siberia) (estimated CAPEX of 770 bn RUB), Sakhalin-Khabarovsk-Vladivostok (estimated CAPEX 467 bn RUB) should be mentioned.

## 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 and explains permanent tariff growth and why this is one of the sources for high investment programs by the power generator companies.

In 2012, electricity output in Russia grew by 1.3% year on year and reached 1,053,900 mln KW/h.

Power generation in Russia



- Power generation in Russia, bln kW/h
- Change in generation capacities in Russia, GW
- Total capacity of power plants in Russia, GW

Russia's power complex includes about 600 power plants with individual capacity of over 5 MW. In 2012, the total capacity of Russian power plants amounted to 223.1 GW, exceeding the 2011 level by 5 GW. Growth was driven by the construction of new power facilities and modernization of existing infrastructure.

The power industry has the following structure of generation: 68.1% — thermal plants, hydraulic — 20.6%, nuclear — about 11.3%.

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

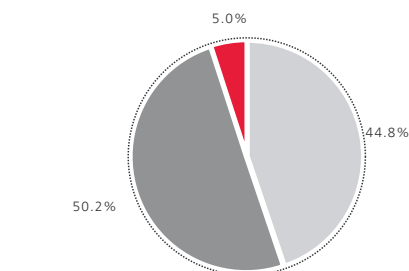
## Thermal power plants

For the most part, thermal power stations in Russia work on organic fuel like gas or coal and basically consist of steam-turbine power stations. In 2012, Russia's overall thermal power plant capacity installed was 162 GW, up 5% compared to the previous year.

The infrastructure in the thermal power sector is quite outdated — almost 55% of the installed capacities have a maturity of more than 30 years. As such, the Russian plants have an efficiency ratio of 37%, 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 modernization and reconstruction of the existing power stations is a primary development goal of the Russia thermal power sector as well as the start-up of new modern generating capacities. Around 20 projects have been executed over 2012 with a total capacity of 4.5 GW.

The sector's investment grew by 6% year-on-year and reached RUB 318 bn.

Thermal capacity maturity



■ Maturity less than 30 years  
■ Maturity of 30 to 50 years  
■ Maturity more than 50 years

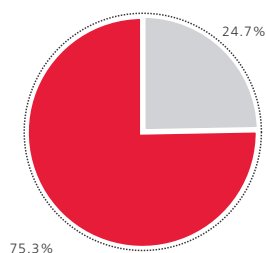
## Nuclear power plants

Russia has a full-cycle technology for the nuclear industry — from the extraction of uranium ore to electric power generation. Currently, 33 nuclear power units with the overall installed capacity of 25.2 GW are operated at 10 sites by Rosenergoatom. They account for 16% of domestic electricity generation. The share of nuclear generation in the European part of Russia reaches 30%, in the North-West part of the country — 37%.

Currently, there is an ongoing process of large-scale NPPs construction in Russia. The construction is underway on sites of Novovoronezh NPP Phase II, Leningrad NPP Phase II, Baltic NPP, and the world's first floating nuclear co-generation plant Akademik Lomonosov. Another nuclear power unit — the fourth reactor of Beloyarsk NPP — is close to completion. Nuclear power plants are being built abroad as well. These are Kudankulam (India), Bushehr (Iran), Akkuyu (Turkey), Ostrovets (Belarus), and Tianwan Second Stage (China).

In 2012, Russia has 33 nuclear operating reactors with a capacity of 25.2 GW. Most of them are ageing; 80% of capacity has a maturity of 20-40 years. 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.

Nuclear capacity maturity



■ Maturity less than 20 years  
■ Maturity of 20 to 40 years

Estimated investments of the sector increased by 29% year-on-year and reached Rub 258 bn.

## 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 thousands m<sup>3</sup> per head annually. This significantly exceeds the minimum level of 1.7 thousands set by United Nations Organization. One of the historical issues for the Russian water sector was high water intensity in the economy and relatively large losses in water transportation. Annual water losses amount to 7.5 km<sup>3</sup>, mainly driven by housing, 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 more than 65% for water supply pipelines, approximately 63% for drainage networks, around 65% for water pumping stations, around 60% for sewer pumping stations, 64% for wastewater facilities and 56% 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 15% in 2012 while GDP growth was 3.4%. Aside from the tariffs, the government approved several federal programmes to ensure the sectors development. Under the "Clean Water" federal programme, around Rub 276 bn is to be invested over the period from 2013 to 2017. Next Rub 290.6 bn will be invested under the federal state program "Development of the water utilities in Russia in 2013- 2017".

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, Kaliningrad, Far East, Transbaikalia, Kurly Island, and the Chechen Republic are expected to invest more than Rub 50 bn focusing on the development of the water utilities segment.



## Innovations and Technology

Innovations are core of HMS Group business leading to constant implementation of high end technologies in design and manufacturing that promotes Group's sustainable growth and guarantees its technological leadership on key markets.

In 2012 HMS Group was included in the short list of finalists of Pump Industry Awards by the British Pump Manufacturers' Association — one of the most prestigious awards in the pump and pump-related product industries. The Group was recognized finalist in the "Technical innovation of the years-Projects" nomination for its turnkey project of a pump station construction in Turkmenistan. The impressive 126,000m<sup>3</sup>/h capacity allows supply of Amu Darya River water into the irrigation system. EPC project was carried out in the harsh conditions and led to increase in irrigated area by 31,000 hectares.



### Innovations

HMS Group pays special attention to creation of new products and innovative as well as energy efficient solutions. The Group incorporates six leading R&D centers and testing facilities outfitted with cutting edge equipment and software that completed number of innovative projects in 2012.

#### Innovations for oil and gas

In 2012 HMS Group completed the design and delivery of new trunk pipeline pumps of NM type and booster pumps of NPV type to be installed in pumping station of ESPO-1 and ESPO-2 projects of Transneft. New customized high pressure multistage centrifugal pump was designed for Lukoil Oil Company.

The Group expanded its product offering with hi-end API pumps for oil refineries, petrochemical and chemical plants by acquiring Apollo Goessnitz GmbH. Production cooperation of Apollo's R&D and "know-how" with other HMS subsidiaries will allow to produce state-of-the-art skids based on API standards.

Tests of new innovative solution — Mera MFR measuring unit with NetOil&Gas (NOG) mass flow meter were carried out last year. The equipment features an automated mobile measuring unit used for measurement of mass flow rate of oil and gas with account for water cut without the usage of separator.



#### Innovations for water industry and utilities

HMS Group engineers have worked on design of new high efficient D type pump under DeLium and Desum trademarks. These models have excellent suction capacity and water proof design that increases efficiency and reduces wear.

In 2012 the Group launched serial production of new type of pumps control and protection system — HMS Control L3. The station is designed for borehole pumping units of well water pumps and submersible pumps. New controller provides precise measurement and convenient adjustment. The usage of new stations has numerous benefits including accidents prevention and increase of operating life.

#### Innovations for power generation

HMS Group completed the design for the first in the series of new feed pump with updated hydraulic characteristics to be installed on Tom-Usinsk power plant. Testing of new high tech feed pump for Novovoronezh and Leningrad nuclear power plants were carried out. Along with that, tests of modernized feed pump for 3<sup>rd</sup> unit of Rostov nuclear power station were successfully run.



### Production technology upgrade

HMS Group investment program aims at development of innovative activity and re-equipment of the production and R&D base. In 2012 several subsidiaries of the Group have accomplished important stages of their modernization programs.

HMS Group completed the construction of a new cast shop with the capacity of 4 thousand tones of metal per year. The projected rate of operation should be reached in the course of 2013. This project is a part of large scale modernization program which will allow the company to meet the growing customer demand with strict compliance to the high standards of production. Technological line Omega (UK) installed in the shop will allow full mechanization of the iron mould production. Melting compartment of the shop will have the capacity of melting 4 tones of metal simultaneously.

The Group purchased a new processing center produced by Danobat Group which will complement the existing high-end production facilities and considerably improve the production of the spare parts (Nasosenergomash).

Equipment of new shop for water well pumps including launch of automated testing facility were completed last year. Reconstruction of existing production facilities underwent full scale replacement of mechanical processing equipment (Livnynasos).

HMS Group completed the enhancement of laboratory designed for research of permafrost soils by installing an automated multi functional measuring and computing unit ACIS-6. This will provide for more efficient research and faster elaboration of design documentation for large oil & gas field development projects (Giprotyumenneftegaz).

HMS Group continues to introduce latest technologies into production process. In order to optimize the elaboration of new type of pumping equipment the Group purchased an industrial 3D printer which will facilitate the modeling of the new pumping equipment parts. Implementation of this latest design technology gives the designers and engineers a clearer vision of a new product's characteristics, makes the design process less time consuming.

more cost efficient and cuts down the level of materials required to manufacture products (HMS Pumps).

# Risk Management and Internal Control

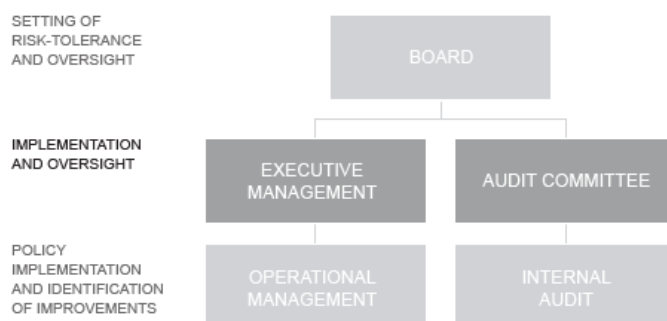
## Overview

The Group is exposed to various risks and uncertainties that may have undesirable financial or reputational implications. In order to minimize the negative impact of such risks and to benefit from opportunities a risk management and internal control system has been 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, while remaining true to the principle that expected benefits should outweigh costs associated with them.

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

The Group uses a formal risk management program across its companies, i.e. there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. 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. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.



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

- financial statement audits performed by external auditors – discussion with 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 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;
- ranking risks according to their significance and probability;
- making appropriate decisions to manage identified risks;
- active monitoring of the steps taken to control the most significant risks.

## Principal Risks and Uncertainties

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

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

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

### Global political and economic risks

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

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

### Sales

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

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

### Project execution risks

Since the Group's contracts are typically on a fixed-price basis, there are risks associated with cost overruns (especially in EPC segment). These risks are mitigated by Group's efforts on improving profitability, cost control, with the help of volume growth and a mounting share of high-margin integrated solutions services.

### Human Capital

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

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

### Acquisitions

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

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

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

### Fraud and corruption risks

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

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

As the Group operates in a number of jurisdictions around the world, the Board and senior management also put a strong emphasis on corporate

compliance with applicable regulation, e.g. anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

The Group has implemented procedures to ensure that all employees are aware of the requirements of the Group's anti-corruption policies, with particular focus on those roles most exposed to the risk of breach. It is planned to perform annual certification of most employees to ensure their awareness of applicable policies and expected behavior.

# Corporate Social Responsibility



HMS Group regards the contribution it makes to social development and improvement of the quality of life in local communities as an essential part of its business.

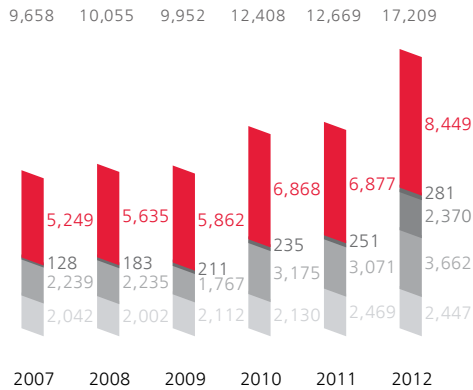
The Group contributes to society development mostly by producing high-end equipment for key industries and participating in major infrastructure projects that help to reduce power consumption and stimulate economic growth and job creation.

## People and workplace

HMS Group employees are considered its main asset and we do our best to provide them with opportunities for professional and personal development. We encourage our personnel to continuously improve operational excellence which fosters strong team spirit, higher employee engagement and, thus, superior performance.

HMS Group views development of its personnel as key element for the success of each individual employee as well as for the Group as a whole. We are focused on creating an environment where learning and development can take place enabling the employees to excel. We provide our employees with access to wide range of industrial trainings, IT and foreign languages courses, technical and business training courses and seminars.

## Average Headcount



- Oil&Gas equipment
- Engineering, procurement, construction
- Compressors
- Other
- Industrial pumps

The collective employment agreement implemented in every company of HMS Group specifies providing the employees with decent working conditions and remuneration. It is aimed to increase performance, standards of living and disposable income of the employees, providing them with social and labor benefits.

HMS Group strives to help its employees attain a good work/life balance. The Group guarantees its employees voluntary health insurance and social insurance in case of industrial accidents and diseases for the employees operating in hazardous environment. We offer various leisure and health support benefits to our employees and their families, including holiday packages for vacation centers and presents for children. Comfortable working environment includes canteens and medical stations. We provide our employees with access to corporate gyms, arrange professional and sporting competitions, cultural and educational events.

HMS Group establishes several channels through which the employees' initiatives can be reviewed and put into practice. There are corporate periodicals, information stands, feedback lines and face-to-face meetings at every facility of the Group.

Health and safety are top priority and an integral part of HMS Group practice. The Group is committed to zero accidents at workplace. All the employees are provided with personal protective equipment and health inspections for the workers exposed to occupational hazards are conducted on a regular basis.

## Community engagement

HMS Group makes significant charitable contributions in the communities where its operations have an impact. Through our operations we create jobs and business opportunities that strengthen local economies and support community development projects.

HMS Group subsidiaries have established long-term relationships with local colleges and universities. This cooperation includes launching of student initiatives and internships at the Group's production facilities. R&D clusters of the Group host scientific conferences for young professionals aimed at involving the young minds into scientific projects. During these workshops talents have the opportunity to show case their innovative projects.

HMS Group has a long-standing tradition for supporting charity initiatives, either by providing funds or by giving active support in charity projects. The main focus is health care institutions, orphanages and World War II veterans associations. The Group actively supports various sport, educational and cultural events.

We provide constant support for organizations for disabled people promoting their integration into society. The required help is rendered to divisions of Red Cross. HMS Group provides financial support for renovation and equipment of nurseries and schools. For several years the Group has been among sponsors of Preobrazhensk cadet corps in Moscow.

## Environmental initiatives

The HMS Group is committed to achieving the highest environmental standards by minimizing the loss to the environment and human health. We regard ecological activity as an integral part of our day-to-day operations fully recognizing the necessity to support ecological balance. Our policy in this field follows every applicable environmental law in all countries of operation. Regular audits ensure that these requirements are being met. HMS Group incorporates environmental considerations throughout the production process starting from design to development and manufacturing.

HMS Group production sites control and improve the processes for emission reduction and introduce resource conscious production technologies and equipment. The Group works continuously to improve resource efficiency in the manufacturing process. In 2012, along with the production expansion, the Group introduced modern waste treatment facilities. We expect to make stronger commitments in this area in the future by implementing environmentally sustainable high-tech solutions.

## Board of Directors

HMS Group's corporate governance practices are designed to ensure that the interests of all its stakeholders 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, it 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. HMS Group continues to review its corporate governance policies in light of international best practice.

The 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. Artem V. Molchanov**

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

Mr. Tsoy was appointed as Chairman of the Board of Directors in October 2010. As one of the founders of the Group, he has held various executive positions within HMS Group since its establishment in 1993. Mr. Tsoy has more than 19 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.

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. As one of the founders of the Group, he has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov has more than 19 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. Yury N. Skrynnik**

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. As one of the founders of the Group, he has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov has 19 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 has graduated from the Judge Business School, University of Cambridge with an executive MBA degree.

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of Compressor business unit, a position he has held since its establishment in 2012. Previously he held a position of Director for Strategic Marketing. 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. He graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from The Moscow Institute of Chemical Machinery (currently 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. Vladimir V. Lukyanenko**

Member of the Board of Directors,  
Non-executive Director

Mr. Yamburenko was appointed as an executive member of the Board of Directors in October 2010. He 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 Livhydmash (HMS Pumps), which is now part of the Group. Mr. Yamburenko has more than 30 years of industry experience. He graduated from the faculty of radio electronics of Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in October 2010. He also served as the Chairman of the Supervisory Board of OAO Sumy Frunze NPO (Ukraine) from 2003 until 2007. Mr. Lukyanenko has more than 20 years of industry experience. He graduated from the Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology) where he gained a degree in mechanical engineering in 1991.





**Mr. Philippe Delpal**

Member of the Board of Directors,  
Non-executive Director



**Mr. Andreas S. Petrou**

Member of the Board of Directors,  
Non-executive Director

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. Mr. Delpal has had a career in banking, most recently as Chairman of BNP Paribas Vostok in Moscow. He is now an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity firms in Russia. He is also currently serving as a non-executive director for Orient Express Bank OJSC (Russia), Eastern European Trust (London, LSE listed investment trust managed by Blackrock) and Komercijalna Banka AD (Serbia). Prior to that, Mr. Delpal founded Cetelem Russia in 2006 and served as its CEO from 2006 until 2010. From 2004 until 2006, as a CEO, he developed Rusfinance Bank (Societe Generale Group) up to the #2 position in Russia for car lending. In addition, Mr. Delpal has over eight years of experience as an auditor at Societe Generale. He graduated from the Telecom Paris University with a degree in IT, Telecoms and Economics. He has been living in Russia since 2004.

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2010. From 1989 until 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing interests of the Government of the Republic of Cyprus. From 1987 until 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law office. He is an honours graduate of the Law School of Democritus 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,  
Non-executive Director

Mr. Yamamoto was appointed as an independent non-executive member of the Board of Directors and a head of remuneration committee 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 and the Independent Directors Association.

## Performance of the Board in 2012

In 2012, the Board of Directors held 4 ordinary meetings, which occurred in Limassol, Cyprus. During the course of 2012 the Board of Directors continued working on the development of the Company's mid-term and long-term financial and business strategy, including investment plans, M&A activities, the budgeting process and general corporate development.

Throughout the year the Board of Directors closely monitored the ongoing improvement of the Company's internal control and risk management systems.

At its meetings the Board of Directors reviewed these and other issues connected with the activities of the Company within its remit, including approval of corporate reports, a long-term incentive program for senior management and a bonus scheme for the CEO.

### Committees of the Board of Directors

The Company has established two committees: the Audit Committee and the Remuneration Committee. A brief description of these Committees' main activities during 2012 is below.

#### Audit Committee

##### General Overview

The Audit Committee comprises three directors, two of whom are independent, and expects to meet three to 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; (ii) the effectiveness of the Group's internal control and risk management systems; (iii) auditors' reports; and (iv) the terms of appointment and remuneration of the auditor.

The Audit Committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. The Audit Committee also supervises the submission by the Group of financial information and a number of other audit-related issues in addition to assessing generally the efficiency of work of the Chairman of the Board of Directors.

##### Performance in 2012

In 2012 the Audit Committee held three meetings. The main issues the Audit Committee oversaw in 2012 were the preliminary review of IFRS financial statements, internal control and risk-management, including the insider policy implementation and audit plan.

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 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; the other members are Vladimir V. Lukyanenko, Yury N. Skrynnik and German Tsoy. 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 2012

In 2012 the Remuneration Committee held two meetings. The main matters reviewed by the Remuneration Committee were the long-term motivation plan for key managers of the Company, the remuneration package for the Company's CEO and implementation of the KPI policy.

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

### External Audit of Financial Statements

Every year HMS Group elects an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the Company in compliance with IFRS and who prepares reviews of the consolidated interim condensed financial information of the Company in accordance with IFRS requirements. 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 candidacy 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 2012, based on the recommendation of the Audit Committee, the Board of Directors selected PricewaterhouseCoopers Limited to conduct the audit of the financial statements of the Company for the year 2012.

### Directors Compensation

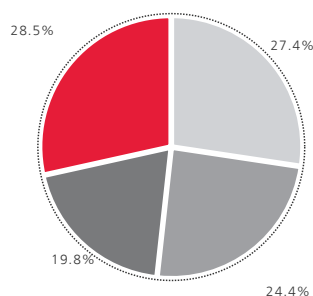
The compensation of Directors consists of annual remuneration paid to independent directors for their services in full positions. The total compensation of the independent directors, which is reflected as short-term employee benefits in the consolidated statement comprehensive of income in the Company's financial statements, was Euro 195 000 for the year ended December 31, 2012.

## HMS Global Depository Receipts

Global equities had a strong start of 2012, mainly on the back of liquidity injection from long-term refinancing operation, the European Central Bank's mechanism for providing financing and maintain liquidity cushion to Eurozone banks and the Fed's policy stance of 'at zero for longer', keeping short-term interest rates at record lows in order to stimulate spending and support assets prices.

Russia followed suit. After the setback at the end of 2011 in light of the post-Duma elections protest rallies, Russian equities enjoyed a strong catch-up, peaking at a positive 28% YTD return of the MSCI Russia index (Russia's strongest YTD gain since 2000) by the end of March. HMS Group GDRs enjoyed investor's risk appetite increase and grew by 22% in Q1 2012.

### Shareholders



Vladimir Lukyanenko  
 Management  
 German Tsoy  
 Free-float

Despite generally strong oil prices during the whole H1 2012, a negative scenario for HMS and Russian equities materialised since the middle of April. The European sovereign debt situation turned more perilous, shaping risk sentiment. The elections in Greece, the suffering Spanish banking sector, the ongoing discussion between Germany and the EU over the bailout mechanism as well as the global economy decelerating due to issues in EU economy balancing on the edge of recession, weaker growth in China and US turned into major headwinds in 2Q12. Following the strong performance of Russian equities in Q1 2012, the second quarter appeared to be weaker. HMS shares lost 10.5%, while MSCI Russia index declined by 14.7%.

The pattern in the second half of the year varied from the first six months significantly. In 2012, according to EPFR datasets, Russia-dedicated funds experienced USD 583mn of inflows in 1H12 and USD 383mn of outflows in 2H12 due to generally negative investor's attitude to Russia. These outflows couldn't help but affected small cap stocks performance.

Following the acquisitions made in early July, which resulted in debt increase and S&P's corporate rating reduction to B+, HMS shares nosedived for three weeks as there were increasing concerns over the Group's ability to grow the business of the acquired assets fast enough to justify the price HMS Group paid for M&As. However, the share price bounced back by the end of July following the wide efforts to communicate the strategy of the new assets. As a result, in Q3 HMS share performance was flattish, just 0.6% QoQ weaker by the end of the 3<sup>rd</sup> quarter, while MSCI Russia gained 9% in Q3.

The fourth quarter was the worse from the stock performance standpoint. Despite improved financial performance of 3Q12 and EBITDA growth of 41% QoQ in 3Q12, HMS shares lost 12% versus flattish performance of MSCI Russia Index.

### GDR price, US \$



### Information on HMS Group Plc GDRs:

Ticker	HMSG
CUSIP	40425X209
Exchange	<a href="#">London Stock Exchange</a>
ISIN	US40425X2099

Ratio, GDR : common shares

1:1

Effective Date

Feb 11, 2011

Underlying ISIN

CY0094Q01570

Depository bank

[BNY Mellon](#)

## Shareholder`s information

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

Company Name	HMS Hydraulic Machines & Systems Group Plc
Company Type	Public
Fiscal Year-End	December 31
Disclosure	<a href="#">LSE</a>
Managing Director (CEO)	Artem Molchanov
First Deputy CEO (CFO)	Kirill Molchanov

HMS Group Plc GDR details:

Ticker	HMSG
CUSIP	40425X209
Exchange	London Stock Exchange
ISIN	US40425X2099
Ratio	1:1
Depository	BK (Sponsored)
Effective Date	Feb 11, 2011
Local Exchange	Not Traded
Underlying ISIN	CY0094Q01570
Country	Russia
Industry	OilEquip.,Serv.&Dist

Global Depositary Receipts shareholders' contacts:

<b>Contacts for inquiries regarding:</b>	<ul style="list-style-type: none"><li>▪ advise of a change of name and/or address</li><li>▪ report lost/stolen GDR share certificates or the non-receipt of a dividend check</li><li>▪ request an election form for the scrip dividend program</li><li>▪ request forms to transfer GDRs</li><li>▪ report the death of a registered holder of GDR shares</li><li>▪ request a duplicate account statement</li><li>▪ have dividends electronically deposited to your bank account</li><li>▪ consolidate similar account registrations</li><li>▪ request general information about your shareholder account, etc.</li></ul>	<p>The Bank of New York Mellon BNY Mellon Shareowner Services PO Box 358516 Pittsburgh, PA 15252-8516 USA Tel: +1 888 737 2377 (USA only) Tel: +1 201 680 6825 (International) Email: <a href="mailto:shrrelations@bnymellon.com">shrrelations@bnymellon.com</a> Website: <a href="http://www.bnymellon.com">www.bnymellon.com</a></p>
<b>General Shareholder enquiries and Investor Relations contacts</b>	<p>HMS Group Investor Relations 7 Chayanova str. 125047 Moscow, Russia Tel: +7 495 730 6601 Fax: +7 495 730 6602 Email: <a href="mailto:ir@hms.ru">ir@hms.ru</a></p>	