ANNUAL REPORT
2014

HMS GROUP

WWW.GROUPHMS.COM

You can find more information on our web site

CONTENT

WHO WE ARE

HMS Group is a major pump and compressor equipment producer and provider of flow control solutions and related services for oil and gas, nuclear and thermal power generation, utilities and water supply in Russia and the CIS countries as well as one of the leading manufacturers of skid mounted modular oilfield equipment.

We are a dynamic engineering company with successful practice in design, installation and construction and the commissioning of complex oil and gas production and water facilities. HMS Group is a vertically integrated holding with a modern corporate management system in which the functions of the manufacturing companies' shareholders and that of business administration are traditionally separated. Our parent holding company is HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the Republic of Cyprus), which issued securities in the form of Global Depositary Receipts at the London Stock Exchange in February 2011. The company operates through four divisions which employ over 15,500 people in Russia, Ukraine, Belarus and overseas.

INDUSTRIAL PUMPS

RUB 16,270 MN Revenue
19% EBITDA margin
9.1 thousand employees

Description

The industrial pumps business segment is our oldest division. It designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. It also provides aftermarket maintenance, repair services and other support for its products.

Core products and services:

– Water injection;
– Trunk pipelines;
– Oil refineries;
– Nuclear and Thermal power;
– Water utilities;
– General industrial pumps.

OIL & GAS EQUIPMENT

RUB 10,220 MN Revenue
19% EBITDA margin
1.9 thousand employees

Description

The oil and gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems used primarily for oil extraction and transportation.

Core products and services:

– Oil pumping stations and pump stations for water injection;
– Oil & gas and water processing units;
– High-precision and automated metering units;
– Tanks, reservoirs and vessels;
– Oil development equipment.

COMPRESSORS

RUB 2,474 MN Revenue
-10% EBITDA margin
2.5 thousand employees

Description

The compressor business segment was established after the acquisition of leading Russian compressor producer Kazankompressormash (KKM) in July 2012. In 2013, it was bolstered by the acquisition of NIITK, a research & design institute providing compressor technologies. The division designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions to customers in oil and gas, metals and mining and other core industries in Russia.

Core products and services:

– Oil and gas production;
– Oil and gas transportation;
– Gas processing;
– Oil refineries;
– Oil and gas chemistry;
– Refrigeration applications for various industries.

ENGINEERING, PROCUREMENT AND CONSTRUCTION (EPC)

RUB 3,355 MN Revenue
15% EBITDA margin
1.8 thousand employees

Description

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction work for projects for customers in oil upstream and midstream, gas upstream and water utilities sectors.

Core products and services:

– Oil and gas projects focused on design and planning;
– Oilfield surface infrastructure and pipeline construction.

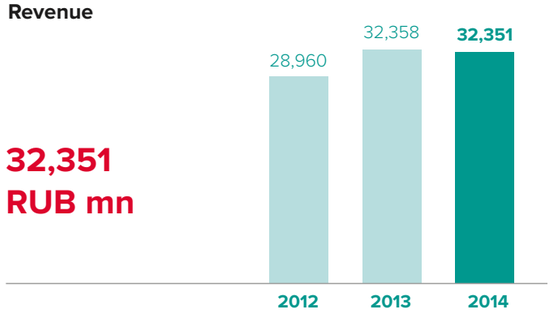
HIGHLIGHTS

HMS Group is a dynamically growing diverse corporation that combines leading manufacturing (pumps, compressors, oil & gas equipment), engineering and construction companies. Our markets are oil & gas, nuclear and thermal power generation, water supply & utilities, metallurgy, etc.

Name	UNIT	2013 FY	2014 FY	Change yoy
Backlog	Rub mn	22,333	27,510	23%
Order intake	Rub mn	34,814	34,705	0%
Revenue	Rub mn	32,358	32,351	0%
EBITDA, adj.	Rub mn	5,238	5,272	+1%
Net debt	Rub mn	11,103	12,432	+12%
EPS	Rub	8.99	-13.83	-
Dividend per share	Rub	3.4	-	-
ROCE	%	13.9%	11%	-

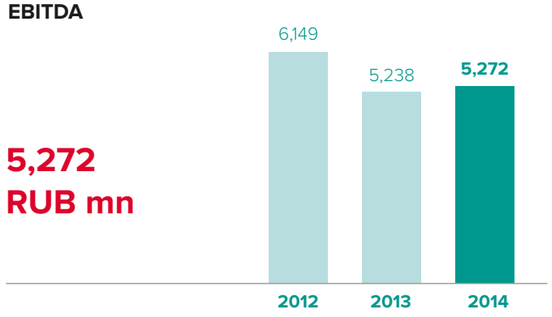
Revenue

32,351 RUB mn



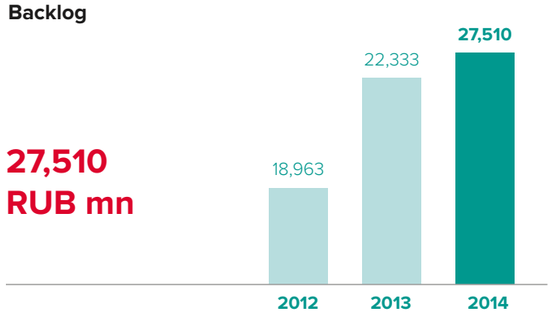
EBITDA

5,272 RUB mn



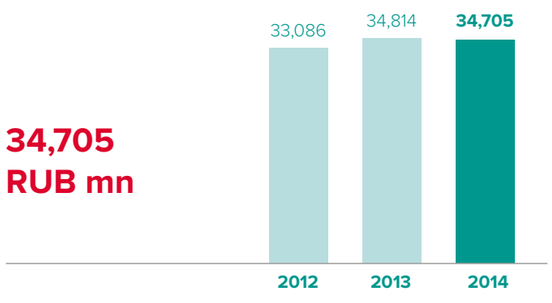
Backlog

27,510 RUB mn



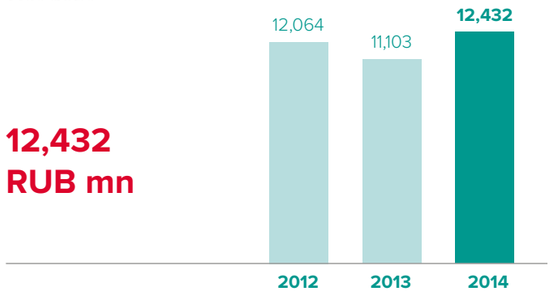
Order intake

34,705 RUB mn



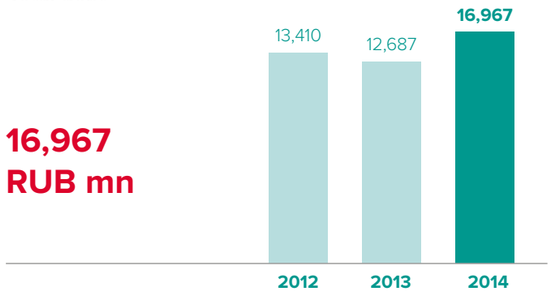
Net debt

12,432 RUB mn



Total debt

16,967 RUB mn



CHAIRMAN'S STATEMENT

Building a more focused, efficient and stronger company.

Chairman
Nikolay Yamburenko

Dear Shareholders,

2014 proved to be a distinguishing year for HMS Group. It was a year of funding constraints, sanctions, low oil prices and a weak ruble.

Downward trends in the Russian economy as well as the slowing-down of investment activities in the Group's core markets due to imposed sanctions and limited access to capital led to delays in customer tenders for new large infrastructure projects, which we have historically considered priorities for our strategic development. Nevertheless, this year we signed 2 large-size contracts to deliver oil & gas equipment.

HMS Group pursued an active M&A strategy over the previous few years. The key reasons for this strategy were to intensify our presence in existing markets, enter new markets, and add new products to our product portfolio. The acquired companies contributed positively to the Group's overall development. HMS Group focused on organic development in 2014.

HMS Group has delivered creditable results, which illustrate the intrinsic resilience of our Company. We completed large scale projects in the industrial pumps segment in 2014, and supplemented them with oil and gas equipment contracts. All our business segments, excluding compressors, showed results in line with our expectations. The lower-than-expected performance in our compressor business was a direct consequence of the deteriorating market conditions in Russia and postponed large tenders. Meanwhile, our reorganized and restructured EPC business segment delivered solid results, and we see opportunities for its further improvement and development.

In my opinion, the theme of this annual report, Expertise Stability Innovation, accurately demonstrates our business model. Over 20 years, we have transformed a small trading company into a leading industrial Group, which offers a full range of products and services for flow control solutions.

Now it is time to optimise the Group's structure, completely integrate our acquired assets, and rearrange them with increased efficiency in order to benefit from synergies and interaction across all business segments.

Our priority is to improve business performance by unlocking productivity improvements and leveraging our expertise throughout our operations.

Business optimization also means an improvement in the quality of our backlog through greater project selectivity, an emphasis on operational performance to drive earnings, an improvement in our capital structure and further diversification of our existing end-markets and clients.

Internal focus is also concerned with providing a safe and healthy work environment. Our target is to have zero work-related accidents. Our people continue to be HMS Group's main and the most valuable resource.

Outlook for 2015

We expect 2015 to continue to present challenges for us. The outlook for the Russian economy remains unchanged, so there are still high uncertainties regarding the long-term trends. Nevertheless, we remain confident about the future prospects of our business. Building on our leading market positions and strategic priorities, HMS Group is well-positioned for long-term success and profitable growth. We believe that our markets still offer a lot of potential and our optimisation programme, which is already underway, will make us even better positioned to take advantage of our anticipated opportunities.

Yours faithfully,
Nikolay Yamburenko

CEO STATEMENT

Chief Executive Officer
Artem Molchanov

Dear Stakeholders and Partners of HMS Group,

The slowdown in the Russian economy began in 2013, and HMS Group faced problems with its construction sub-segment, which generated losses. The management fixed them by selling one of our loss-making construction companies, Sibkomplektmontazhnaladka, and significantly restructuring along with cost cutting program another construction asset Tomskgazstroy. As a result, EPC segment returned to positive territory in 2014 and showed impressive growth in profitability.

Challenging market conditions in 2014 were further complicated by international sanctions, affecting the accessibility to credit resources and their borrowing costs, the depreciated ruble and the more than the threefold raise of the key rate. And last year the management faced another difficulty related to the compressors segment and caused by periodic volatility of Kazankompressormash's orders portfolio, but the recent growth of backlog assumes that the problem has been remedied.

However, against all the odds, I am pleased to report on HMS' sustainable operating highlights in 2014 – stable revenue with a higher EBITDA and EBITDA margin, an increased backlog and a solid order intake.

Herein, it is critical to emphasize our ability to counter crises, emerge from them and strengthen our company's resistance. In general, HMS Group's entire history from 1993 to today can be described as a life in constant crisis and tough competition. The nineties and the first half of the 2000s were a period of high interest rates, low customer demand and lack of access to credit resources. Despite the above factors, by 2007 we were the largest pump producer in Russia.

Then came the crisis of 2008. In the next few years we boosted the Group's revenue and EBITDA twofold.

Today we are experiencing another crisis. Whatever macroeconomical factors we have and environment we operate – within the former USSR, on almost 1/6 of the Earth's habitable land, HMS Group, perhaps, is the best in the design, production and sales of pumping and compressor equipment ... and I'm assured of that because thanks to our team we will get through this crisis successfully.

In 2014, we replaced the large-scale ambitious ESPO project by two new large projects, in total worth over 12 billion rubles. The first contract was to deliver an integrated oil and gas equipment solution for a major Siberian gas field and the second - to deliver equipment for the extraction, transportation and processing of liquid hydrocarbons.

If speaking about standard equipment, in 2014, the influx of small and mid-size orders was comparable to 2013, proving the reliability of our business model. Also, while working on the Iraq market, we expanded our export portfolio up to several tens of millions US dollars.

During the banking crisis in December 2014, we accumulated 2 billion rubles of own cash to be used against near debts repayment. As a result, even in this difficult economic environment, our Net debt/EBITDA ratio stood at a healthy level of 2.36.

We are working on enhancing HMS' resilience to crisis phenomena and boosting the company's development. In the whole, the company put in great efforts on diversification by:

– clients where Gazprom became one of the largest customers;
– segments and markets with entrance into a new market of gas projects;
– geographical with export portfolio exceeding 30% of total pumps backlog.

Though the markets remain highly volatile and current developments are further impacting visibility, I believe that HMS Group will demonstrate better performance in the upcoming period.

Yours faithfully,
Artem Molchanov

MAP OF OPERATIONS

Hydromashservice

Founded in 1993.
Description: the associated trading company of the HMS Group
Products: pumps and units, compressors and units, oilfield, measuring and oil&gas equipment
Services: commissions, installation supervising, repair, service maintenance and equipment upgrade
Website: http://www.hms.biz
Location: Moscow, Russia

HMS Headquarters

HMS Group Management Company
Founded in 1993.
Description: managing company of all HMS Group's assets.
Website: http://www.grouphms.com
Location: Moscow, Russia

INDUSTRIAL PUMPS

1 Apollo Goessnitz GmbH

Founded in 1863.
A member of HMS Group since 2012.
Products: process and standard pumps and systems, system engineering - projecting, design and manufacture of plants for liquid fuels, process plants, plants for water supply, automation systems and electrical.
Apollo is certified according to ISO 9001 by Lloyd's Register Quality Assurance.
Website: http://www.apollo-goessnitz.de
Location: Goessnitz, Germany

2 Promburvod

Founded in 1927.
A member of HMS Group since 2007.
Products: electric driven submersible pumps for water supply, utilities and environment.
Website: http://www.promburvod.com
Location: Minsk, Belarus

3 Bobruisk Machine Building Plant

Founded in 1898.
A member of HMS Group since 2011.
Products: pumps for oil refining, petrochemical, steel and mining, power, pulp and paper, construction, as well as for water and water waste and sewage in municipal, agricultural and industrial water supply systems.
Website: http://www.bmbpump.by
Location: Bobruisk, Belarus

4 Nasosenergomash (NEM)

Founded in 1946 .
A member of HMS Group since 2004.
Products: pumps for oil and gas: midstream, upstream; thermal and nuclear power, water supply and utilities
Website: http://www.nempump.com/en
Location: Sumy, Ukraine

4 VNIIAEN

Founded in 1951.
Associate of HMS Group (47%) since 2007.
Description: development of pumping equipment for large complexes of atomic and thermal power engineering; on projects of oil, chemical, sugar and food industries, oil pipeline transportation and maintenance of pressure in oil pools, water supply and irrigation; at civil engineering and mining works, in underground systems, agglomerate-and-ironmaking and steel industries, sewerage system and cattle-breeding complexes, municipal and public utilities etc.
Website: vniiaen.sumy.ua/en
Location: Sumy, Ukraine

5 HMS Livgidromash

(before 07.07.2014 HMS pumps, before 26.08.2010 Livgidromash)
Founded in 1947.
A member of HMS Group since 2003.
Products: pumps for oil processing, petrochemical, shipbuilding, power generation, water, utilities and environment, agriculture.
Website: http://www.hms-pumps.com
Location: Livny, Orel region, Russia

5 Livnynasos

Founded in 1970.
A member of HMS Group since 2006.
Products: submersible centrifugal ECV-type pumps for municipal, industrial, rural and household water supply as well as for irrigation and groundwater control.
Website: http://www.livnasos.ru
Location: Livny, Orel region, Russia

6 Dimitrovgradkhimmash (DGHM)

Founded in 1931.
A member of HMS Group since 2011.
Products: pumps for chemical processing and oil and gas, vessel equipment, chemical equipment, spare parts for gas pumping stations.
Website: http://www.himmash.net
Location: Dimitrovgrad, Ulyanovsk region, Russia

COMPRESSORS

NIITurbokompressor N.A. V.B. SHNEPPA (NIITK)

(before 26.08.1985 – ICBS – Special Design Bureau compressor engineering)
Founded in 1957.
A member of HMS Group since 2013.
Description: a major scientific and research and production center in Russia to develop centrifugal, screw, rotary and scroll compressors.
Website: http://www.niitk-kazan.ru
Location: Kazan, Russia

Kazankompressormash (KKM)

Founded in 1932.
A member of HMS Group since 2012.
Products: centrifugal, screw compressors and systems for air and various gases; compressor stations; refrigerators.
Website: http://www.compressormash.ru
Location: Kazan, Russia

EPC

1 Institute Rostovsky Vodokanaproekt

Founded in 1932.
A member of HMS Group since 2009.
Description: institute with focus on water supply and waste water and sewage systems and related hydro-technical facilities design.
Website: http://rvkp.ru
Location: Rostov-on-Don, Rostov region, Russia

2 Tomskgazstroy (TGS)

Founded in 1968.
A member of HMS Group since 2007.
Products: linear objects construction, reconstruction and overhaul such as oil pipelines, gas pipelines, product pipelines, water pipelines, condensate pipelines and power transmission lines.
Website: http://www.tgs.tomsk.ru
Location: Tomsk, Tomsk region, Russia

Giprotymenneftegaz (GTNG)

Founded in 1964.
A member of HMS Group since 2010.
Description: the leading Russian R&D center with integrated oilfield designing for oil and gas.
Website: http://www.gtng.ru/en
Location: Tyumen, Russia

OIL&GAS EQUIPMENT

Nizhnevartovskremservis (NRS)

Founded in 1998.
A member of HMS Group since 2006.
Services: pumping, drilling and other oilfield equipment repair, maintenance and upgrade.
Website: http://www.nv-rs.ru
Location: Nizhnevartovsk, Khantymansiysk aut. district, Russia

HMS Neftemash

Founded in 1965.
A member of HMS Group since 2005.
Products: oil&gas equipment for oil and gas, including cluster pumping stations and equipment for water injection systems; group automatic measuring units for oil well gauging metering; stations for hydraulic drives of submersible well pumps and underground oil extraction equipment; oil pumping stations etc.
Website: http://www.hms-neftemash.ru/en
Location: Tyumen, Russia

Sibneftemash

Founded in 1976.
A member of HMS Group since 2011.
Description: special oilfield equipment development, design and manufacture for oil exploration intensification and efficiency; current and work over repairs, isolation works and fracturing.
Website: http://www.sibneftemash.ru/en
Location: Tyumen, Russia

Sibnefteavtomatika (SIBNA)

Founded in 1986.
A member of HMS Group since 2008.
Products: controlling devices and systems development and manufacture for oil and gas, power generation, water, heat and gas supply.
Website: http://sibna.ru/eng/main
Location: Tyumen, Russia

INVESTMENT THESES

1 LEADING MARKET POSITIONS IN ALMOST ALL SEGMENTS WHERE WE ARE PRESENTED

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

2 UNIQUE R&D BASE GIVES US THE ABILITY TO PROVIDE HIGH-MARGIN INTEGRATED SOLUTIONS

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

3 HISTORY OF RESILIENT FINANCIAL GROWTH

Founded in 1993 as a pump trading and servicing company, HMS has grown organically and by pursuing an active M&A policy that has seen the successful completion of over 20 acquisitions aimed at either adding products to the portfolio, or expanding into adjacent business areas. As part of this strategy, HMS Group has consolidated a number of leading pumps and equipment manufacturers in the former Soviet Union since 2003, and has formed a leading industrial group with revenue of 32.3 billion rubles in 2014.

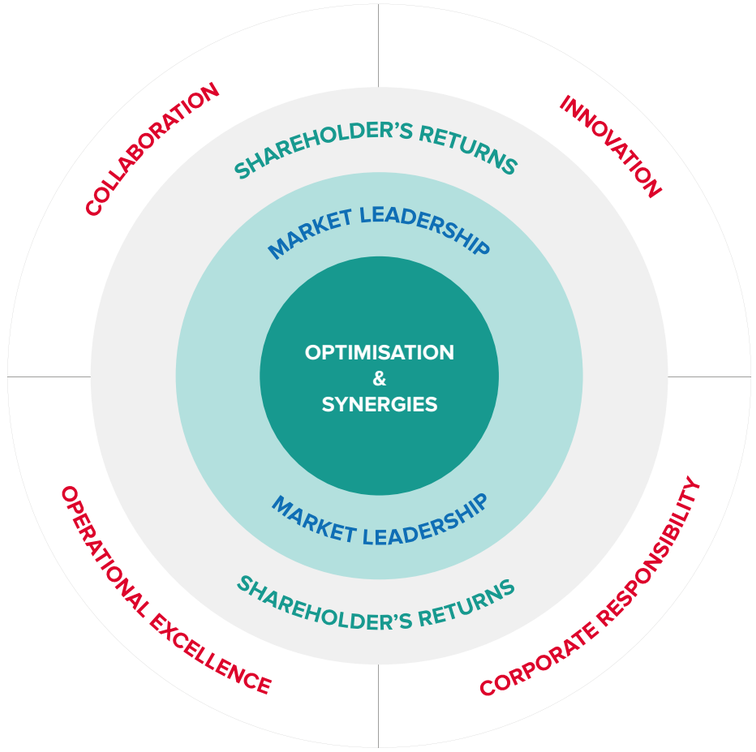
4 WELL-ESTABLISHED CUSTOMER BASE AND STRONG RELATIONS WITH RUSSIAN OIL & GAS MAJORS AND POWER COMPANIES

We have a well-diversified client base of more than 6,000 customers, including numerous subsidiaries of Russia's largest oil and gas and energy companies.

5 DEDICATED MANAGEMENT TEAM COMPRISED OF FOUNDERS AND SHAREHOLDERS

HMS Group's growth is driven by a strong management team with a proven track record that has demonstrated its ability to deliver organic growth and make value-added acquisitions. The management team includes the founders of the Group, with HMS being a core business for its largest shareholders.

STRATEGY



FOUR PILLARS OF OUR STRATEGY

Collaboration

We work closely with our customers and suppliers across all business segments. These partnerships allow us to better understand our existing markets and to meet the current needs of our clients as well as anticipate those of the future.

Operational excellence

We constantly seek to improve the equipment we manufacture and solutions we offer as well as to develop our sales and marketing effectiveness. A commitment to self-improvement leads to higher margins and returns.

Innovation

We develop new products and technologies to provide our clients with competitive engineering solutions. Our commitment to innovation promotes our market leadership and enables us to enter adjacent markets.

Corporate responsibility

We strictly comply with safety standards, follow a code of ethics in respect to all stakeholders and target a lowering of the environmental impact of our operations.

STRATEGY

HMS Group operates and targets the further strengthening of its position in three key markets that have encouraging outlooks and positive fundamentals — industrial pumps, oil and gas equipment and compressors. We intend to benefit from anticipated growing demand for our core equipment in the oil and gas, water utilities and power generation industries. Through the effective supply of standard and customised products and integrated solutions, HMS aims to achieve the status of preferred partner for its clients.

The Group seeks to deliver sustainable organic growth supplemented by selective acquisitions. The successful integration of acquired assets will allow HMS Group to capture synergistic opportunities and realise expected benefits. While continuing to improve operational performance, the Group will seek to develop new customer-oriented value-added products and services.

OBJECTIVE

Creating long-term value for our shareholders by achieving sustainable, profitable growth in our key strategic markets.

HISTORY

1993

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

1995

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

2003-2004

HMS Group began to manufacture pumps after the acquisition of Livgidromash (currently — HMS Livgidromash), one of the largest manufacturers of industrial pumps in the CIS. HMS Group enhanced its oil and gas equipment offerings through the acquisition of Neftemash (Tyumen), one of the largest Russian producers of modular flow control equipment for surface oilfield sites.

2005

HMS Group became a leading manufacturer of high capacity customized pumps through the acquisition of Nasosenergomash (NEM, located in Ukraine), one of the major companies in 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 Tomskgazstroy (TGS), a provider of construction services for oil and gas pipelines. The Company expanded its maintenance and repair business through the acquisition of Nizhnevartovskremservis (NRS).

2007

HMS Group entered the EPC market through the acquisition of Sibkomplektmontazhnaladka (SKMN), a provider of integrated EPC services for the development and construction of oilfield infrastructure. The Company also acquired a minority stake in Dimitrovgradhimmash (DGHM), 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 VNIIAEN, an R&D centre and the only one of its kind in the CIS which specializes in pumping equipment for the nuclear power generation and oil transportation industries.

2008

HMS Group increased its presence in the water utility, power generation and modular equipment sectors through the acquisitions of Promburvod, the largest producer of electric submersible water pumps in Belarus, and NPO Hydromash, a manufacturer of pumps for the thermal power generation and oil and gas industries that has subsequently been joined to NEM and Rostov Vodokanalproekt (RVKP), 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 Sibnefteavtomatika (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 the Vankor oilfield 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 Gyprotumenneftegas (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 on the London Stock Exchange via GDRs. As a key consolidator in the domestic pumping industry, HMS completed 3 acquisitions (Sibneftemash, Bobruisk Machine Building Plant and exercised the option to acquire its next stake in Dimitrovgradkhimmash (DGHM)), seeking opportunities to increase its presence in existing and adjacent markets.

2012

HMS Group entered the promising new gas projects market with the acquisition of the leading Russian industrial compressor producer KKM. Pursuing the enhancement of its pumps product portfolio, the Group completed the acquisition of the German manufacturer of high-end specialized pumps, Apollo Goessnitz GmbH (Apollo), which strengthened its market position in industries with a need for technologically-demanding integrated solutions.

2013-2014

HMS Group made a disposal of SKMN to make the Group's business model more effective, release resources, involved in the EPC business, and use them for the active development of the core business.

1993 — 1995 — 2003-2004 — 2005 — 2006 — 2007 — 2008 — 2009 — 2010 — 2011 — 2012 — 2013-2014

BUSINESS MODEL

HMS Group focuses on customers, and all our businesses – from product development to after-sales services – are tailored to solve their goals. The deep understanding of our customers' needs and markets, the ability to engineer products to meet clients' specific requirements and our strong expertise in manufacturing helps us to secure mutually beneficial partnerships.

RESEARCH & DEVELOPMENT

Continuous research and development plays an essential role in the sustained success of HMS Group. We view R&D as the cornerstone for achieving technological leadership in the markets where we operate. Turning the technical requirements of our customers into innovatively engineered products strengthens our competitive position and helps to increase our commercial success.

HMS operates a wide corporate R&D network. It includes: 5 leading R&D centres in Russia and the CIS; 3 leading project and design institutes dedicated to strengthening our core competencies in oilfield design (GTNG), water facilities (RVKP) and compressor equipment (NIITK); and one foreign innovative technology centre - complying with offshore and oil refinery API standards (Apollo). The Group coordinates the whole innovation cycle through its headquarters in Moscow.

Our research and development activities are primarily directed at improving existing products and services, the design of products to meet specific customer needs and the development of new products, solutions and services.

Our highly qualified and experienced R&D team, combined with sophisticated computer technologies, enables us to create reliable, energy-effective, efficient pumping and compressor equipment which conforms to the requirements of Russian and foreign customers within tight schedules.

MANUFACTURING

Manufacturing is the core activity of HMS Group. We have built our leading industrial group through a number of acquisitions of the best producers of pumps, compressors and oil and gas equipment in Russia and the CIS. At present 16 plants operate under the HMS brand, most of which are considered flagship enterprises in their regions.

We continuously update our production facilities and technological processes to offer modern and competitive equipment for our clients. In our manufacturing process, we primarily focus on the energy efficiency, robustness, reliability and cost of our products.

HMS Group manufactures both standard and customised equipment. We purposefully target the segment of high margin products tailored for specific customer needs and based on our in-house R&D design, which secures our future sales growth. Our commitment to high quality, our solid track record and our strong expertise make HMS the partner of choice for participating in complex and challenging projects in the oil and gas, energy and water utilities markets.

MARKETING AND SALES

In the majority of cases, the Group is awarded contracts following participation in tenders. The Group builds and maintains customer relationships at the board level, senior manager level and local level. The negotiation of large-scale projects typically involves the Group's directors, senior managers, senior R&D personnel, technical specialists, and their counterparts at the customer's head office. R&D personnel support the sales process by providing input at each stage.

Customised and modular equipment is sold directly to the customers. Contract terms vary depending on a number of factors, including client industry, size of the order and the scope of types of equipment.

Standard pumps are sold mainly through an extensive trading network of dealers and distributors accounting for over 100 partner companies across Russia. The central sales office, Hydromashservice, is located in Moscow. There are also 11 branches and representatives offices in Russia and the CIS and 3 outside of the CIS — in Milan, Dubai and Baghdad.

Equipment sales are made by professionals with strong practical knowledge and the ambition to offer the best solution for the customer's specific application.

We have a well-diversified client base of around 6,000 names. A significant share of the Group's revenue comes from "Blue-chip" clients, which include the largest O&G and energy companies in Russia. A stable revenue growth comes from small-to-medium-sized clients with annual purchases below 200 million rubles.

The improvement of our sales process and further extension of the effective distribution system are the priorities for HMS Group.

AFTER-SALES SERVICES

When customers enter into a partnership with HMS Group, their experience is not limited to the mere procurement of industrial equipment. We also provide a wide range of after-sales services, which include:

– energy audit and optimization of energy efficiency of pumping and compressing systems;
– warranty and post-warranty maintenance;
– supply of spare parts, equipment repairs and upgrades;
– consulting and training.

We run over 20 service centres in Russia and the CIS and are seeking to further extend this network.

In addition to carrying out the energy efficiency optimisation of pumping / compressing systems, our team of product managers and engineers selects tailored pumps and compressors for every type of hydro / gas technical system. Our team works in close collaboration with the client and provides necessary consulting services in order to identify and prioritize all the factors which influence equipment selection and secure the most efficient operations of pumping and compressor system.

HMS Group provides further training programmes and technical consulting services for the client's operating personnel to enable the correct, failure-free and energy-efficient use of supplied equipment and to increase the professional qualifications of personnel.

We are currently developing a programme to expand our maintenance services to cover all types of supplied equipment.

HMS Group is anticipating a growing demand for after-market services in the oil and gas, energy and utilities sectors in Russia and the CIS in line with global long-term industry trends.

2014 IN CONTEXT

JANUARY

LUKOIL Neftohim Burgas AD (Bulgaria) commissioned a compressor unit made by **KKM**, intended for flare gas utilization at the oil processing plant.

FEBRUARY

Apollo signed a contract to deliver eight BB5-type API610-compliant pumps, which are the critical parts for a new oil processing plant in Russia, currently under construction, having won in cutthroat competition with leading foreign pump producers.

After successful testing, **Apollo** supplied for the Permas Field Project Malaysia (MURPHY Oil) a TGD-50B/10 high-pressure and high-speed BB5 pump for offshore application, in line with the API-610 standard.

MARCH

HMS Neftemash produced and delivered a mobile non-separation measuring unit based on the Roxar MPFM 2600 multiphase flow meter.

HMS Neftemash completed successful field tests of the "Mera-MP" metering unit based on a multiphase flow meter "NetOil&Gas" at a client's plot. That was the first test of the equipment for high-viscosity (up to 500 cSt) oil fluid property evaluation on sub-zero oil.

APRIL

HMS Group signed a 981 million rubles credit agreement with Raiffeisenbank to finance its capital needs.

MAY

HMS Group and Gazprom Neft signed a 5-year strategic cooperation agreement in the field of delivery of oil & gas and pumping equipment for modernization and development projects of Gazprom Neft's companies. The document also contains regulations regarding the information exchange on present and upcoming products and solution of HMS and the estimated demand of Gazprom Neft for equipment, technologies and integrated solutions.

HMS Neftemash completed successful tests of a pre-production model of a centrifugal water-purifying machine.

JUNE

Apollo signed a contract with one of the leading international engineering companies - Alstom Power for production and delivery of a large quantity of pumping equipment for the Koeln Niel power plant construction project (Germany).

According to the contract, the customer will receive two main VS6 condensate pumps with a flow rate of 760 cubic meters per hour and head of 97.8 meters, two main OH2 boiler feed water pumps with a flow rate of 285.6 cubic meters per hour and head of 130 meters, as well as four heating circulation and forwarding pumps. All of the pumping units will be produced according to API-610 standards and equipped with automation and control systems.

Complete systems based on three vertically split centrifugal compressor units made by **KKM** for the Prirazlomnaya offshore ice-resistant oil-producing platform (Gazprom), designed for development of the Prirazlomnoe field in the Pechora Sea shelf, successfully passed acceptance tests. The first compressor unit is intended to compress associated petroleum gas and deliver it as fuel gas to the gas turbine unit for energy production, the second unit – to compress and deliver a stripper with absorbing (hydrocarbon) gas for hydrogen sulfide stripping on the sea platform, and the third – a reserve unit – is utilized to supply gas turbine units with fuel gas.

HMS Group Shareholders Annual General Meeting was held on June 24, 2014. The shareholders approved the Company's annual report for 2013 and the consolidated and stand-alone financial statements of the Group for 2013, the new composition of the Board of Directors, voted for the payment of dividends in the amount of 3.41 rubles per GDR, and appointed Deloitte Limited, Cyprus as the Group's auditors, while the Group's Directors had been authorized to agree on the auditor's remuneration.

HMS Group signed a credit agreement with Unicredit Bank for 800 million rubles, used for the refinancing of bank indebtedness.

JULY

KKM delivered compressor units to the Plesetsk launch site. Multi-shaft centrifugal compressors, 250 cubic meters per minute, outlet pressure 9 and 16 Mpa, impress and deliver air providing support for a thermostatic system of a launching site at the prelaunch period.

KKM completed delivery of equipment to the compressor stations of Gazprom's South Stream: Ekaterinovka, Bubnovka and Pisarevka.

NIITurbokompressor developed and **KKM** produced the first refrigerating multiplicatory-type compressor unit for propane compression in Russia.

AUGUST

KKM and NPO "Iskra" signed a strategic cooperation agreement in the field of production of gas transportation equipment.

Nizhnevartovskremservis completed modernization of a testing stand for CNSg pumps to commission new products.

SEPTEMBER

HMS Group made a partial redemption of its Ruble bonds series 02 for 900 million rubles, excluding accumulated coupon interest. The company purchased 900,000 bonds at 100% par value. 3 billion ruble bonds with a 10.75% coupon rate were issued in February 2012 and mature in February 2015. Raiffeisenbank both financed the deal and acted as purchase agent.

Apollo delivered pumping equipment to a gas and steam turbine power plant Lausward (Duesseldorf) ordered by Siemens. The customer received two main condensate pumps with a flow rate of 750 cubic meters per hour and head of 291 meters and two condensate polishing pumps in vertical can design that will be operated with frequency converter.

Apollo signed an agreement to deliver API-610-complaint pumping equipment to Kraken FPSO vessel in the North Sea, one of the largest FPSO vessels in the world, that is a continuation of offshore equipment project & design development.

KKM was recognized as the best domestic producer of pump and compressor equipment in 2014 according to a survey, hold by the State Duma Energy Committee among oil & gas companies in Russia.

KKM and KMPO signed a strategic cooperation agreement in the field of development and production of equipment for gas transportation units (GPU) and compressor stations.

Bobruisk Machine Building Plant completed modernization of its machine workshop to increase the quality and quantity of products and decrease production costs. There were four multi-function machining centers installed: HNK VTC-12/16 3-Axis vertical turning lathe (Dynamic International, South Korea) with multiple machining capability, a turning lathe machining center (Germany), DMU 65 monoBLOCK 5-axis milling with a redefined swivel rotary table (DMG MORI, Germany) and a HRM-15 portal machining center (South Korea).

OCTOBER

HMS Neftemash completed successful field tests of a metering unit "Mera-MP" based on a multiphase flow meter "NetOil&Gas" at a client's plot. That was the first test of the equipment for high-viscosity (up to 1,000 cPs) oil fluid property evaluation on cold oil without the use of an inline heater.

KKM delivered a centrifugal compressor with the lubrication system for Stavrolen (LUKoil) under a signed contract to produce and deliver a gas booster station (GBS) consisting of a complete GPU with capacity 25 MW and 2.2 bn ncm/year and pressure ratio 3.85. GBS is intended to deliver dry stripped gas (DSG) produced from associated petroleum gas (APG) from oil & gas fields of the North Caspian to a gas transportation system (GTS) of Gazprom.

NOVEMBER

Lukoil – Permneftegazpererabotka (Lukoil-PNGP) successfully brought into production three turbine-driven GTUs made by **KKM.** These gas transportation units, based on 4GC-70/17-62 GTU centrifugal compressors with turbine drives of 6 MW capacity and made by JSC "Aviadvigatel", are intended to compress dry stripped gas and deliver into a main gas pipeline of Gazprom and to a power generating unit of Lukoil-PNGP. Centrifugal compressors for GTUs were designed by **NIITurbokompressor** , made single-casing and two-section, without industrial cooling, and provide compression ratio 3.6.

Livnynasos completed modernization of its machine production.

DECEMBER

HMS Neftemash completed the largest multiphase metrological test flow facility in Russia to verify and assess the up-to-date multiphase metering units as per the Russian state verification schedule.

Sibnefteavtomatika (Sibna) designed, produced and delivered an aircraft fuel systems testing bed. It is a part of an integrated test facility, which is capable of simulating the entire range of flight loads and operating data (pressure, temperature, roll and pitch, G force, etc.) that impact on the aircraft fuel system while the aircraft is in flight.

HMS Group withdrew Standard & Poor's credit rating.

NEM completed the delivery of electrically driven pumps to Rostovskaya NPP and Leningradskaya NPP-2.

Apollo completed the engineering, manufacturing and testing of a lube oil supply system for pumps, motors, turbo gears, turbo coupling and turbines according to the API-614 standard. Based on the development Apollo delivered seven complete oil supply systems to NEM for the water injection pump package for the LUKOIL Overseas, West Qurna 2 project.

MACROECONOMIC DEVELOPMENT

The year 2014 was marked by four key developments that have significantly contributed to the up-to-date performance of the global economy and will be shaping the global outlook for 2015-2016:

– Oil prices have plummeted from ~US$108/barrel to ~US$55/barrel. The decline was caused by unexpected demand weakness in emerging market economies (especially China), steady rise in unconventional oil production in USA, and an OPEC decision to maintain current production levels;
– The U.S. dollar has strengthened its position by 12% to the currencies of other developed economies (e.g., the euro and yen). This rise was supported by the strong recovery of the US economy (growth of 2.4% in 2014) and tapering of US Federal Reserve quantitative easing measures;
– Currencies of many emerging markets have weakened, particularly those of commodity exporters;
– Interest rates and risk spreads have risen in many emerging market economies, notably commodity exporters, while long-term government bond yields have declined further in major advanced economies, reflecting the effect of safe havens.

Global economic growth in 2014 remained at the level of 3.3% and remained driven by developing countries, especially China, India and ASEAN countries, which grew by 7.4%, 5.8% and 4.5% respectively. Growth in nearly all advanced economies has accelerated with the EU28 area growing at 1.3% (and expected to further boost its growth rate in 2015-2016) and USA and Canada growing at 2.4% each. The only exception was Japan, where the economy fell into technical recession, resulting in a growth rate of just 0.1%.

For Russia, the year 2014 turned out to be one of the most challenging years of the past decade and a half. The investment climate and overall macroeconomic environment have drastically worsened due to the coincidence of several factors:

– A drop in oil prices by ~50% (while oil, gas and oil products still contribute to more than 70% of Russian exports);
– The crisis in Ukraine and international sanctions on Russian financial and oil production and military machinery industries with a reciprocal embargo on food imports from the EU and USA;
– The strengthening of economic stagnation due to the exhaustion of growth potential of the previous economic model of 2000-2013 (which was based on the continuous growth of oil products and low cost of energy, raw materials and labour, the availability of sources of relatively cheap financing and initially low saturation level on consumer markets).

The Russian economy has been stagnating and demonstrated just 0.6% of growth in 2014 (1.3% in the previous year). Throughout the year the economy has been slowing down and quarter-by-quarter growth in Q1, Q2, Q3 and Q4 amounted to 0.0%, 0.1%, 0.0% and -0.4% correspondingly.

The drop in oil prices has resulted in slight-to-moderate depreciation of all the currencies of the oil-producing developing countries. However, the Russian ruble has shown the worst performance among them, plummeting by 42% to US$ and by 34% to EUR (RUB/US$: from 32.66 to 56.26; RUB/EUR: from 45.06 to 68.34). The devaluation of the ruble was caused by the stagnation of the economy, further deterioration of the investment climate and the drastic weakening of the national Balance of payments, which has changed from -US$11.3 billion in 2013 to -US$110.9 billion in 2014. This drop in the Balance of payments was mainly due to the huge increase of capital outflow from Russia, which has increased by 250%, from US$61 billion in 2013 up to US$152 billion in 2014. At the same time the balance of the trade of goods and services remained positive and amounted to +US$131 billion for 2014. In this environment, the Central Bank of Russia has changed its previous policy of currency band in order to slower the diminishing of national FX reserves. The newly adopted policy presumes high volatility on the FX market and minimum and unpredictable interventions by the Central Bank of Russia.

Simultaneously, the Central Bank of Russia has raised the key interest rate, which is used to provide liquidity in rubles to all commercial Russian banks and via them to other sectors of the economy. The interest rate was raised several times and has ultimately increased from 5.5% in December 2013 up to 17.0% in December 2014. This measure has contributed to the slowing of the devaluation of the ruble but simultaneously resulted in the sharp increase of the cost of financing for all Russian companies and private individuals. Nevertheless, the total sum of credits issued by banks to corporate lenders has increased by 11% in comparison to 2013, from 210 trillion rubles to 232 trillion rubles. This has resulted in the 19% increase of the national corporate debt load, from 22.5 trillion rubles in December 2013 to 26.8 trillion rubles in December 2014.

Slowdown in the real sector has been reflected on the Russian stock market, where the RTS index (based on market capitalization in US$) has been decreasing throughout the year from 1,370 points in January to just 740 points in December (drop by 46%). At the same time, the MICEX index (based on market capitalization in rubles) has decreased from 1,500 points in January to 1,400 points in December (a 7% decline).

Real domestic consumption in Russia has slowed down its growth rate from 3.9% in 2013 to 1.5% in 2014. Investment in fixed assets has decreased by 2.5% and constituted 19.0% of GDP.

Russia experienced 1.7% of growth in industrial output in 2014 (0.4% in 2013). Growth was driven by manufacturing and raw materials extraction sectors, growing at 2.1% and 1.4% respectively. The three best-performing industries were the production of transportation vehicles (growth of 8.5%), rubber and plastic (7.5%) and oil products (5.7%). At the same time energy, gas and water production and transportation stagnated at -0.1%. The profitability of the absolute majority of producers of industrial products has significantly decreased across all industrial segments.

Due to the devaluation of the ruble and a Russian embargo on the import of food products from the EU, inflation (Consumer Price Index) in Russia has drastically increased from a previously stable level of 6.5% (in 2012 and 2013) up to 11.4% in 2014. At the same time, the Industrial Goods Producers Price Index has increased only by 5.9%, reflecting the downfall in global prices for oil and oil products and decreasing domestic demand for the investment goods.

Real wages in Russia have grown on average by just 1.3%, while the real disposed income of population has decreased by 0.8%. The unemployment rate remained stable at the low level of previous years and amounted to just 5.5%.

MARKET TRENDS (OIL INDUSTRY)

Russia has the largest oil and gas reserves in the world and is the second largest oil producer with 13% of total global oil output. The oil upstream industry is a backbone of the economy with an impact on the country's international payments, exchange rate and the formation of the economy's investment resources.

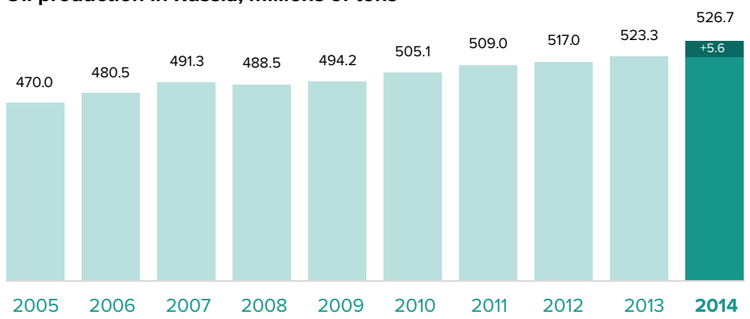
UPSTREAM

According to the Russian Ministry of Energy, in 2014, Russian oil output reached 527,000 million tons of oil, which is a 0.6% rise compared with the previous year. This increase was supported by the development of new oil production centres in East Siberia, and major crude oil exports to Asia, primarily to the People's Republic of China, where demand for Russian oil is increasing, have started.

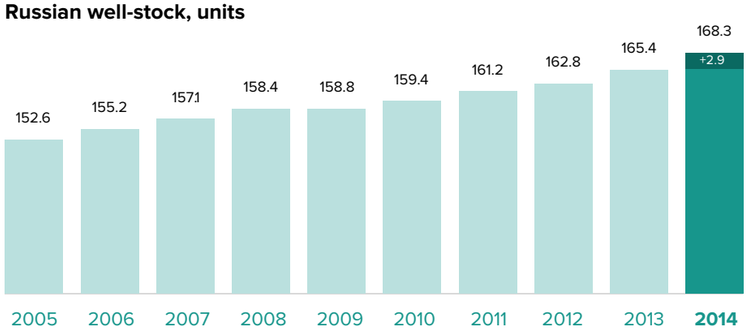
Russian producers capitalized on rising oil prices in the first half of 2014, when they reached over US$113 per barrel. However, prices have halved since then. The price of oil fell from US$108/barrel to below US$60/barrel and has stabilized at that level. The drop in prices could have an effect on both production and demand - downward pressure on investment into new production, combined with upward pressure on demand.

Production in the oil sector hasn't been affected by falling oil prices and Western sanctions yet. The impact on production will most likely be seen this year.

Oil production in Russia, millions of tons



Russian well-stock, units



Production drilling rate, km

MIDSTREAM

With over 50 thousand km of oil pipelines and more than 400 installed pump stations, Russia has the largest oil pipeline system in the world. Over 90% of crude oil produced in Russia is transported through the existing trunk pipeline system.

In 2014 crude oil exports via state monopoly Transneft fell 5 percent to 195.5 million tonnes due to rising domestic demand and refinery runs.

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

– The construction of the Zapolyarye-Purpe oil pipeline, with an overall capacity of 45 million tonnes per year, is planned in order to transport oil from the green fields of the Yamalo-Nenets Autonomous District and from the North of the Krasnoyarsk District.
– The overall length of the pipeline is estimated to be 500 km;
– The construction of the Kuyumba-Taishet oil pipeline, with an overall capacity of 15 million tonnes per year, began in 2013 to transport oil to the system of pipelines in the ESPO-2 project. The overall length of the pipeline is estimated to be 700 km;
– The ESPO expansion — the construction of oil pipelines from Taishet-Skovorodino- Koz'mino;
– The construction of the South diesel route via southern Russia;
– The construction of the north-western Sever diesel pipeline.

Total capital expenditure by Transneft in 2014 is estimated as 372.6 billion rubles.

DOWNSTREAM

The Russian refining system is the third largest in the world, ranked only behind the U.S. and China, with approximately 275 million tonnes of total capacity. It is absolutely obvious that Russia's downstream segment is continuing to develop rapidly. Oil product prices and the current tax environment remain supportive of development, contributing to increased refining outputs and a higher level of investments. If the upgrading of the domestic refining infrastructure keeps up at its current pace, the depth of refining in Russia will rise from 72% to 85% by 2020.

In 2013, the estimated volume of primary processing hit a record level of 290 million tonnes, up 4% year-on-year.

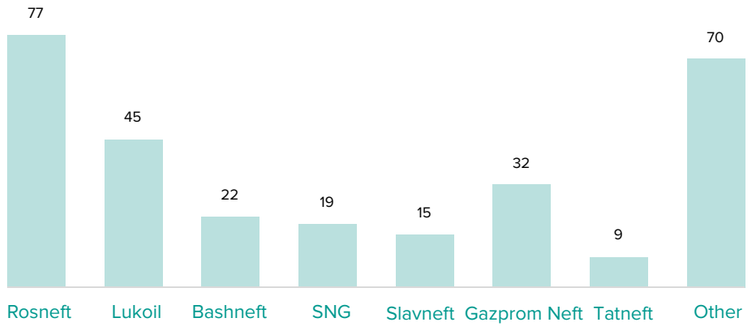
According to investment plans announced by oil companies, capital expenditure in the sector exceeded 299 billion rubles in 2014. In the coming years, primary processing capacities in Russia can add another 12.2 million tonnes (or 5.2 million tonnes, excluding Taneco's potential expansion).

Russia's total processing capacities (including condensate) may therefore rise from around 290 million tonnes to 300.2 million tonnes (or even to 307.2 million tonnes if Taneco's expansion is completed). Consequently, the share of secondary processing may grow from the current 70% to about 100% (this compares with 140% in the US).

Industry growth is likely to be driven by new projects in 2013:

– Rosneft is still developing programmes to upgrade in the Novokuybyshevsk and Tuapse refineries: Upgrading Tuapse oil refining complex by putting into operation two stations of primary oil refining and construction of catalytic reforming and hydrocracking complexes and complex of low-temperature isomerisation in Novokuybyshevsk refineries plants;
– Lukoil is continuing to reconstruct its diesel fuel production unit and modernise at Volgograd refinery plant;
– Gasprom Neft started installation and building a combined oil refinery installation in Omsk.

Refinery capacity in oil production, millions of tons



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 end consumer. The system includes 161.7 thousand kilometres of gas trunk lines and laterals, 215 line compressor stations with gas compressor units totalling 42 thousand MW in capacity, 6 gas and gas condensate treatment facilities and 25 underground gas storages locations. Gazprom has approved an 840 billion ruble (US$13.5 billion) investment program for 2015.

The bulk of Gazprom's 2015 investment will go into research for a new gas pipeline route to China, most likely from West Siberia, and the construction of Power of Siberia gas pipeline.

Power of Siberia will run nearly 4,000 kilometers through five Russian constituent entities: the Irkutsk Region, the Republic of Sakha (Yakutia), the Amur Region, the Jewish Autonomous Region and the Khabarovsk Territory and will have an annual capacity of 38 billion cubic metres of gas.

MARKET TRENDS (POWER GENERATION)

Russia remains one of the largest electricity producers in the world, behind only China, the USA, Japan and India. Strong electricity demand is driven by the relatively low energy efficiency of national industries.

This strong demand consequently challenges the limited and ageing energy producing capacity and explains the permanent tariff growth and the reason why this is one of the sources for high investment programs by the power generating companies.

In 2014, the electricity output in Russia increased by 0.5% year–on-year and reached 1,062 billion KW/h. Russia's power complex includes approx. 600 power plants, each with an individual capacity of over 5 MW. In 2014, the total capacity of Russian power plants amounted to 249.4 GW, exceeding the 2013 level by 7.7 GW. Growth was driven by the construction of new power facilities and the modernisation of existing infrastructure.

The power industry has the following components of generation: thermal plants (68%), hydraulic (21%), nuclear (approx. 11%). The long-term outlook of the Russian power industry is influenced by the "General scheme of energy development for the period till 2020".

THERMAL POWER PLANTS

The main thermal power stations in Russia use organic fuels such as gas or coal and essentially consist of steam-turbine power stations.

In 2014, Russia's overall thermal power plant installed capacity was 169.6 GW, up 2% compared to the previous year. The infrastructure in the thermal power sector is quite outdated — almost 55% of the installed capacities are over 30 years old.

As such, Russian plants have an efficiency ratio of 37%, which is lower than the 41% level for developed economies. This discrepancy dictates the necessity for equipment upgrades by all the major power generating companies.

This is also the reason why the technical modernisation and reconstruction of the existing power stations is a primary development goal of the Russian thermal power sector, in addition to the start-up of new modern generating capacities.

The sector's investment grew by 4% year-on-year in 2014 and reached 380 billion rubles.

NUCLEAR POWER PLANTS (NPP)

Russia has full-cycle technology for the nuclear industry — from the extraction of uranium ore to electric power generation. Currently, 33 nuclear power units, with an 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%, and, in the North-West part of Russia, 37%.

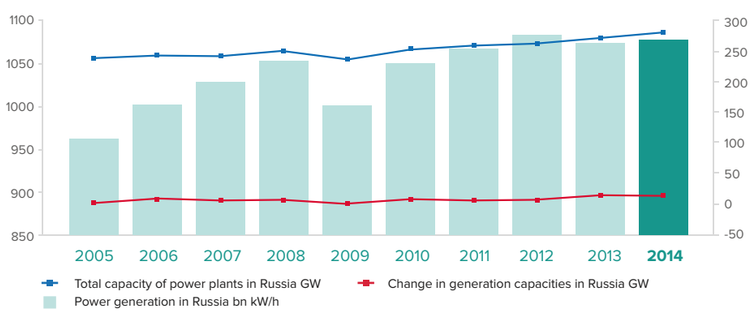
Currently, there is an ongoing process of large-scale NPP construction in Russia. The following construction projects are underway: Novovoronezhskaya NPP Phase II, Leningradskaya NPP Phase II, Baltic NPP, and the world's first floating nuclear co-generation plant, Akademik Lomonosov.

Another nuclear power unit — the fourth reactor of Beloyarsk NPP — is close to completion. In addition to construction in Russia, nuclear power plants are being built abroad, including Kudankulam (India), Bushehr (Iran), Akkuyu (Turkey), Ostrovets (Belarus), Ninh Thuan NPP -1 (Vietnam), Jordan NPP, Armenian NPP and Tianwan Second Stage (China).

Most of the 33 nuclear operating reactors in Russia are ageing; 80% of capacity has a maturity of 20-40 years. This has led to the development of a large-scale investment programme by the state operator Rosatom, under which several initial steps have already been taken.

In 2014, electricity output grew by 4.5% year on year and reached 180.5 billion KW/h. The estimated investments in the sector increased 7% year-on-year in 2014 and reached 320 billion rubles.

Production drilling rate, km



MARKET TRENDS (WATER)

The water market in Russia shows stable, positive dynamics which are secured by the steady growth of tariffs and the arrival of private investment to the sector. Investment prospects are based on the guaranteed demand for services and the good potential for cost saving.

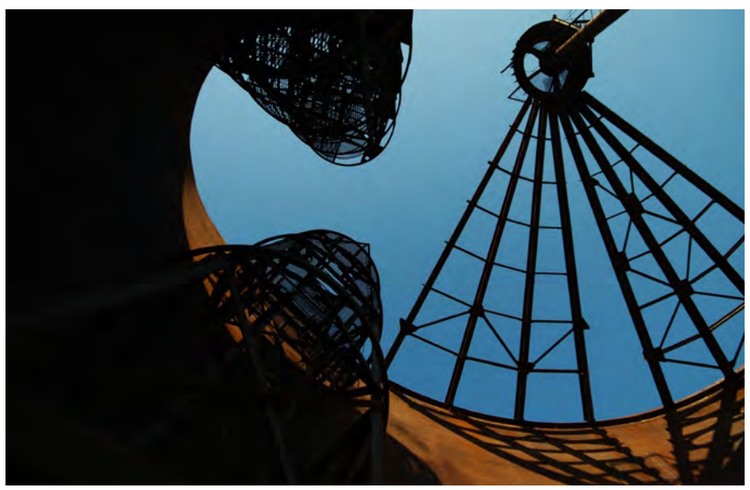
There are interruptions in water supply in more than half of the 24,000 municipalities in Russia; on average, a mere 71% of water samples in the country comply with sanitary standards. The Pure Water Federal Target Programme for 2011-2017, signed in December 2010, aims to increase the coverage of water and wastewater services in Russian regions with the goal of reaching 95% for safe water supply coverage and 84% of wastewater collection and treatment by 2017. The construction and rehabilitation of infrastructure are expected to create new opportunities for equipment suppliers and engineering firms as well as construction companies. Emerging interest in advanced solutions, such as membrane systems, ultraviolet and ozone treatment creates good development prospects for the market's participants.

A large number of water supply systems require rehabilitation as the low capacity of centralized water supply systems impedes the development of localities.

The deterioration of pipes in some cities is above 60%.

Capital expenditure on water and wastewater infrastructure is forecasted to nearly double from US$1.4 billion in 2011 to US$2.7 billion in 2018.

Today the issue of water supply and wastewater treatment is addressed within the framework of the Housing Special-Purpose Federal Programme, special-purpose federal programmes for territorial development, programmes for development of the republics in the south of Russia, Far East, Trans-Baikal, and Kaliningrad Oblast. The programmes provide for a set of activities to construct and rehabilitate water supply facilities, sanitation systems, and wastewater treatment plants.



OPERATING PERFOMANCE

FINANCIAL SUMMARY

– Backlog increased by 23% yoy to 27.5 billion rubles vs. 22.3 billion rubles, while order intake stayed almost flat year-on-year at 34.7 billion rubles, driven by a steady demand despite downturn and economic uncertainty
– Revenue of 32.4 billion rubles stayed unchanged in comparison with 2013
– EBITDA[1] totaled 5.3 billion rubles, up 1% yoy; EBITDA margin was 16.3% compared to 16.2% in 2013
– Operating profit dropped by 80% yoy to 0.9 billion rubles with operating margin at 2.6% versus 12.9% last year
– Operating profit adj., if exclude all non-monetary adjustments[2], was flat at 3.8 billion rubles and operating margin decreased to 11.6% versus 11.8% last year;
– Profit for the year was negative 1.6 billion rubles, down from positive 1.2 billion rubles
– Profit for the year adj., if exclude write-offs, grew by 55% yoy to 1.2 billion rubles from 0.8 billion rubles last year
– Total debt grew by 34% yoy to 17.0 billion rubles from 12.7 billion rubles
– Net debt increased by 12% yoy to 12.4 billion rubles resulting in Net debt-to-EBITDA ratio of 2.36x compared to 2.12x last year
– Return on capital employed (ROCE) adj.[3] was 11.1% versus 13.9% in the previous year. If taken without any adjustments, then ROCE dropped to 3.1% compared to 15.8% in 2013

OPERATING PERFORMANCE

Backlog and order intake

As of December 31, 2014, the Group built its backlog at 27,510 million rubles, up 23% yoy on the back of growth in pumps and oil & gas equipment which demonstrated positive dynamics in the reporting period.

In the pump business segment, the backlog grew by 25% yoy to 11,076 million rubles mainly because of increased inflow of standard equipment orders, where backlog of pumps for export outside Russia grew to 3,641 million rubles.

Backlog grew by 47% yoy in the oil & gas equipment business segment both in large contracts and standard equipment, and achieved 11,610 million rubles as of 31 December 2014.

The compressors dropped by 7% yoy to 2,131 million rubles mainly due to postponements of several large projects to 2015. But in accordance with the methodology backlog by segments is composed without intersegment sales to exclude duplications. Therefore, when considering the compressors business segment as a stand-alone, it should be increased by intragroup sales by more than 1.0 billion rubles so it totals more than 3.1 billion rubles, supporting substantial increase of KKM's revenue and EBITDA in 2015.

The EPC segment's backlog showed negative dynamics with decline by 18% yoy to 2,693 million rubles as a result of delay of some new projects in the project and design (EP) sub-segment due to uncertainties in the economy. At the same time, the backlog of the construction (C) sub-segment grew by 37% yoy.

Backlog, Rub mn	2013 FY	2014 FY	Change yoy
Industrial pumps	8,867	11,076	25%
Oil & Gas equipment	7,873	11,610	47%
Compressors	2,289	2,131	-7%
EPC	3,304	2,693	-18%
Construction	1,218	1,671	37%
Engineering	2,086	1,022	-51%
Total	**22,333**	**27,510**	**+23%**

1 EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions). This measurement basis, therefore, excludes the effects of a number of non-recurring income and expenses on the results of the operating segments.
2 Non-monetary adjustments are derived as significant one-off non-cash items including impairment of goodwill, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, and foreign exchange loss from borrowings.
3 ROCE adj. is calculated as EBIT divided by (average total debt + average equity), and ROCE is calculated as Operating profit from Consolidated statement of Profit or Loss, divided by (average total debt + average equity).

Order intake[4] in 2014 equaled 34.7 billion rubles and remained almost the same as in 2013. The decrease in consolidated orders for compressors and project and design (EP) was compensated for by growth of orders in all other business segments.

Order intake, Rub mn	2013 FY	2014 FY	Change yoy
Industrial pumps	13,935	15,592	12%
Oil & Gas equipment	11,809	13,963	18%
Compressors	3,947	2,168	-45%
EPC	5,123	2,983	-42%
Construction	1,316	1,559	18%
Engineering	3,807	1,424	-63%
Total	**34,814**	**34,705**	**0%**

GROUP PERFORMANCE

HMS' revenue amounted to 32,351 million rubles, almost the same as in 2013. EBITDA grew by 1% yoy to 5,272 million rubles. As a result, EBITDA margin for 12 months 2014 stayed almost unchanged at 16.3% versus 16.2% last year.

Financial highlights, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	32,358	32,351	0%
EBITDA	5,238	5,272	1%
EBITDA margin	16.2%	16.3%	

The Group's cost of sales, which traditionally accounts for about 70-73% of total revenue, grew by 1% yoy from 23,373 million rubles to 23,511 million rubles, driven mainly by growth of supplies and raw materials and labor costs. Combined contribution to the cost of sales from its key components - supplies and raw materials and cost of goods sold – accounted for 41% share of revenue in 2014, the same as in 2013.

Cost of sales, Rub mn	2013 FY	% of revenue	2014 FY	% of revenue	Change yoy
Total cost of sales	**23,373**	**72%**	**23,511**	**73%**	**1%**
Supplies and raw materials	10,567	33%	11,238	35%	6%
Labour costs	5,489	17%	5,677	18%	3%
Cost of goods sold	2,799	9%	2,162	7%	-23%
Other expenses	4,518	14%	4,434	14%	-2%

Labour costs grew by 3% yoy to 5,677 million rubles from 5,489 million rubles.

4 Under management accounts

OPERATING PERFOMANCE

Operating expenses, Rub mn	2013 FY	% of revenue	2014 FY	% of revenue	Change yoy
Distribution and transportation	1,352	4%	1,237	4%	-9%
General and administrative	3,860	12%	4,340	13%	12%
Other operating expenses	110	0.3%	222	0.7%	102%
Finance costs	1,741	5%	2,148	7%	23%

Distribution and transportation expenses in absolute terms were down by 9% yoy to 1,237 million rubles in 2014. As a percentage of revenue, they comprised 4% in both periods.

General and administrative expenses totaled 4,340 million rubles for 2014, up 12% yoy, mainly because of 5% yoy growth in labour costs and change in provision for accounts receivable.

Operating profit dropped 80% yoy and totaled 855 million rubles versus 4,179 million rubles in 2013. Operating margin stood at 2.6%. In 2013, the Group posted 439 million rubles impairment of the construction business and 955 million rubles extra gain from the bargain M&A, which contributed 516 million rubles to HMS' operating profit. On the contrary, in 2014 the Group recognized 2,186 million rubles impairment of goodwill, which reflected geopolitical risks and worsened economic conditions in Russia.

If adjusted, the Group's operating profit stayed almost flat at 3,761 million rubles with operating margin adjusted sliding to 11.6% from 11.8%.

Operating profit reconciliation, Rub mn	2013 FY	2014 FY	Change yoy
Operating profit	**4,179**	**855**	**-80%**
Excess of fair value of net assets acquired over the cost of acquisition	-955	0	
Impairment of assets on construction business, other than goodwill	422	0	
Impairment of goodwill	17	2,186	
Foreign exchange loss from borrowings, net *(from Finance costs)*	160	720	
Operating profit, adj.	**3,823**	**3,761**	**-2%**

The main factor of finance costs 23% yoy growth was a foreign exchange loss, that increased by 351% yoy from 160 million rubles to 720 million rubles for 12 months 2014 primarily due to Euro 26 million loan of HMS Neftemash, attracted for acquisition of Apollo Goessnitz GmbH (Apollo), and an intragroup loan nominated in rubles but transferred in UAH – which together generated 93% of this loss.

Interest expenses decreased by 7% yoy to 1,413 million rubles compared to 1,522 million rubles in 2013 and comprised 4.4% share of total revenue versus 4.7% in the previous year.

Profit for the year adjusted increased by 55% yoy to 1,187 million rubles from 768 million rubles. But if reconciled by one-off non-monetary impairment of goodwill and the effect of foreign exchange loss from borrowings, then loss for the period reached 1,575 million rubles versus profit for the period of 1,156 million rubles last year.

Net income reconciliation, Rub mn	2013 FY	2014 FY	Change yoy
Profit/(Loss) for the year	**1,156**	**-1,575**	**-236%**
Excess of fair value of net assets acquired over the cost of acquisition	-955	0	
Impairment of assets on construction business, other than goodwill	422	0	
Impairment of goodwill	17	2,186	
Foreign exchange loss from borrowings, *net of 20% income tax*	128	576	
Profit for the year, adj.	**768**	**1,187**	**55%**

Impairment of goodwill in 2014

On Dec 31, 2014, the Group performed impairment test of goodwill and concluded that of goodwill of KKM, GTNG and IRVKP had to be impaired:

– Kazankompressormash (KKM) – The impairment of 1,003 million rubles resulted primarily from adjustment in discount rate, reflecting recent changes in Russian economic environment
– Giprotyumenneftegaz (GTNG) – The impairment of 1,111 million rubles resulted primarily from changes in the future growth and profitability assumptions in order to bring them in line with expected market developments, past performance of the business and from adjustment in discount rate, reflecting recent changes in Russian economy
– Institute Rostovsky Vodokanalproekt (IRVKP) – The full impairment of goodwill of 73 million rubles due to changes of the future growth and profitability assumptions and adjustment in discount rate

SEGMENT PERFORMANCE

Industrial pumps business segment

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solution as well as pumps built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.

Industrial pumps, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	18,386	16,289	-12%
EBITDA	3,801	3,137	-17%
EBITDA margin	20.7%	19.3%	

The industrial pumps business segment's revenue declined by 12% yoy to 16,270 million rubles from 18,386 million rubles in 2013, while EBITDA dropped by 17% yoy to 3,137 million rubles. EBITDA margin stayed at 19.3% which is higher than average though lower than 20.7% last year.

Stable inflow of small and mid-size orders for standard pumps generated comparable revenue and EBITDA, and large projects earned less revenue and EBITDA in 2014 than in 2013.

OPERATING PERFOMANCE

Oil & Gas equipment Business Segment

The oil & gas equipment business segment manufactures, installs and commissions 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. The segment's core 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 technological process.

OG equipment, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	6,972	10,220	47%
EBITDA	929	1,908	105%
EBITDA margin	13.3%	18.7%	

Revenue in the oil & gas equipment business segment demonstrated the 1.5 times sharp growth to 10,220 million rubles and EBITDA grew twofold to 1,908 million rubles despite later than expected start of large-scale projects execution and less orders for standard equipment.

Revenue and EBITDA from standard orders decreased in comparison with the previous year because HMS Neftemash, the main production facility in the oil & gas business segment, reduced its activity in standard production to utilize capacities for large projects execution.

As a result of increased share of integrated solutions, EBITDA margin reached 18.7% versus 13.3% last year.

Compressors business segment

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, and compressor-based integrated solutions.

Compressors, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	4,207	2,474	-41%
EBITDA	572	-255	n/a
EBITDA margin	13.6%	-10.3%	

Revenue dropped by 41% yoy to 2,474 million rubles and EBITDA turned negative 255 million rubles in comparison to positive 572 million rubles in 2013. The poor results of the compressors business segment are explained by the postponements of some targeted large tenders and the adjusted schedule of one large project coordinated with a customer due to delay by the client's another subcontractor, located in Donetsk, Ukraine, caused by objective reasons, resulted in insufficient revenue to compensate a constant level of fixed costs.

However, the postponement of this large contract will have positive influence on 2015 results.

The company launched the operational efficiency improvement program to partly compensate the abovementioned delays, and we expect to have more visible results in 2015.

HMS Group expects the compressors business segment to generate better results in 2015, based on the strong already built backlog with a larger share of integrated solutions in orders portfolio.

Engineering, procurement and construction (EPC) business segment

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects for customers in the oil upstream and midstream, gas upstream and water utilities sectors.

EPC, Rub mn	2013 FY	2014 FY	Change yoy
Revenue EPC	**2,788**	**3,355**	**20%**
Project and Design	2,189	2,266	4%
Construction	599	1,089	82%
EBITDA EPC	**-235**	**490**	**-309%**
Project and Design	230	279	22%
Construction	-465	211	n/a
EBITDA margin EPC	**-8.4%**	**14.6%**	
Project and Design	10.5%	12.3%	
Construction	-77.6%	19.3%	

The EPC business segment delivered better results in 2014 compared to 2013 with revenue growing by 20% yoy to 3,355 million rubles and EBITDA turning positive to 490 million rubles after business restructuring and cost cutting program implementation in 2013-2014.

Both the project and design sub-segment and the construction sub-segment experienced a growth in profitability in the reporting period, but the latter demonstrated more impressive financial performance in comparison to the previous year.

As a result, the EPC segment's EBITDA margin turned positive and reached 14.6%, versus -8.4% in 2013.

FINANCIAL PERFOMANCE

CASH FLOW PERFORMANCE

Cash flow performance, Rub mn	2013 FY	2014 FY	Change yoy
Net cash from operating activities	4,523	960	-79%
Net cash used in investing activities	-2,375	-1,077	-55%
Net cash (used in)/from financing activities	-1,918	2,996	-256%
Free cash flow (FCF)	2,148	-118	-105%

Operating cash flow dropped by 79% yoy from 4,523 million rubles to 960 million rubles mainly due to changes in working capital that grew both in absolute figures and as a share of total revenue.

Working capital increased by 32% yoy to 6,836 million rubles and comprised a 21% share of total revenue versus 16% for the previous period. The key factor behind the working capital increase was the growth in receivables and inventories (2.8 billion rubles in total) related to two large oil & gas equipment contracts under execution.

Absence of M&A deals substantially decreased outflow from investing activities, which equaled -1,077 million rubles (-55% yoy).

Due to current economic downturn, capital expenditures were reduced by 21% yoy and amounted to 1,223 million rubles in comparison with 1,553 million rubles last year. But still HMS Group is realizing large projects for KKM's modernization and development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia.

2,996 million rubles of net cash inflow from financing activities was a result of borrowings. This amount of money was attracted as a part of preparation for rubles bond redemption in February 2015.

That said, negative free cash flow accounted for only 118 million rubles for 12 months 2014.

Depreciation and amortization went up by 11% yoy primarily due to a 72% yoy increase in amortization expenses on patents and project documentation, related to NIITurbokompressor acquired in 2013, and a 7% yoy growth of depreciation expenses on plant and equipment caused by a complete modernization of HMS Livgidromash's foundry, which in the whole gave 95% of total D&A raise.

DEBT AND LIQUIDITY POSITION

Debt & Liquidity, Rub mn	2013 FY	2014 FY	Change yoy
Total debt	12,687	16,967	34%
Long-term debt	11,522	13,235	15%
Short-term debt	1,165	3,732	220%
Cash and cash equivalents	1,584	4,535	186%
Net Debt	11,103	12,432	12%
Net Debt/EBITDA LTM	2.12	2.36	

By the end of 2014, HMS Group increased its total debt by 34% yoy to 16,967 million rubles from 12,687 million rubles as of the end of 2013. The increase in debt was mainly a result of required working capital growth incidental to execution of large projects and a drawdown of available credit lines so as to have sufficient "liquidity cushion" for redemption of the Group's ruble bonds with maturity in February 2015. At the same time, net debt increased only by 12% yoy to 12,432 million rubles.

As a result, the Net debt-to-EBITDA ratio amounted to 2.36x, and under a net debt-to-EBITDA bank maintenance covenant with a 4.50x threshold is implying an ample headroom for the next 12 months.

As of 1 January 2015, despite limited access to capital markets and thus sharp increase in rates thanks to managerial efforts the weighted average interest rate was 10.1% for all loans, including FX-denominated. A solid liquidity position with 4.5 billion rubles in cash covered HMS's short-term debt of 3.4 billion rubles.

FINANCIAL MANAGEMENT

In September 2014, HMS Group made a partial redemption of its Ruble bonds for 900 million rubles excluding accumulated coupon interest. HMS purchased 900,000 bonds at 100% par value. Bonds buy-back was financed by an unsecured non-revolving credit line up to 3 years, lent by Raiffeisenbank at the end of this August. The bank also acted as a purchase agent.

In December 2014, Standard & Poor's Rating Services lowered the long-term corporate rating of the company from "B" to "B-" and placed it on CreditWatch with negative implications. Also, S&P downgraded Rub 5.1 billion notes issued by HMS' subsidiary CJSC "Hydromashservice" to "CCC+" and placed them on CreditWatch negative. According to S&P, the downgrade reflects discomfort about the Rub 2.1 billion unsecured bond repayment in February 2015. At the end of 2014, HMS Group made a decision to withdraw credit ratings of Standard & Poor's.

In January 2015, the company made a partial redemption of its Rubles bonds for 1.9 billion rubles excluding accumulated coupon interest. Though HMS Group made a public offer to acquire the outstanding securities for 2.1 billion rubles at 100% par value, it received claims only for 1.9 billion rubles. The buy-back was financed by both HMS' own funds and credit lines. Raiffeisenbank acted as the purchase agent. As a result of above actions, only 177 million rubles bonds left to be redeemed on maturity date and they were successfully paid off in February 2015.

HMS KEY PROJECTS

PROJECTS ON TRACK

In December 2013, the company signed 5.7 billion rubles in contract to supply an integrated solution for a major Siberian gas field. According to the contract, HMS will design, manufacture, deliver, supervise and test the complex technological facility, including compressors, pumps, tanks and vessels, filters, coolers and other components. The project's implementation time is two years.

In 2014, Transneft put into use three oil processing stations with 12 trunk pumps and auxiliary equipment, fully made by HMS Group, under the ESPO-1 extension project. Also, the Group delivered 8 trunk pipeline pump units for the Zapolyarye – Purpe oil pipeline. The project was designed to bring crude oil, produced in the northern areas of the Yamalo-Nenetsk and Krasnoyarsk regions, to markets through the ESPO pipeline.

HMS Group completed full reconstruction of three water-pumping stations of the irrigation channel "Zakhmet-Turkmenkala" under the order of the Ministry of Water Resources of Turkmenistan. These pumping stations will transmit water to the Murgap River for improving water supplies to agricultural lands to the south of the Kara-Kum River (31,000 hectares in total).

The reconstruction included the "turn-key" construction of new pumping stations, and replacing the old ones, in an area with high seismicity of up to 8.0 by MSK-64. There were 12 main pumping units, each of 3.5 cubic meters per second capacity, and auxiliary pumping units, all specially designed-and-produced-by-HMS with a nominal power rate of 40 MW and capacity over 515 thousand cubic meters per hour in total. Blueprint design, production and delivery of unique pump-based integrated solutions were entirely executed by HMS Group.

Also, in 2014 the company completed delivery of pumping equipment for the water treatment facility of Qarmat-Ali that will provide a reliable supply of water for injection systems at Rumaila oilfield (BP Iraq NV). The scope of works included a project audit, manufacturing and supply of the main and auxiliary equipment, repair and retrofit of operated equipment, installation supervision and commissioning, acceptance tests in compliance with corporate and project standards of BP.

NEW PROJECTS

In June 2014, HMS Group signed a contract with one of the leading international companies, Alstom Power, for production and delivery of a large amount of pumping equipment for the Koeln Niel power plant construction project in Germany. According to the contract, the customer will receive two main VS6 condensate pumps with a flow rate of 760 m3/h and head of 97.8 m, two main OH2 boiler feed water pumps with a flow rate of 285.6 m3/h and head of 130 m, as well as four heating circulation and forwarding pumps. All of the pumping units will be produced according to the API-610 standard and equipped with automation and control systems.

In the 1st half of 2014, HMS Group signed a contract for more than 6 billion rubles with one of the Russian oil & gas majors to deliver oil & gas equipment as part of a large-scale project, the so-called "Liquid Hydrocarbon Project", which is planned to be fulfilled by the end of 2015.

RESEARCH AND DEVELOPMENT

BB5 pump for offshore applications delivered to the Permas Field

HMS Group is continuously strengthening its research and development capabilities and the Company`s strategy is aimed at establishing the best Research & Development in Russia and the CIS. Our investments are dedicated to strengthening our core competencies in industrial pumps, oil & gas equipment and compressor technologies, and in developing solutions for the oil and gas industry and water utilities.

Last year, HMS started the process of the localization of heavy pumps and pumping equipment manufacturing at HMS Livgidromash and Nizhnevartovskremservis, in close cooperation with Nasosenergomash (Ukraine); the company plans to complete this by the end of 2015. Within the framework of the project, the company plans to construct a new production unit and a new transformer substation as well as to build a test stand. The new test complex will become the only one of its kind in Russia, enabling the testing of the pumping units installed in the oil pipelines of Transneft and Rosatom's nuclear power plants. It will consist of all necessary main and support systems to conduct operational testing of the heavy centrifugal pumping units.

HMS Group continues to strengthen its expertise in equipment designed according to international standards. In 2014, our engineers introduced a new lube oil supply system according to API-614, Apollo type series ACS, intended for pumps, motors, turbo gears, turbo coupling and turbines. The new lube oil system has been engineered as an integral part of the skid, to lubricate the pump and motor bearings. The system design ensures the easy dismantling of the lube oil system from the skid base plate for the further removal of the pump's internal cartridge.

A new high-pressure and high-speed BB5 pump for offshore application according to API-610 standard was successfully tested as a complete skid (approx. 18,000 kg) with 4,620 rpm at the Apollo test stand. The pump is intended for deaerated seawater injection and has a complete new set of patterns for hydraulic parts like impellers, diffusers and barrels.

In the heavy oil pumps segment, new unique NGPN-M 1250-160 and NGPN-M 2500-160 pumps were produced and delivered in 2014. These NGPN-M pumps (BB1 pumps according to API-610 standard) - horizontal single-stage between-bearing double-suction centrifugal axially split pumps with inducers – have excellent NPSHR characteristics in a wide capacity range, in comparison with the high head one-stage pumps. For example, NGPN-M 1250-160 pump has 2 meters NPSHR, and NGPN-M 2500-160 has 2.5 meters NPSHR.

Following an increasing customer demand for multiphase flow metering units and in order to enhance the expertise in the development of this type of equipment, HMS Group has completed the construction of the largest multiphase metrological test flow facility in Russia, which will allow the testing and metrological calibration of up-to-date multiphase metering units.

Multiphase metrological test flow facility

In 2014, HMS Group designed, produced and delivered an aircraft fuel systems test bed, which is a part of an integrated test facility, capable of simulating a whole range of flight loads and operating data (pressure, temperature, roll and pitch, G force, etc.) which impact on the aircraft fuel system while in flight.

Gas compressor package on the basis of the 25MW 5GC2-287/15-57 GTU compressor

Until now, domestic aviation companies could test fuel systems only during flight trials, having acquired additional considerable operational costs. Now, testing data will allow aviation companies to optimize aircraft fuel systems at the development stage and to set up new constructions on the ground.

The standard for the Russian oil & gas field development scheme of water treatment comprises bulky tanks and vessels with high maintenance costs, a complicated assembly and, in general, a lackluster effectiveness. And if the surface of the onshore fields permits the use of such large systems, it becomes a major challenge for offshore projects. Based on innovative practices, HMS Group has developed a new technological solution – a water treatment unit with an improved fine filter and a centrifugal water-cleaning machine – it's distinct in its compactness and incurs less operating costs.

Last year HMS Group conducted several trial tests of a new well testing mobile unit, MERA-MR, to develop new competences in heavy oil reservoirs and oil wells with high viscosity fluids. Debits measuring tests were successfully performed at the East – Messoyakha and Russkoye fields with high–viscosity oils (up to 1.000 cSt).

In addition, HMS Group successfully completed a CFD–analysis of an original vortex centrifugal oil field gas separator, which was fully developed and designed by the Engineering Center of HMS Neftemash in Tyumen and where CFD – analysis was performed by the super–computer "Mendeleev" in the Tyumen State University.

This year, the company plans to manufacture the separator and use it in oil field trial operations at the FWKO facility "Evgen'evskaya" in the Samara region (Samaraneftegaz, Rosneft). This equipment is intended to be used in different gas treatment blocks, produced by HMS.

Last year, NIITK developed the first refrigerating multiplicatory-type GCM3-250/0.9-15.8 UHL4 compressor unit in Russia intended for propane compression, as part of cooling unit in oil & gas refining plants. The casing of the integral gear is made with a vertical split, due to high propane parking pressure and the gear pairing has a blade speed of 169 meters per second.catory-type GCM3-250/0.9-15.8 UHL4 compressor unit in Russia intended for propane compression, as part of cooling unit in oil & gas refining plants. The casing of the integral gear is made with a vertical split, due to high propane parking pressure and the gear pairing has a blade speed of 169 meters per second.

NIITK has also engineered its first complete Gas Compressor Package on the basis of the 25MW 5GC2-287/15-57 GTU compressor unit, manufactured by KKM. This unit is designed to compress dry stripped hydrocarbon gas for Stavrolen (LUKOIL). The compressor and gas turbine drive gas compressor package also comprises an exhaust-heat boiler, which generates super-heated high-pressure steam.

HMS Group's current operating portfolio of almost 270 patents, and over 40 registered trademarks, reflects our commitment to research & development. In 2014, HMS Group filed 29 new patents, primarily focused on measuring equipment, including units to measure the oil production rate, etc.

SOCIAL RESPONSIBILITY

HMS Group fully recognizes the responsibility to all of its stakeholders and communicates with them on a regular basis. The Group contributes to the social development and improvement of the quality of life across local communities in the regions where it operates.

PEOPLE AND THEIR WORKPLACE

Employees are one of the core assets of HMS Group and we are committed to attracting and retaining the best people, encouraging and developing them to achieve their full potential. In 2014, the main directions of staff training and education included development of managerial competences of the company's officers both on a case-to-case basis (EMBA programs) and in the form of corporate training, English language teaching and functional education, including in-company training sessions entitled "Know Your Company's Product Portfolio". More than 170 trainings and courses were held in Moscow alone, including over 190 trainees.

Our HR policy is aimed at maintaining a healthy and diverse environment where employees feel valued and respected. The Group promotes cooperation between experts within production units as well as between subsidiaries. In 2014, HMS Group continued planned recruitment to open positions and as of 31 December 2014, the company employed more than 15.5 thousand people, less than in 2013 due to the attrition and disposal of SKMN.

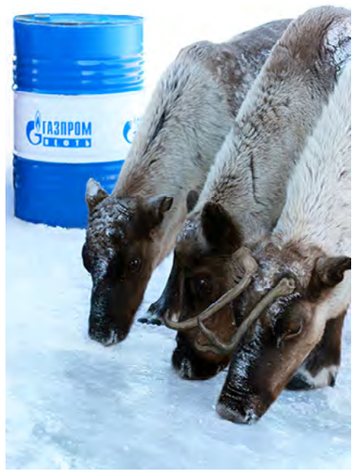
HMS Group improves its health and safety standards on a regular basis. Several courses and trainings on behavioral safety, fire and environment were held at all the production sites and zero accident frequency rates were reported at each of the subsidiaries that make up HMS Group.

The group's entities held routine periodic medical check-ups for employees working in hazardous production areas.

Encouraging a healthy lifestyle is one of the Group's employee engagement priorities and sport is one its core values. In 2014, HMS Group held a number of family and sporting competitions and other events that over the years have become traditions in the corporate life of HMS Group subsidiaries.

Average headcount as of December 31, 2014

Rub mn	2007	2008	2009	2010	2011	2012	2013	2014
Industrial pumps	8,480	8,395	7,344	7,201	8,530	8,950	8,826	9,136
Oil & gas equipment	2,148	2,135	2,126	2,132	2,482	2,463	2,395	1,862
Compressors	0	0	0	0	0	2,373	2,273	2,509
EPC	2,070	2,410	3,157	3,523	3,415	3,946	3,013	1,769
Other	188	188	215	241	247	295	303	295
Total	**12,886**	**13,128**	**12,842**	**13,097**	**14,673**	**18,027**	**16,809**	**15,571**



ENVIRONMENTAL INITIATIVES

One of HMS Group's main priorities is a responsible approach to the consumption of natural resources. HMS Group strives to implement environmental and energy-saving technologies in the construction and operation of its production sites. Regardless of the fact that the environmental impact of HMS Group subsidiaries is low, all of the businesses focus on the efficient consumption of fuel, paper, water, electricity and heating. HMS Group conducts activities on regular basis to offset the environmental impact, including waste management, analysis and control of water quality on industrial sites, environmental emission compliance and industrial environmental monitoring.

CHARITY

HMS Group has a long-standing tradition of investing in the future by developing projects in local communities. On a broader scale, HMS Group seeks to support charity initiatives, create jobs and business opportunities that strengthen local economies and support community development projects.

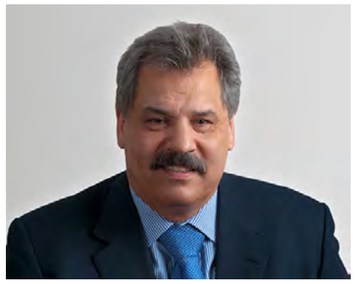
Throughout 2014, HMS Group sponsored projects supporting Children and Youth healthy lifestyles and education, culture and arts. In Kazan (Russia), HMS Group sponsored the Federation of Ice-Hockey and the Federation of Judo in the field of youth sports development, and in Sumi (Ukraine) HMS Group donated for the needs of local hospitals and funds to promote sporting activities among young people.

The main charitable focus is children from low-income and vulnerable families, orphanages and health care institutions. As a part of this commitment, HMS Group supports a number of schools, kindergartens and orphanages in Livny (Russia), and continues to be a dedicated sponsor of boarding school #66 in Tyumen (Russia).

In Moscow, HMS Group provides support for the Preobrazhensk cadet corps, assists in hosting "Music quarter" musical festivals for disabled children. Also the group donated the foundation "Illustrated books for little blind children" and the charity fund "Vympel".

Throughout the past year, HMS Group companies helped to host local events, such as the City day in Livny and Tyumen.

BOD AND ITS COMMITTEES



Mr. Nikolai N. Yamburenko

Chairman of the Board of Directors, Non-Executive Director, Chair of the Strategy and Investments Committee

Mr. Yamburenko was appointed as a member of the Board of Directors in October 2010. He has been a non-executive member of the Board of Directors since 10th July, 2014, when he was appointed Chairman of the Board of Directors. Mr. Yamburenko previously held the position of Head of the Industrial Pumps Business Unit since 2005. Prior to joining the Group, Mr. Yamburenko was the CEO of Livgidromash (HMS Livgidromash), 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 the Moscow Aviation Institute named after S. Ordzhonikidze, where he gained a degree in radio electronics.

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 two independent non-executive Directors to its Board of Directors and the establishment of an Audit Committee and a Remuneration Committee. Each of these Committees of the Board of Directors is chaired by an independent, non-executive Director. HMS Group continues to review its corporate governance policies in line with international best practice.

Executive Directors.

Mr. Artem V. Molchanov

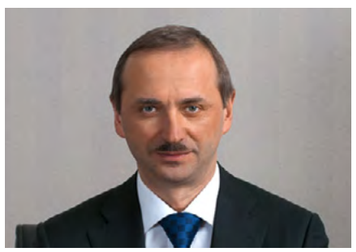
Member of the Board of Directors, Managing Director (CEO)

As one of the founders of the Group, Mr. Molchanov has held various executive positions within HMS Group since its establishment in 1993. Mr. Molchanov became the President of HMS Group in 2008. Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov has more than 20 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

As one of the founders of the Group, Mr. Molchanov has held various executive positions within HMS Group since its establishment in 1993. 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. Mr. Molchanov has more than 20 years of industry experience. He graduated from the Bauman Moscow Higher Technical School (currently the Bauman Moscow State Technical University) with a degree in electromechanical engineering. He graduated from the Judge Business School, University of Cambridge, where he gained an executive MBA degree.



Mr. Yury N. Skrynnik

Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Head of the Compressor Business Unit, a position he has held since its establishment in 2012. Previously Mr. Skrynnik held the 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 to 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of OOO Machines, Equipment, Technologies, Products and Services from 1992 to 1999. From 1986 to 1988, he served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently the 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 the Moscow State University of Engineering and Ecology) in 1988. Mr. Skrynnik is the author of more than 50 scientific publications and 20 inventions.

Non-executive Directors.

Mr. Philippe Delpal

Member of the Board of Directors, Chair of the Audit Committee

Mr. Delpal was appointed as an independent non-executive member of the Board of Directors in December 2010 and is chair of the Audit Committee. He is an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity firm in CIS. He deals with Russian and CIS financial services companies. He also currently serves as a non-executive director of TCS Bank (Russia), Orient Express Bank OJSC (Russia), Europlan Bank, BlackRock Emerging Europe Plc (London), Komercijalna Banka (Serbia) and Beta Epsilon SAS. He has a background both in Russian private equity and in Banking (as former CEO of one of the largest consumer finance player in Russia and CEO of BNP Paribas in Moscow). He brings to the Board financial and investment experience. He graduated from the Telecom Paris University with a degree in IT, Telecoms and Economics. He has been living in Russia since 2004.

Mr. Andreas S. Petrou

Member of the Board of Directors

Mr. Petrou was appointed as a non-executive member of the Board of Directors in June 2010. From 1989 to 1998, Mr. Petrou served as a member of the Board of The Cyprus Tourism Development Public Company Ltd, representing the interests of the Government of the Republic of Cyprus. From 1987 to 1990, Mr. Petrou served as the General Secretary of Cyprus Dairy Organisation. In 1986, Mr. Petrou established his own law firm. He is an honours graduate of the Law School of Democrious University of Thrace. Mr. Petrou has been a member of the Cyprus Bar Association since 1985.

Mr. Gary S. Yamamoto

Member of the Board of Directors, Chair of the Remuneration Committee

Mr. Yamamoto was appointed as an independent non-executive member of the Board of Directors and chair of the 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 to 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 degree in engineering in 1988.
Mr. Yamamoto is a member of the Society of Petroleum Engineers and the Independent Directors Association.

BOD AND ITS COMMITTEES

GENERAL OVERVIEW

In accordance with the Company's Articles of Association, one third of the Directors shall retire by rotation and seek re-election at each Annual General Meeting.

During the year ended 31 December 2014 two Directors were not re-elected. The Board of Directors was reduced and now consists of seven (7) members, three (3) of whom are executive Directors. In addition, revised Terms of Reference of the Board of Directors and Managing Director (CEO) were approved by the Board of Directors and a new Chairman of the Board of Directors was appointed.

PRINCIPAL ACTIVITIES OF THE BOARD OF DIRECTORS IN 2014

In 2014, the Board of Directors held five ordinary meetings, all of which occurred in Limassol, Cyprus. During the course of 2014, 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, budgeting and general corporate development. Throughout the year, the Board of Directors focused on the improvement of the Company's internal control and risk management systems.

At its meetings, the Board of Directors reviewed other issues connected with the activities of the Company within its remit, including the approval of corporate reports and the Company's participation in legal proceedings.

THE BOARD OF DIRECTORS COMMITTEES

In 2014 the Board of Directors established a Strategy and Investments Committee. Mr. Nikolay Yamburenko, Mr. Gary Yamamoto, and Mr. Yury Skrynnik were elected as members of the Committee and Mr. Nikolay Yamburenko was appointed as chairman. The Strategy and Investments Committee is responsible for considering, amongst other matters: (i) strategic business combinations, (ii) acquisitions, mergers, dispositions, divestitures and similar strategic transactions involving the Company together with (iii) fundamental investments of the Company.

There are two further Committees of the Board of Directors: the Audit Committee and the Remuneration Committee. A brief description of the main activities of these two Committees in 2014 is set out below.

AUDIT COMMITTEE

General Overview

In 2014, the revised Terms of Reference of the Audit Committee were approved by the Board of Directors. The Audit Committee is to be made up of at least two members, one of whom is to be an independent non-executive Director. The Committee expects to meet four times each year. Currently, the Audit Committee is chaired by Philippe Delpal; its other member is Gary S. Yamamoto.

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 controls and risk management systems; (iii) auditors' reports on the Group; and (iv) the terms of appointment and remuneration of the auditors of the Group.

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 and assesses the efficiency of work of the Chairman of the Board of Directors.

Activities in 2014

In 2014, two meetings of the Audit Committee were held. The main issues the Audit Committee oversaw in 2014 were the preliminary review of IFRS financial statements (including goodwill impairment at the end of 2014) and internal control and risk management (including the audit plan).

The Audit Committee also supervised the internal and external audit procedures and the annual tax strategy implementation within the course of the year. The Audit Committee also made recommendations to the Board of Directors with regards to internal control efficiency and the appointment of a new external auditor of Company.

REMUNERATION COMMITTEE

General Overview

The Remuneration Committee comprises three Directors and expects to meet at least once each year. Currently, the Remuneration Committee is chaired by Gary S. Yamamoto; its other members are Mr. Nikolay Yamburenko and Philippe Delpal. 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 regarding his/her own remuneration.

Activities in 2014

In 2014, two meetings of the Remuneration Committee were held. The main matters reviewed by the Remuneration Committee were the Group's Long-Term Incentive Program, the Financial Performance Targets used in the setting of 2014 remuneration and Individual Financial Performance Bonus Targets.

The Remuneration Committee adopted decisions and made recommendations to the Board of Directors with regards to the Group's CEO Compensation Targets, in accordance with international best practice.

EXTERNAL AUDIT OF FINANCIAL STATEMENTS

Every year the [Company/Group] appoints an external auditor who is responsible for the auditing and inspection of the consolidated financial statements of the [Company/Group] in compliance with IFRS. The external auditor also prepares reviews of the consolidated interim condensed financial information of the [Company/Group] in compliance with IFRS requirements. The external auditor of the [Company/Group] is selected from leading audit firms after a thorough review of their respective proposals. Following that review, the Audit Committee gives its recommendations to the Board of Directors regarding the candidacy of the external 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 2014, based on the recommendation of the Audit Committee, the Board of Directors selected Deloitte (Cyprus) to conduct the audit of the financial statements of the [Company/Group] for the year ended 31 December 2014.

DIRECTORS COMPENSATION

The total compensation of the independent Directors, as set out in the Group's consolidated income statement, was Euro 195,000 for the year ended 31 December 2014.

LITIGATIONS INVOLVING THE COMPANY

Grigorishin Litigation.

In February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the "Order"). The Order was obtained by Mr. Konstantin Grigorishin and certain other plaintiffs against a number of defendants, including the Company, certain of its shareholders and directors, and Bank of New York (Nominees) Limited. Among other things, the Order froze property of most of the defendants, including the Company, but excluding Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

In April 2014, following prior written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia discharged the Order in full, including in respect of the Company and its shareholders and directors. As far as the Company is aware, since then the plaintiffs have taken no substantive steps to proceed with their claim against the Company or its directors.

The Company strongly rejects the plaintiffs' claims and allegations against the Company as groundless. The Company will continue to defend vigorously its position in this on-going litigation.

Tsoy Litigation.

In late June 2014, the Company's shareholder, Mr. German A. Tsoy, and his holding company, Acura Global Limited (BVI), launched an action in the District Court of Nicosia against a number of defendants, including certain other shareholders and the three directors of the Company, namely, Messrs. Artem V. Molchanov, Kirill V. Molchanov and Yury N. Skrynnik. The plaintiffs initiated this litigation purportedly as a derivative action seeking damages "for the benefit of" the Company "and/or" its majority shareholder, H.M.S. Technologies Limited. As such, no claims have been asserted directly against the Company by the plaintiffs.

The plaintiffs also applied to the Court for interim measures including an application for a freezing order (the "Application") against the defendants, but not the Company. The Company and certain of its shareholders and directors opposed the Application. In late March 2015, following prior written submissions against the Application, the plaintiffs withdrew the Application, but not the main action itself.

The Company's non-defendant directors, namely, Messrs. Philippe Delpal, Gary S. Yamamoto, Andreas S. Petrou and Nikolai N. Yamburenko, who make up the majority of the Company's Board of Directors, carefully considered the plaintiffs' claims and allegations, obtained legal advice from the Company's lawyers, and unanimously concluded that the plaintiffs' allegations are entirely meritless. The Company's non-defendant directors will continue to defend vigorously the Company's position in this on-going litigation.

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 available opportunities, a risk management and internal control system has been integrated into the Group's operations. The overall objective of this system is to obtain reasonable assurance that the Group's goals and objectives will be achieved. The main principle in the design and maintenance of such systems is that the expected benefits should outweigh the associated costs.

KEY FEATURES OF THE GROUP'S INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

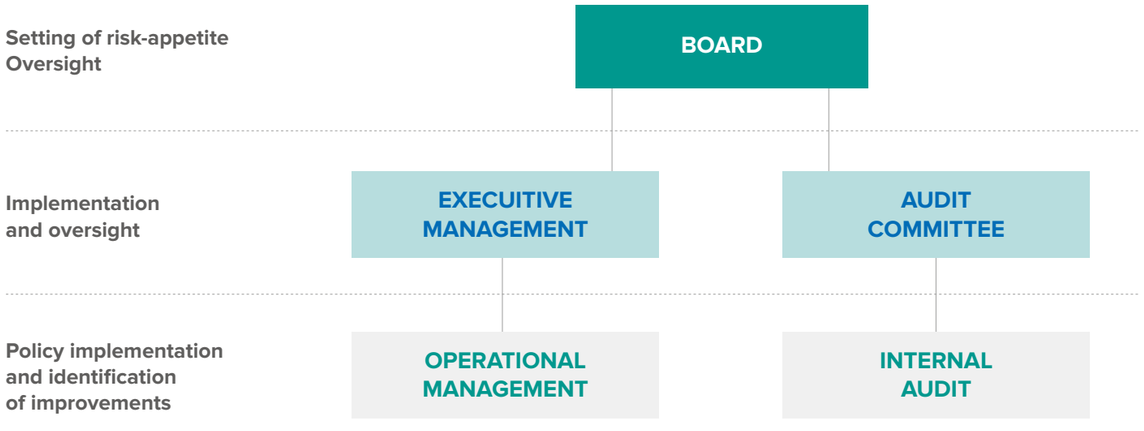
The Group uses a formal risk management program across its companies; there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company. Risks are classified according to their likelihood and significance; different strategies are used to manage identified 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 by the Audit Committee of the results of the audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters;
– Review and formal approval of the financial results by the CEO, CFO, Audit Committee and the Board;
– Board and sub-committee approval and monitoring of operating, financial and other plans;
– Consolidation and verification of correct identification and proper assessment of critical business risks. The Audit Committee reviews changes to the risk profiles together with progress on actions for key risks on a regular basis;
– Internal audit function.

The Head of Internal Audit functionally reports to the Audit Committee and administratively to the First Deputy CEO. The internal audit department performs its activities in accordance with an audit plan and incorporates 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 are agreed upon.



CONTINUOUS IMPROVEMENT

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

The key features of the risk management process include:
– The gathering and analysis of information related to internal and external factors which can negatively impact the achievement of the Group's objectives;
– The identification of the possible level of negative impact of various events on operational and financial results in accordance with applicable risk-assessment methods;
– Setting appropriate risk-tolerance levels;
– Ranking risks according to their significance and probability;
– Making appropriate decisions to manage identified risks;
– Actively monitoring the steps taken to control the most significant risks.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk\Strategy	Enhancing margins	Driving growth	Generating cash	Maximising returns	Securing customers	Securing long-term suppliers
Global politician 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	■	■	■	■		

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

RISK MANAGEMENT AND INTERNAL CONTROL

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, Germany) but also in jurisdictions where the Group has other interests (e.g. EPC projects in the Middle East and Central Asia). The Group has not to date been significantly affected by the recent developments in Ukraine but, in the event of a deterioration of that country's situation, the Group's operations in Ukraine (including export of production to Russia which is significant part of the Group's integrated solutions), as well as its financial position, could be affected, and the extent of this impact is difficult to predict.

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

Sales

The Group's business depends on the levels of capital investment and maintenance expenditures by the Group's customers, which in turn are affected by numerous factors, including the state of the Russian economy and those of other nations, 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; moreover, the Group relies on a limited number of key customers and contracts and may incur losses due to unfavourable terms of contracts with certain large customers.

Project execution risks

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

Human Capital

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

The success of the Group's businesses depends heavily on the continued service of its key senior managers. These individuals possess industry-specific skills in the areas of sales and marketing, engineering and manufacturing that are critical to the growth and operation of the Group's businesses. While the Group has entered into employment contracts with its senior managers, the retention of their services cannot be guaranteed. The Group is not insured against damages that may be incurred in the 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 adversely and materially affected.

Acquisitions

The Group cannot be certain that the anticipated cash flows, synergies and cost savings from acquisitions or other transactions will materialize or reach expected levels. Inefficient integration of the newly acquired businesses poses a risk to the Group's operations. Any failure to integrate the operations of the Group's companies successfully could adversely affect the Group's business and financial condition and the 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 all business operations. There is always some potential for fraud and other dishonest activity at all levels of a business, from that of a factory worker to senior management. Efficient operations and optimal use of resources depends on our ability to prevent occurrences of fraud and corruption at all levels within the Group.

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

As the Group operates in a number of jurisdictions around the world, the Board and senior management also put a strong emphasis on corporate compliance with applicable regulation, including anti-bribery and anti-corruption legislation, such as the UK Bribery Act.

The Group has implemented procedures to ensure that all employees are aware of the requirements of the Group's anticorruption policies, with a particular focus on those roles most exposed to the risk of breach

Legislation and regulations

Recent Russian government initiatives which are currently under consideration are likely to include, inter alia, significant amendments to tax law governing operations with entities incorporated in offshore jurisdictions. As a company with a majority of its operating assets located in Russia, HMS Group recognizes that these developments may have significant implications for its business and development plans. HMS Group continues to monitor these developments.

HMS GDRS

As of December 31, 2014, HMS Hydraulic Machines & Systems Group Plc had an issued share capital of Euro 1,171,634.27 divided into 117,163,427 shares with par value of Euro 0.01 per share.

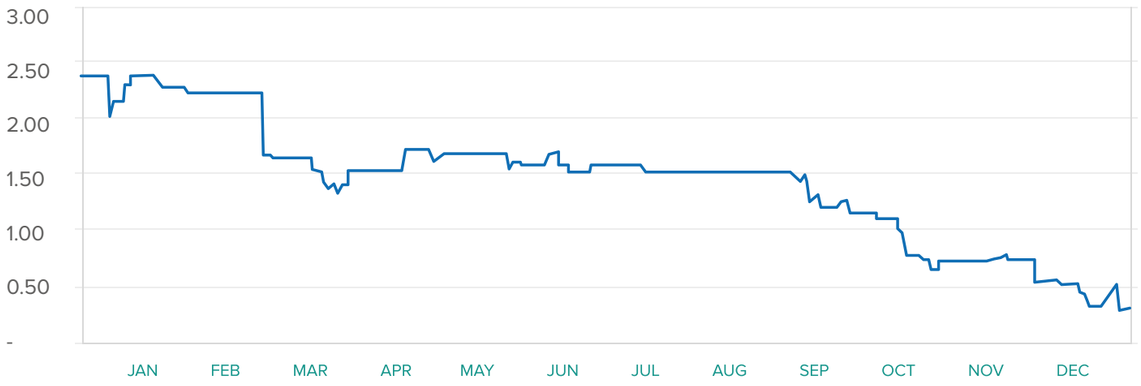
The shares of HMS Group are not traded.

In February 2011, the Company signed a depositary agreement with The Bank of New York Mellon (BNY Mellon), under which the issue of Global Depositary receipts (GDRs) for HMS Group shares was initiated.

As of December 31, 2014, the total number of GDRs issued in exchange for shares of HMS Group amounted to 48,004,000 GDRs or approximately 41% of the Company's issued share capital.

Information on HMS Group Plc GDRs:

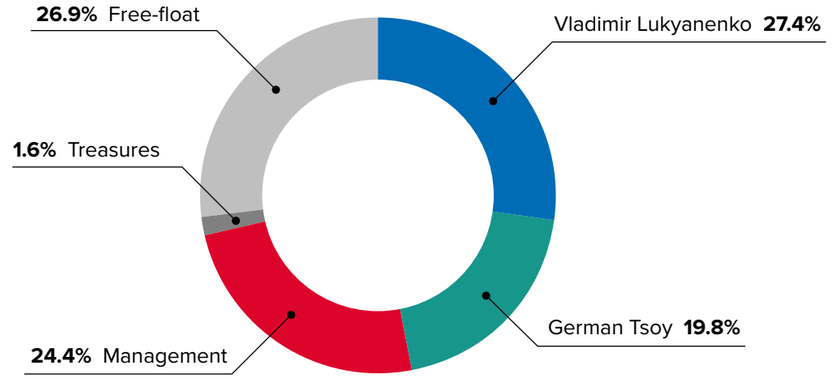
Ticker	HMSG
Exchange	London Stock Exchange
Reg S	US40425X2099
Rule 144 A	US40425X1000
Ratio, GDR: common shares	1:1
Effective Date	Feb 11, 2011
Underlying ISIN	CY0104230913
Depositary bank	BNY Mellon



Price of HMS Group's GDRs

Rub mn	MIN	MAX	At the end of the period
2011	3.98	8.25	4.41
2012	3.90	5.98	4.22
2013	2.10	4.23	2.50
2014			
1Q 2014	1.37	2.50	1.37
2Q 2014	1.47	1.80	1.65
3Q 2014	1.21	1.65	1.21
4Q 2014	0.26	1.20	0.26

Major shareholders of HMS Group as of December 31, 2014



SHAREHOLDER'S INFO & DISCLAMER

INFORMATION

Company Name	HMS Hydraulic Machines & Systems Group Plc
Company Type	Public
Fiscal Year-End	December 31
Disclosure	LSE
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
Depositary	BK (Sponsored)
Effective Date	Feb 11, 2011
Local Exchange	Not Traded
Underlying ISIN	CY0104230913
Country	Russia
Industry	OilEquip.,Serv.&Dist

GDRS HOLDERS' CONTACTS

Contacts for inquiries regarding:

– advise of a change of name and/or address;
– report lost/stolen GDR share certificates or the non-receipt of a dividend check;
– request an election form for the scrip dividend program;
– request forms to transfer GDRs;
– report the death of a registered holder of GDR shares;
– request a duplicate account statement;
– have dividends electronically deposited to your bank account;
– consolidate similar account registrations;
– request general information about your shareholder account, etc.

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
Address: Pittsburgh, PA 15252-8516, USA
Tel: +1 888 737 2377 (USA only)
Tel: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
Website: www.bnymellon.com

GENERAL SHAREHOLDER ENQUIRIES AND INVESTOR RELATIONS CONTACTS

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Investor Relations
Address: 7 Chayanova str. 125047 Moscow, Russia,
Tel: +7 495 730 6601
Fax: +7 495 730 6602
Email: ir@hms.ru

DISCLAIMER

This document contains forward-looking statements that reflect management's current views with respect to future events. Such statements are subject to risks and uncertainties that are beyond HMS Group's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. HMS Group does not intend or assume any obligation to update any forward-looking statements to reflect events or circumstances after the date of these materials.

This annual report does not constitute an invitation to invest in HMS Group GDRs. Any decisions you make in reliance on this information are solely your responsibility. The information is given as of the dates specified, and we undertake no obligation to update it save as required by applicable law. HMS Group accepts no responsibility for any information on other websites that may be accessed from the company's website by hyperlinks.